

Significant Risks Facing Non-Profit Higher Education Credits

Student Demand in the Face of Ever Increasing Costs

Economic uncertainties resulting in less willingness and/or ability to take on new debt.
Scrutiny of school's focus and value proposition and assessment of return on investment.
Market position remains important as students and parents become more discerning.

Declining Government Support

State support for public universities is declining.
Federal research funding declining.
Declining healthcare reimbursement for universities operating hospitals and healthcare enterprises.
Non-profit status and related tax exemptions could come under greater scrutiny.
Unlikely to see federal support in the form of another round of stimulus given the political climate.

Management Focus and Expertise

Management expertise related to improved strategic focus and capital decisions is critical to navigating changing tide.
Some universities lack strong management and have followed the lead of other organizations (i.e. investment strategies and large capital plans) to their detriment.

Liquidity and Exposure to Investment Market Downturns

Exposure to alternative investments can create liquidity events during periods of market volatility.
Investment downturns negatively impact a source of strength (large balance sheet) and pressures future endowment payouts.
Lack of clear investment strategy and understanding of risks.
Near-term liquidity needs and asset allocation strategy are not reconciled.

Transparency and Security Provisions

Security provisions for higher education credits are generally weaker than those of healthcare credits and disclosure is not as good.
Disclosure is generally limited to end of year audit with no quarterly or mid-year information.
General reluctance to share information related to investments and liquidity in part due to balance sheet size and feeling of superior investment expertise.
Difficult to discern what investments are truly available and unrestricted.