

Special Comment

Moody's U.S. Public Finance

September 2009

Independent K-12 School Medians for Fiscal Year 2008 Highlight Credit Challenges

Sharp Deterioration Expected in FY 2009

Summary

Analysis of Moody's Fiscal Year 2008 Independent School Medians reveals preliminary weakening in some credit factors as expected by Moody's negative outlook for the sector. Overall, the 2008 medians present a mixed picture: some balance sheet measures showed declines due to initial investment losses and enrollment was flat, but net tuition revenue grew and operating cash flow and debt service coverage remained healthy. Moody's expects that many balance sheet ratios will show sharper deterioration in fiscal year 2009 and possibly 2010.

The independent K-12 sector faces challenges stemming from a weaker economic environment and investment losses of negative 20% to 30% in FY 2009. Investment losses can be expected to pressure balance sheet cushions and liquidity levels as well as present greater need for oversight of complex investment strategies. The prospect of weaker investment performance may challenge investment income reliant institutions. Moody's expects some increased focus on affordability, including the potential for enrollment pressures as well as greater demand on financial aid budgets.

Moody's currently rates 51 independent schools on an underlying basis,¹ with \$1.5 billion of debt outstanding.

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¹ This excludes ratings that are based on external third party support, such as municipal bond insurance or bank letters of credit.



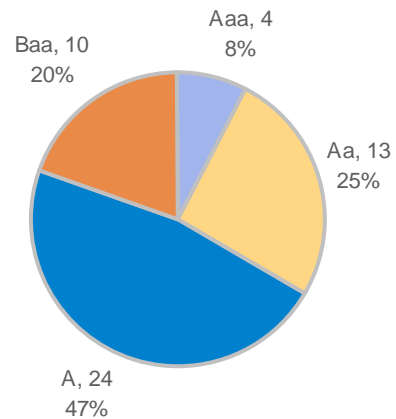
Independent School Medians 2008

The 2008 medians are based upon FY 2008 financials and fall 2008 enrollment data for Moody's rated portfolio of 51 institutions. This report summarizes the 2008 medians for independent schools and includes charts and appendices highlighting each of our broad rating factors, including student demand, financial reserves, capital investment and debt and operating performance. These medians are based upon a small sample size and are accordingly limited in terms of their descriptive power; they are intended to serve as a general reference and introduction to Moody's rated portfolio.

Moody's Independent School Portfolio

Moody's currently rates 51 independent schools based on their own credit quality. These organizations had approximately \$1.5 billion of debt outstanding at the end of fiscal 2008. Within the private K-12 sector, Moody's median rating is **A2** based on the number of institutions, with the average rating approaching **Aa3** when weighted by the amount of debt outstanding. Appendix III provides a list of the schools in our portfolio and their ratings. The statistics in this publication do not include institutions with insured or letter of credit supported debt that do not maintain an underlying rating based on the institution's own credit quality.

**Independent Schools by Rating Category
(number, % of total rated)**



Rating Actions Are Indicative of Mounting Pressures

Recent rating actions reflect increased rating volatility within the independent school sector as operating deficits, risky debt structures, and market weaknesses for some institutions pressured credit quality. During the period of October 2008 to September 2009, three institutions were downgraded. These downgrades were largely driven by a history of endowment spending above Moody's standardized 5 percent (resulting in deep operating deficits and thin cash flow on a Moody's adjusted basis), draws on financial resources for capital projects combined with investment losses resulting in significantly weaker balance sheet cushions, and in one case, the highly concentrated allocation within one school's investment portfolio. There were no upgrades during this same period. Moody's also assigned first-time ratings to the Riverdale Country School (A2) and the Polytechnic School (A1) during this period. Four of the five rating withdrawals were associated with the defeasance of all outstanding debt; Moody's withdrew its rating on Marine Military Academy due to lack of sufficient current financial and operating information.

Independent School Medians 2008

List of Rating Activity (October 2008 to September 2009)

Rating Action	School	State	Current Rating	Previous Rating	Current Outlook	Previous Outlook
Downgrade						
Nov-08	St. George's School	RI	A1	Aa3	Stable	Negative
May-09	Spence School	NY	A1	Aa3	Negative	Stable
Jun-09	St. John's High School	MA	Baa2	Baa1	Negative	Stable
Outlook Change - Up						
Jan-09	Miss Porter's School	CT	A1		Stable	Negative
Outlook Change - Down						
Feb-09	Lycee Francais de New York	NY	Baa1		Negative	Stable
May-09	Lawrenceville School	NJ	Aa3		Negative	Stable
May-09	Cranbrook Educational Community	MI	Aa3		Negative	Stable
Jul-09	Williston Northampton School	MA	Baa1		Negative	Stable
Initial Ratings						
Nov-08	Riverdale Country School	NY	A2		Stable	NA
Sept-09	Polytechnic School	CA	A1		Stable	NA
Ratings Withdrawn						
Oct-08	Schools of the Sacred Heart	CA				
Nov-08	Derryfield School	NH				
Mar-09	Procter Academy	NH				
Jun-09	Marine Military Academy	TX				
Aug-09	Waynflete School	ME				

The current rating outlooks for the 51 rated independent schools reflect the general stability of the sector, with some pockets of rating pressure. As of September 2009, 86% of the schools have stable outlooks down from 94% of schools when this report was last published in October 2008. The increase in negative outlooks primarily reflects investment losses resulting in increased leverage in conjunction with ongoing operating deficits, aggressive debt structures that add risk, reduced liquidity, and the potential for pressure on philanthropic support. One school in Moody's portfolio, the Nightingale-Bamford School (A2), retains a positive outlook based on its history of superior operating performance and expected ability to continue to grow net tuition revenue partially mitigating investment losses.

Current economic conditions will result in financial pressure on independent schools on many fronts including:

- downturns in investment performance and endowment values,
- greater need for oversight of complex investment strategies and liquidity levels,
- moderate reductions in philanthropic prospects as donors' wealth levels fall,
- slowing growth in revenues from tuition as family incomes and household net worth are impacted by the economy.

Endowment values declined moderately for Moody's rated portfolio in FY 2008 with a median endowment return of negative 3.1% reported to Moody's, but are expected to show sharp declines in FY 2009. Based on our conversations with independent schools and other not-for-profit organizations, we expect the median return on endowments in FY 2009 to be negative 20% to 30% in FY 2009. However, for the period of January 2009 through September 2009, the S&P 500 rebounded over 10%.

While we expect many families to continue to choose private education for their children, some families may shift students from boarding programs to day schools and from day schools to public schools. While

Independent School Medians 2008

enrollment has generally been sustained in prior recessions, the current environment presents unique challenges. Family net worth declined rapidly toward the end of calendar year 2009 as both equity and mutual fund holdings fell at the same time that home equity declined. We believe a greater proportion of tuition at independent schools is paid from current income of parents or other family members, rather than directly from savings, when compared with college tuition. Therefore, sensitivity to price may be more impacted by high rates of unemployment and lower compensation levels.

While philanthropy remained strong and capital campaigns did not experience significant pressure, we expect moderation of giving levels in FY 2009 and FY 2010. The impact of continued financial uncertainty and liquidity tightening has caused many institutions to reexamine budget and capital spending projections.

Moody's considers effective action taken by an independent school's management team and its board of trustees as a key factor in determining potential credit impact in FY 2009 and FY 2010. A prompt response to looming financial problems will be a significant factor in rating outcomes for this sector. A proactive management may embrace the current economic climate as an opportunity to fully review expenditure levels relative to revenues forecasts, and may enact expense controls, delay capital projects and target campaigns to increase financial aid budgets. In particular, given greater uncertainty in enrollment and financial aid needs, we would expect the best managed institutions to be building greater contingencies into budgets for the coming years.

Moody's portfolio of independent schools represents some of the most well-known and financially robust institutions within the sector. Therefore, we expect that the schools that do not carry an underlying credit rating may be more directly affected by broader challenges in the economy and within the sector, although the impact could be felt by all.

Key Credit Indicators for Operating Performance Remain Strong as Financial Resource Ratios Show Modest Investment Losses in FY 2008

The following are summaries of the 2008 medians based upon student demand, financial reserves, debt and capital spending and operational performance.

Student Demand

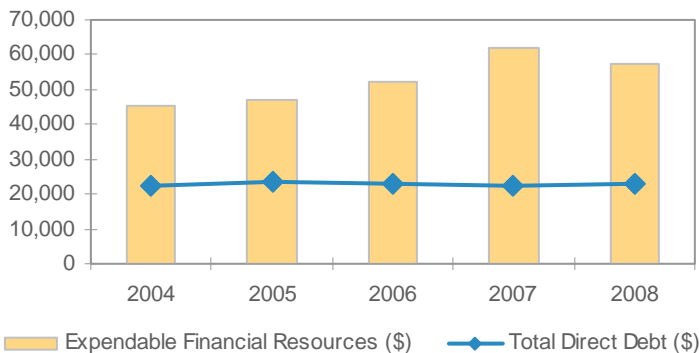
- Growth in net tuition per student continued with the median reaching \$24,518. The median net tuition per student reflects growth of approximately 5% over 2007 and 34% over the 2004 level. However, the growth in median net tuition per student occurred at a reduced rate compared to prior years, particularly in the **Aaa**-rated category. Tuition discounting for the sector remains relatively stable with an overall median discount rate for the sector of 18%. Pressure to increase the discount rate due to the economic environment may be evident FY 2009 and FY 2010, particularly for less selective schools. With many schools reporting smaller planned tuition increases for fall 2009, we expect slowing growth in tuition revenue during FY 2010.
- Sustained solid student demand with the median reflecting increasing selectivity as it declined to 29% (percent of applicants accepted) and the matriculation rate remained steady at 64% (percent of accepted students who enroll). These measures remained relatively flat compared to the prior year. Selectivity may weaken slightly for fall 2009 as some independent schools accepted larger classes as a buffer against potential enrollment volatility. Although the most selective and highest rated schools are unlikely to experience stressed student demand, these schools may scale back some financial aid strategies and accept greater numbers of affluent applicants to increase net tuition revenues to compensate for the lower endowment-based revenues expected in the years ahead.
- Median enrollment remained stable at 658 students. Over the past five years, median enrollment across the sector for Moody's rated independent schools increased by 5%.

Independent School Medians 2008

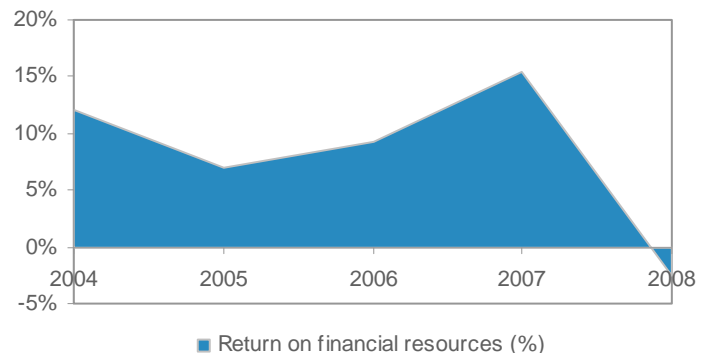
Financial Resources

- Median total financial resources grew at a significantly reduced rate of 5.1% in 2008, compared to double digit growth in the two prior years. The slowed growth in FY 2008 reflects the beginning of the major financial downturn experienced over the past year. This deterioration was seen at all rating levels, but particularly in the **A** category where exposure to public equities may have contributed to larger declines in financial resources levels. Moody's anticipates that institutions will be reporting negative 20% to 30% investment returns for FY 2009 compared to the median return for endowment portfolios of negative 3.1% in FY 2008 as reported to Moody's. These investment losses, combined with endowment spending and softening gift revenue, are expected to result in a sharp deterioration of financial resource levels in FY 2009.
- Total median financial resources per student declined 9% to \$119,700 reflecting a return to 2006 levels.
- Positive fundraising trends continued into 2008 for Moody's credits rated in the **A** category and above. Total median gift revenues increased 10% over the prior year, though the largest and wealthiest institutions continued to outperform in fundraising. Highly rated institutions garnered the highest support, with total median gift revenue of \$32.8 million for **Aaa**-rated independent schools compared to \$2.4 million for **Baa**-rated institutions. The **Baa** rating category was the only rating category to experience a decline in its median total gift revenue in 2008, down 33% over the prior year.

Expendable Financial Resources Begin to Decline in 2008 As Debt Levels Remain Stable



Negative Return on Financial Resources in 2008



Capital Investment and Debt

- Median direct debt levels have remained steady for the past five years and were \$22.8 million in 2008. However, the **Aaa** rated institutions median reflects a 20% increase in direct debt levels since 2004 with additional borrowing occurring in 2008 to maintain this increase. Overall, financial resource growth had outpaced the growth of debt resulting in improved leverage ratios in prior years; however, 2008 investment losses reversed this trend resulting in a relatively more leveraged ratio of 3.1 times expendable financial resources to debt in 2008 compared to 3.8 times in 2007. This ratio reflects a return to 2006 financial resources levels, with FY 2009 losses likely to again increase balance sheet leverage.
- Capital investment has been moderate over the past two years as evidenced by a median capital spending ratio of 1.47 times in 2008 compared to 1.27 times in 2007 (purchase of property, plant, and equipment compared to depreciation expense). Within this overall sector median, the capital spending ratio median for **Aaa** and **Aa** rated institutions increased slightly to 3.3 and 1.9 times, respectively, while the capital spending median at **Baa** rated institutions declined to below 1 times depreciation at 0.9 times. It is likely that FY 2009 capital investment will soften somewhat as many institutions reported delays of capital projects in light of the current recession, and capital spending in FY 2010 is expected to reflect a large number of capital project delays and freezes implemented across institutions.

Independent School Medians 2008

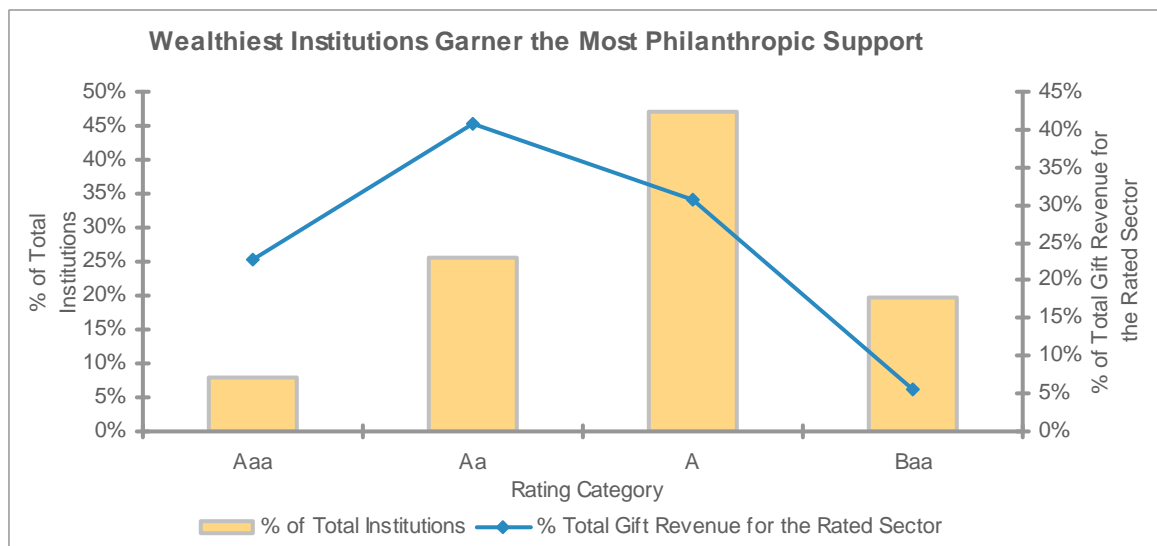
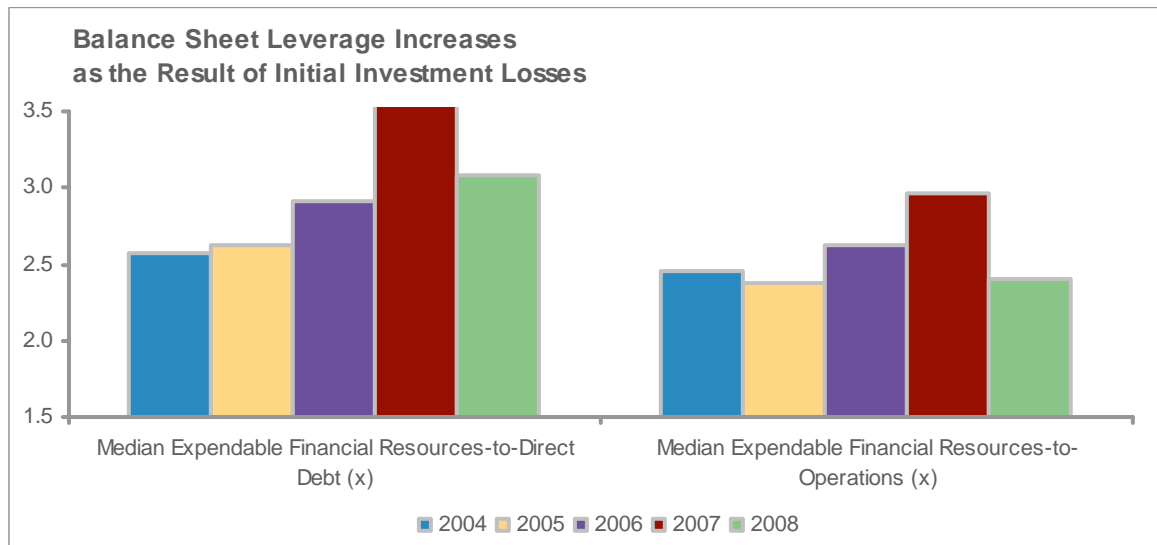
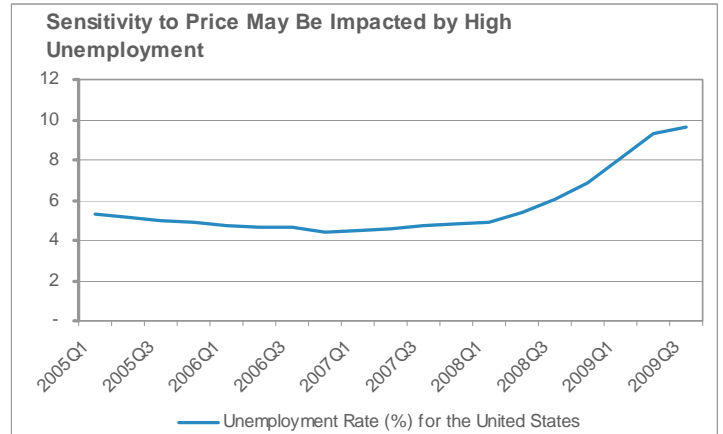
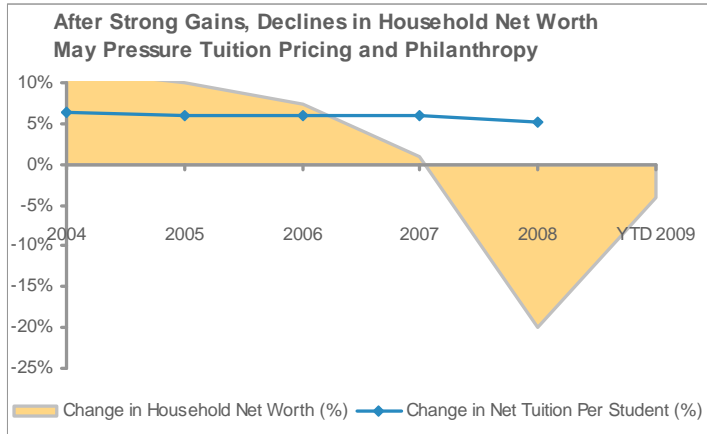
- The **Aaa** and **Aa** rated credit categories had significant exposure to variable rate debt throughout 2007 and 2008. Due to the failure of the action rate market in fall 2008, some restructuring of debt will be evident in FY 2009. The median variable rate debt exposure prior to swaps for **Aaa** and **Aa** rated credits is roughly 70%, compared to median exposure in the single digits for **A** and **Baa** rated credits. Moody's does not expect to see reduced exposure to variable rate debt within this sector at the close of FY 2009.

Operational Performance

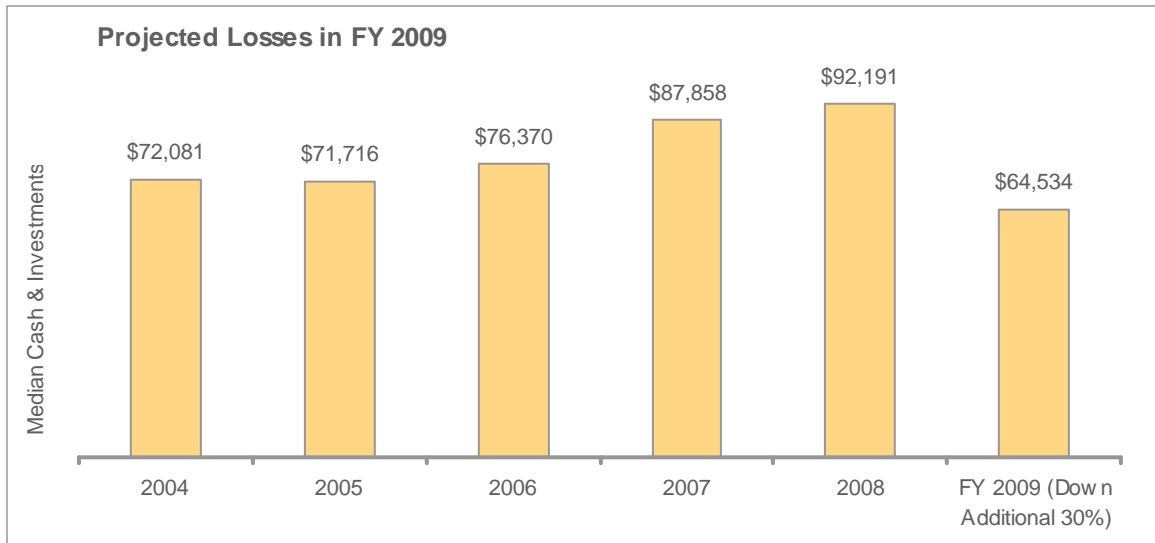
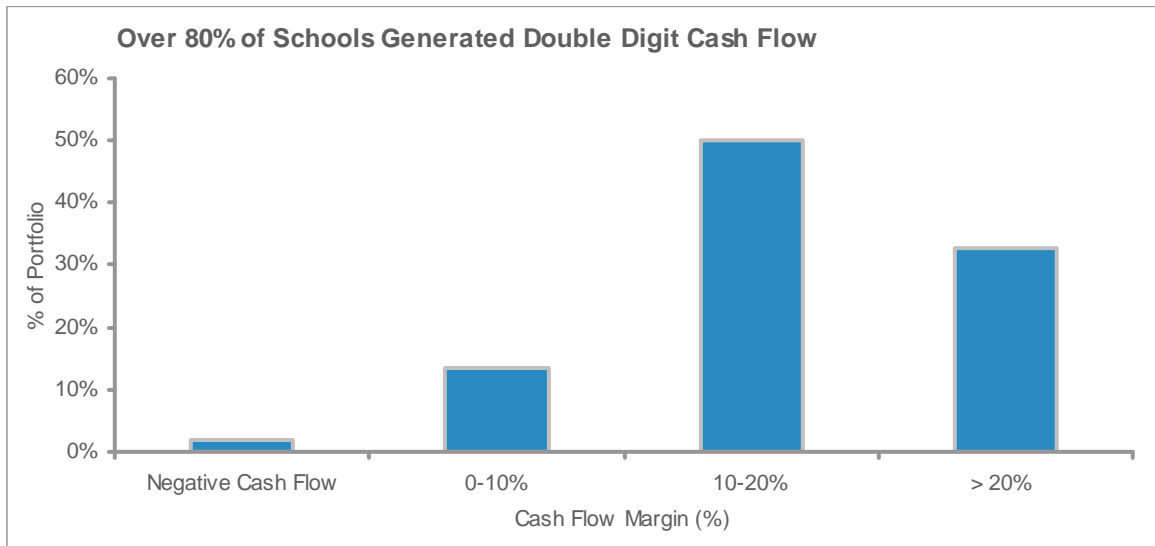
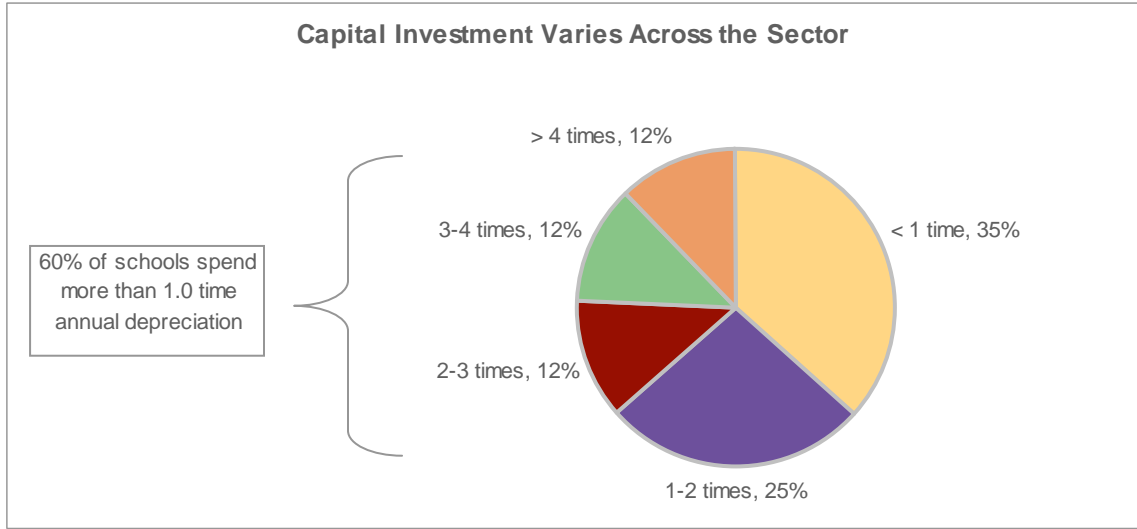
- Operating margins improved in all rating categories during 2008 with the median operating margin increasing to 4.5% from 2.4% in 2007. Operating cash flow remained strong with a median of 16% and median debt service coverage was a solid 2.7 times. Moody's notes the potential for softening of operating margins for the 2009 fiscal year, but anticipates more significant weakening of revenues in fiscal years 2010 and 2011 as the result of endowment declines in FY 2009 that will flow through multi-year endowment spending policies. Independent school's operating margins may also show pressure due to increasing financial aid and slowing of tuition growth.
- The independent school sector remains reliant on student charges to support operations, with a median 65% of revenues derived from tuition and auxiliary enterprises, a 5% increase over 2004. **Baa**-rated institutions continue to be most reliant on student charges at 81% of revenue.

Independent School Medians 2008

Notable Trends



Independent School Medians 2008



Independent School Medians 2008

Basis for the Medians

Moody's medians for independent schools are based on our analysis of fiscal year 2008 financial and fall 2008 enrollment data for 51 rated institutions. Prior years' medians have been recalculated in this publication including financial data for the same subset of institutions in FY 2004-FY 2008. The appendices include the medians for this subset of institutions broken down in the following ways:

- Appendix I: Five year trend for the entire rated sector (FY 2004 - FY 2008)
- Appendix II: Medians by rating category for FY 2008
- Appendix III: Independent schools by rating category
- Appendix IV: Moody's independent school ratio definitions
- Appendix V: Moody's U.S. municipal rating definitions

The medians are the outcome of a complex rating process that incorporates a broad variety of quantitative and qualitative factors. As such, there will be a wide range of values for individual ratios within each rating category. In assigning ratings, we do not assign an organization's precise rating level simply by comparing institutional ratios to medians, but rather evaluate core credit variables over time as well as in relation to broad competitive trends in higher education. These variables include strategy, management performance, market factors, capital spending and other key financial indicators.

Independent School Medians 2008

Appendix I:

Private K-12 School Medians FY 2004 - FY 2008

	2004	2005	2006	2007	2008
Key Financial Statistics:					
Total Direct Debt (\$000)	\$22,405	\$23,280	\$22,775	\$22,350	\$22,753
Unrestricted Financial Resources (\$000)	\$26,219	\$28,511	\$30,208	\$40,028	\$39,188
Expendable Financial Resources (\$000)	\$45,163	\$47,128	\$52,400	\$61,952	\$57,533
Total Financial Resources (\$000)	\$68,604	\$69,173	\$76,515	\$86,723	\$91,107
Total Cash & Investments (\$000)	\$72,081	\$71,716	\$76,370	\$87,858	\$92,191
Total Revenues (\$000)	\$18,383	\$21,308	\$22,458	\$23,618	\$25,470
Total Expenses (\$000)	\$20,078	\$21,136	\$22,436	\$23,655	\$25,429
Total Gift Revenue (\$000)	\$5,595	\$5,292	\$5,002	\$5,725	\$6,323
Average Gift Revenue (\$000)	\$4,871	\$5,247	\$5,379	\$5,498	\$5,545

Market Data and Ratios:

Total Enrollment FTE (#)	624	644	651	657	658
School-wide Selectivity (%)	32%	34%	33%	33%	29%
School-wide Matriculation (%)	66%	65%	65%	64%	64%
Net Tuition per Student (\$)	\$18,287	\$20,421	\$21,764	\$23,322	\$24,518
Change in Net Tuition per Student (%)	6.4%	5.9%	6.1%	6.1%	5.2%
Educational Expenses per Student (\$)	\$26,481	\$28,335	\$30,632	\$34,056	\$37,038
Total Tuition Discount (%)	16%	16%	18%	18%	18%

Capital Ratios:

Unrestricted Financial Resources-to-Direct Debt (x)	1.5	1.7	2.0	2.3	2.2
Expendable Financial Resources-to-Direct Debt (x)	2.6	2.6	2.9	3.8	3.1
Total Financial Resources-to-Direct Debt (x)	3.8	3.8	4.1	4.6	4.4
Total Cash & Investments-to-Direct Debt (x)	3.7	3.7	4.1	4.5	4.3
Direct Debt-to-Cash Flow (x)	6.9	9.0	6.8	6.8	5.3
Direct Debt-to-Total Capitalization (x)	0.17	0.17	0.17	0.15	0.16
Debt Service to Operations (%)	5%	6%	6%	6%	6%
MADS to Operations (%)	10%	10%	9%	9%	8%
Capital Spending Ratio (x)	1.34	1.34	1.46	1.23	1.47
Capital Investment to Operations (%)	11%	13%	14%	12%	13%
Age of Plant (#, in years)	9.7	10.2	10.9	10.5	10.7

Balance Sheet Ratios:

Unrestricted Financial Resources-to-Operations (x)	1.7	2.0	2.0	2.2	1.9
Expendable Financial Resources-to-Operations (x)	2.5	2.4	2.6	3.0	2.4
Free Expendable Financial Resources-to-Operations (x)	1.1	1.3	1.5	2.0	1.7
Total Financial Resources-per-Student (\$)	\$96,280	\$107,411	\$117,535	\$132,204	119,700

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Private K-12 School Medians FY 2004 - FY 2008

	2004	2005	2006	2007	2008
Operating Ratios:					
Operating Margin (%)	2.2%	1.1%	2.7%	2.4%	4.9%
Average Operating Margin (%)	2.8%	2.9%	2.5%	2.5%	3.3%
Operating Margin Excluding Gifts (%)	-14%	-17%	-14%	-13%	-12%
Average Gifts per Student (\$)	\$8,979	\$8,989	\$7,547	\$7,930	\$8,681
Operating Cash Flow Margin (%)	14%	14%	17%	14%	16%
Change in Net Tuition Revenue (%)	6.9%	6.6%	7.0%	6.2%	5.3%
Direct Debt Service Coverage (x)	2.5	2.2	2.4	2.4	2.7
MADS Coverage (x)	1.6	1.9	1.8	1.7	2.2
Average Debt Service Coverage (x)	2.9	2.3	2.2	2.4	2.6
Average MADS Coverage (x)	1.4	1.6	1.8	1.8	1.9
Return on Net Assets (%)	10%	6%	9%	13%	-1%
Return on Financial Resources (%)	12%	7%	9%	15%	-3%
Contribution Ratios:					
Tuition & Auxiliaries (% of Total Revenue)	60%	61%	62%	62%	65%
Investment Income (% of Total Revenue)	18%	16%	16%	15%	17%
Gifts (% of Total Revenue)	13%	13%	15%	14%	14%
Other (% of Total Revenue)	1%	1%	2%	2%	2%

Data may not match October 2008 publication of independent school medians. Data included in this report is based on current ratings, as of September 1, 2009, which may have changed since our last report. FY 2004 - 2008 medians in this publication are based on the same subset of independent schools. Median calculations are based on fiscal-year end financial data and fall enrollment and student demand data.

Independent School Medians 2008

Appendix II:

Private K-12 School Medians for FY 2008

	All	Aaa	Aa	A	Baa
Key Financial Statistics:					
Total Direct Debt (\$000)	\$22,753	\$45,000	\$36,941	\$18,366	\$10,737
Unrestricted Financial Resources (\$000)	\$39,188	\$184,540	\$97,956	\$33,913	\$16,929
Expendable Financial Resources (\$000)	\$57,533	\$468,982	\$170,664	\$51,423	\$20,023
Total Financial Resources (\$000)	\$91,107	\$643,994	\$264,078	\$70,204	\$22,979
Total Cash & Investments (\$000)	\$92,191	\$638,192	\$257,131	\$70,924	\$27,920
Total Revenues (\$000)	\$25,470	\$63,889	\$38,002	\$22,137	\$20,184
Total Expenses (\$000)	\$25,429	\$55,806	\$31,036	\$21,815	\$18,591
Total Gift Revenue (\$000)	\$6,323	\$32,799	\$13,557	\$5,429	\$2,361
Average Gift Revenue (\$000)	\$5,545	\$26,275	\$15,159	\$4,746	\$3,096
Market Data and Ratios:					
Total Enrollment FTE (#)	658	817	795	551	953
School-wide Selectivity (%)	29%	20%	28%	30%	61%
School-wide Matriculation (%)	64%	64%	63%	65%	69%
Net Tuition per Student (\$)	\$24,518	\$28,353	\$27,281	\$25,065	\$20,209
Change in Net Tuition per Student (%)	5.2%	1.9%	4.8%	6.3%	5.2%
Educational Expenses per Student (\$)	\$37,038	\$66,511	\$53,882	\$33,944	\$22,032
Total Tuition Discount (%)	18%	29%	22%	16%	9%
Capital Ratios:					
Unrestricted Financial Resources-to-Direct Debt (x)	2.2	3.4	2.8	2.0	1.4
Expendable Financial Resources-to-Direct Debt (x)	3.1	9.3	4.5	2.8	1.6
Total Financial Resources-to-Direct Debt (x)	4.4	12.7	6.6	3.9	2.0
Total Cash & Investments-to-Direct Debt (x)	4.3	12.7	6.3	3.7	2.2
Direct Debt-to-Cash Flow (x)	5.3	4.7	4.7	8.4	5.9
Direct Debt-to-Total Capitalization (x)	0.16	0.06	0.11	0.17	0.25
Debt Service to Operations (%)	6%	3%	8%	6%	6%
MADS to Operations (%)	8%	8%	11%	7%	10%
Capital Spending Ratio (x)	1.47	3.31	1.88	1.44	0.89
Capital Investment to Operations (%)	13%	32%	20%	13%	6%
Age of Plant (#, in years)	10.7	10.2	11.3	11.3	10.2
Balance Sheet Ratios:					
Unrestricted Financial Resources-to-Operations (x)	1.9	2.8	2.7	1.7	0.8
Expendable Financial Resources-to-Operations (x)	2.4	8.4	3.9	2.4	1.1
Free Expendable Financial Resources-to-Operations (x)	1.7	7.5	2.9	1.5	0.3
Total Financial Resources-per-Student (\$)	119,700	816,320	388,584	113,365	27,915

Independent School Medians 2008

Private K-12 School Medians for FY 2008

	All	Aaa	Aa	A	Baa
Operating Ratios:					
Operating Margin (%)	4.9%	8.1%	9.3%	2.1%	5.5%
Average Operating Margin (%)	3.3%	9.7%	3.3%	1.8%	4.5%
Operating Margin Excluding Gifts (%)	-12%	-6%	-15%	-17%	-3%
Average Gifts per Student (\$)	\$8,681	\$35,504	\$22,593	\$7,979	\$4,027
Operating Cash Flow Margin (%)	16%	19%	20%	12%	15%
Change in Net Tuition Revenue (%)	5.3%	3.0%	4.5%	6.5%	4.4%
Direct Debt Service Coverage (x)	2.7	8.0	2.7	2.5	3.1
MADS Coverage (x)	2.2	2.9	2.0	2.0	2.0
Average Debt Service Coverage (x)	2.6	6.9	1.9	2.5	2.9
Average MADS Coverage (x)	1.9	2.9	1.8	1.9	2.0
Return on Net Assets (%)	-1%	2%	-3%	-2%	1%
Return on Financial Resources (%)	-3%	2%	-5%	-3%	-1%
Contribution Ratios:					
Tuition & Auxiliaries (% of Total Revenue)	65%	36%	44%	66%	81%
Investment Income (% of Total Revenue)	17%	46%	24%	14%	7%
Gifts (% of Total Revenue)	14%	13%	17%	16%	9%
Other (% of Total Revenue)	2%	2%	1%	1%	2%

Medians are based on Fiscal Year 2008 data and fall 2008 enrollment data.

Independent School Medians 2008

APPENDIX III:

**Appendix III: Moody's Private K-12 School Ratings
by Rating Category (as of 8/11/09)**

Institution	Current Rating	State
Hotchkiss School	Aaa	CT
Phillips Exeter Academy	Aaa	NH
Phillips Academy (Andover)	Aaa	MA
St. Paul's School	Aaa	NH
Deerfield Academy	Aa1	MA
Groton School	Aa1	MA
St. Andrew's School	Aa1	DE
Woodberry Forest School	Aa1	VA
Choate Rosemary Hall	Aa2	CT
Peddie School	Aa2	NJ
Albuquerque Academy	Aa3	NM
Cranbrook Educational Community	Aa3	MI
Lawrenceville School	Aa3	NJ
Milton Academy	Aa3	MA
Park Tudor Foundation	Aa3	IN
St. John's School	Aa3	TX
Taft School	Aa3	CT
Episcopal High School	A1	VA
Hill School	A1	PA
Middlesex School	A1	MA
Miss Porter's School	A1	CT
Spence School	A1	NY
St. Georges School	A1	RI
St. Mark's School	A1	MA
Blake School	A2	MN
Breck School	A2	MN
Brooks School	A2	MA
Greenwich Academy	A2	CT
Loomis Chaffee School	A2	CT
Nightingale-Bamford School	A2	NY
Norwich Free Academy	A2	CT
Orchard School	A2	IN
Riverdale Country School	A2	NY
California School of the Mechanical Arts (Lick-Wilmerding)	A3	CA
Church Schools in the Diocese of Virginia	A3	VA
Concord Academy	A3	MA
Park School	A3	MA
Shady Hill School	A3	MA
St. Louis Priory School	A3	MO
St. Louis University High School	A3	MO
St. Paul Academy and Summit School	A3	MN
Lycee Francais de New York	Baa1	NY
Packer Collegiate Institute	Baa1	NY
United Nations International School	Baa1	NY
Williston Northampton School	Baa1	MA

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**Appendix III: Moody's Private K-12 School Ratings
by Rating Category (as of 8/11/09)**

Institution	Current Rating	State
Gonzaga College High School	Baa2	DC
Oakwood School	Baa2	CA
Rippowam Cisqua School	Baa2	NY
Saint John's High School	Baa2	MA
Xaverian Brothers High School	Baa2	MA
Berwick Academy	Baa3	ME

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APPENDIX IV:**Moody's Independent School Ratio Definitions****■ Age of Plant (Number of Years)**

Provides a rough indicator of institutional deferred maintenance as well as the operating efficiency of the existing plant facilities.

Accumulated depreciation divided by depreciation expense

■ Average Direct Debt Service Coverage (x)

Measures actual margin of protection for annual debt service payments from annual operations over three year period

Average Annual operating surplus (deficit) plus interest and depreciation expenses, divided by principal and interest payments

■ Average Gift Revenue (\$)

Measures philanthropic support of institution committed to annual operations, capital and endowment over three year period

Total gift revenue (unrestricted, temporarily restricted, and permanently restricted) for last three years, divided by three.

■ Average MADS Coverage (x)

Measures margin of protection for maximum annual debt service payments, averaged over three years.

Three year average of annual operating surplus (deficit) plus interest and depreciation expenses, divided by maximum principal and interest payments

■ Average Operating Margin (%)

Averages operating margin over three years for a longer-term view.

Three year average of annual operating surplus divided by three year average of total revenues.

■ Capital Spending Ratio (%)

Measures the annual investment in capital facilities compared to annual depreciation expense

Purchases of property, plant and equipment (from statement of cash flows) divided by depreciation.

■ Comprehensive Debt (\$)

Measure of overall debt burden, including indirect debt.

Direct debt plus Indirect Debt.

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- **Debt service to Operations (%)**

Measures burden of actual debt service payments relative to overall operating budget.

Actual annual debt service divided by total operating expenses

- **Direct Debt (\$)**

Measures direct obligations of institution

Institution's obligations (e.g. bonds, notes, commercial paper, capital lease, bank loans, and draws upon lines of credit)

- **Direct Debt Service Coverage (x)**

Measures actual margin of protection for annual debt service payments from annual operations

Annual operating surplus (deficit) plus interest and depreciation expenses, divided by actual principal and interest payments

- **Direct Debt to Total Capitalization (x)**

Measures portion of the balance sheet financed by debt

Direct debt divided by total net assets plus direct debt

- **Expendable Financial Resources (\$)**

Measure of financial resources that are ultimately expendable

Total unrestricted and temporarily restricted net assets less net investment in plant

- **Expendable Financial Resources-to-Comprehensive Debt (x)**

Measures coverage of comprehensive debt by financial resources that are ultimately expendable

Expendable financial resources divided by comprehensive debt

- **Expendable Financial Resources-to-Direct Debt (x)**

Measures coverage of direct debt by financial resources that are ultimately expendable

Expendable financial resources divided by direct debt

- **Expendable Financial Resources-to-Operations (x)**

Measures coverage of annual operating expenses by financial resources that are ultimately expendable

Expendable financial resources divided by total operating expenses

- **Free Expendable Financial Resources-to-Operations (x)**

Measures coverage of annual operating expenses by expendable resources remaining after pro-forma payment of all direct debt

Expendable financial resources less direct debt, divided by total operating expenses

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- **Gifts and Pledges (% of Total Revenue)**

Measures reliance on gift revenue as a percent of total revenue

Gift revenue divided by total operating revenues

- **Grants and contracts (% of Total Revenue)**

Measures reliance on grants and contracts as a percent of total revenue

Grants and contracts revenue divided by total operating revenues

- **Indirect Debt (\$)**

Measures indebtedness of institution beyond its direct obligations

Instruments not on the institution's statement of net assets, but because of the nature of the institution's commitment, the debt is considered a possible use of the institution's financial resources (e.g. debt issued through closely affiliated organizations, private developer-financed borrowings for projects including student loans; non-cancelable operating leases, non-recourse project leases, and unfunded pension obligations.)

- **MADS to Operations (%)**

Measures maximum annual debt service burden on the annual operating budget

Maximum annual debt service divided by total operating expenses

- **Net Tuition per Student (\$)**

Measures average tuition and fees actually received per student

Net tuition and fee revenue divided by total number of full-time equivalent students

- **Primary Matriculation (%)**

Measures student demand

Number of admissions divided by number of applications accepted

- **Primary Selectivity (%)**

Measures student demand

Number of acceptances divided by number of applications

- **Operating Cash Flow Margin (%)**

Indicates the excess cash flow margin (or deficit) by which annual cash flow cover operating expenses.

Adjusted total unrestricted revenues (adjustments include limiting investment income to 5% of average of previous three year's cash and investments and subtracting net assets released for construction and acquisition of fixed assets), less total unrestricted operating expenses, plus depreciation plus interest plus other large non-cash expenses, divided by adjusted total unrestricted revenues

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- **Operating Margin (%)**

Indicates the excess margin (or deficit) by which annual revenues cover operating expenses.

Adjusted total unrestricted revenues (adjustments include limiting investment income to 5% of average of previous three year's cash and investments and subtracting net assets released for construction and acquisition of fixed assets), less total unrestricted operating expenses, divided by adjusted total unrestricted revenues

- **Operating Margin Excluding Gifts (%)**

Measures the institution's dependence on gifts to finance annual operations

Adjusted total unrestricted revenues less gifts less total unrestricted operating expenses, divided by adjusted total unrestricted revenues less gifts

- **Other (% of Total Revenue)**

Reliance on other revenues as a percent of total revenues

Other revenues divided by total operating revenues

- **Return on Financial Resources (%)**

Indicates the direction and degree to which an institution has improved its financial resources (excluding plant)

Increase (decrease) in total financial resources divided by total financial resources in prior year

- **Return on Net Assets (%)**

Indicates direction and degree to which an institution has improved its total resource base

Increase (decrease) in total net assets, divided by total net assets in prior year

- **Total Cash & Investments**

Measure base of assets that generate investment return

Total cash and investments

- **Total Cash & Investments-to-Direct Debt (x)**

Measures coverage of direct debt by assets that generate investment return

Total cash and investments divided by direct debt

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- **Total Enrollment FTE (#)**
Measures size of institutions programs and student population
Total full-time equivalent enrollment
- **Total Expenses (\$)**
Measures size of operating budget
Total operating expenses
- **Total Financial Resources-per-Student (\$)**
Compares financial resources to the size of the student body
Total financial resources divided by full-time equivalent students
- **Total Financial Resources (\$)**
Measures total financial wealth of institution
Total net assets less net investment in plant
- **Total Financial Resources-to-Comprehensive Debt (x)**
Measures coverage of comprehensive debt by total financial resources including permanent endowments
Total financial resources divided by comprehensive debt
- **Total Financial Resources-to-Direct Debt (x)**
Measures coverage of direct debt by total financial resources including permanent endowments
Total financial resources divided by direct debt
- **Total Gift Revenue (\$)**
Measures philanthropic support of institution committed to annual operations, capital and endowment
Total gift revenue (unrestricted, temporarily restricted, and permanently restricted)
- **Total Revenues (\$)**
Measures overall size of operating budget
Total adjusted operating revenue as stated in audit, plus 5% of average three year cash and investments level, less net assets released for capital, less realized and unrealized gains or losses. Individual colleges may have other adjustments made to operating revenues based on additional information not included in audit.
- **Total Tuition Discount (%)**
Measures the amount of tuition revenue funded by unrestricted institutional resources as well as restricted endowments and external sources
Total scholarships and fellowships divided by gross tuition and fee revenue

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- **Tuition and Auxiliaries (% of Total Revenue)**

Measures reliance on tuition and auxiliaries as a percent of total revenue

Net tuition and auxiliary revenue divided by total revenue

- **Unrestricted Financial Resources (\$)**

Amount of most liquid financial resources

Total unrestricted net assets less net investment in plant

- **Unrestricted Financial Resources-to-Comprehensive Debt (x)**

Measures coverage of comprehensive debt by the most liquid financial resources

Unrestricted financial resources divided by comprehensive debt

- **Unrestricted Financial Resources-to-Direct Debt (x)**

Measures coverage of direct debt by the most liquid financial resources

Unrestricted financial resources divided by direct debt

- **Unrestricted Financial Resources-to-Operations (x)**

Measures coverage of annual operations by the most liquid financial resources

Unrestricted financial resources divided by total operating expenses

- **Variable Rate Exposure (%)**

Measures the portion of direct and indirect debt issued in variable rate mode

Sum of par amount of debt outstanding under all series of bonds and other debt issued as variable rate securities, divided by total comprehensive debt. (variable rate bonds synthetically swapped to a fixed rate are included in variable rate debt)

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APPENDIX V:

Moody's U.S. Municipal Rating Definitions

Municipal Ratings are opinions of the investment quality of issuers and issues in the US municipal and tax-exempt markets. As such, these ratings incorporate Moody's assessment of the default probability and loss severity of these issuers and issues.

Municipal Ratings are based upon the analysis of four primary factors relating to municipal finance: economy, debt, finances, and administration/management strategies. Each of the factors is evaluated individually and for its effect on the other factors in the context of the municipality's ability to repay its debt.

Municipal Long-Term Rating Definitions

- Aaa** Issuers or issues rated Aaa demonstrate the strongest creditworthiness relative to other US municipal or tax-exempt issuers or issues.
- Aa** Issuers or issues rated Aa demonstrate very strong creditworthiness relative to other US municipal or tax-exempt issuers or issues.
- A** Issuers or issues rated A present above-average creditworthiness relative to other US municipal or tax-exempt issuers or issues.
- Baa** Issuers or issues rated Baa represent average creditworthiness relative to other US municipal or tax-exempt issuers or issues.
- Ba** Issuers or issues rated Ba demonstrate below-average creditworthiness relative to other US municipal or tax-exempt issuers or issues.
- B** Issuers or issues rated B demonstrate weak creditworthiness relative to other US municipal or tax-exempt issuers or issues.
- Caa** Issuers or issues rated Caa demonstrate very weak creditworthiness relative to other US municipal or tax-exempt issuers or issues.
- Ca** Issuers or issues rated Ca demonstrate extremely weak creditworthiness relative to other US municipal or tax-exempt issuers or issues.
- C** Issuers or issues rated C demonstrate the weakest creditworthiness relative to other US municipal or tax-exempt issuers or issues.

Modifiers for Municipal Ratings

Moody's applies numerical modifiers **1**, **2**, and **3** in each generic rating classification from **Aa** through **Caa**. The modifier **1** indicates that the obligation ranks in the higher end of its generic rating category; the modifier **2** indicates a mid-range ranking; and the modifier **3** indicates a ranking in the lower end of that generic rating category.

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Moody's Related Research

Special Comments:

- U.S. Colleges and Universities Rating Roadmap: Focus on Special Risks During Recession & Credit Crisis, April 2009 (117008)
- Moody's Developing New Liquidity Ratios for U.S. Universities, Hospitals & Other Not-for-Profits, April 2009 (116024)
- Moody's Fiscal Year 2008 Private College and University Medians, May 2009 (117440)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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