Moody's Investors Service

New Issue: MOODY'S ASSIGNS A1 RATING TO ROLLINS COLLEGE'S $62 MILLION OF SERIES 2010 REVENUE BONDS AND AFFIRMS A1 RATING ON SERIES 2007 BONDS; OUTLOOK IS STABLE

Global Credit Research - 11 Mar 2010

COLLEGE HAS $87 MILLION OF PRO FORMA MOODY'S RATED DEBT

Florida Higher Educational Facs. Fin. Auth.
Higher Education
FL

Moody's Rating

ISSUE	RATING
Taxable Capital Improvement Revenue Bonds, Series 2010	A1
Sale Amount $24,000,000	
Expected Sale Date 03/17/10	
Rating Description Private Higher Education Revenue	
Revenue Bonds (Rollins College Project), Series 2010	A1
Sale Amount $38,000,000	
Expected Sale Date 03/30/10	
Rating Description Private Higher Education Revenue	

Moody's Outlook Stable

Opinion

NEW YORK, Mar 11, 2010 -- Moody's Investors Service has assigned A1 ratings to Rollins College's $62 million Series 2010 Revenue Bonds and affirmed its existing rating on the College's Series 2007 Revenue Bonds. The outlook for the rating is stable. The tax-exempt Series 2010 Revenue Bonds will be issued through Florida's Higher Education Facilities Financing Authority and the taxable Series 2010 Capital Improvement Revenue Bonds will be issued by Rollins College. The Series 2007 Revenue Bonds were issued by the Orange County Educational Facilities Authority.

USE OF PROCEEDS: Proceeds from the taxable Series 2010 bonds will be used to refund the taxable Master Note Series 2008-C and to pay costs of issuance. The taxable debt was originally issued to fund construction of an office/retail facility near the College's campus and to purchase land adjacent to the College. Proceeds from the tax-exempt Series 2010 bonds will be used to refund the Series 2001 and Series 2008 Revenue Bonds as well as to finance or reimburse various capital improvements and to pay costs of issuance.

LEGAL SECURITY: The College's obligation to make payments under the Series 2010 Indentures is an unsecured general obligation. The prior Series 2002 and 2007 Revenue Bonds ($43.4 million outstanding) are general obligations additionally secured by a senior lien security interest in the College's Revenues under the Master Trust Indenture of 2002. The Master Trust Indenture has been legally closed through a March 1, 2010 amendment. The Master Trust Indenture includes an additional bonds test providing that Maximum Annual Debt Service should not exceed 15% of Revenues. It also includes a Current Debt Service Coverage Covenant of at least 1.10 times. In FY 2009, the College violated the coverage covenant with a coverage ratio of 0.36 times. The 2009 measure was negatively impacted by the covenant calculation including realized investment losses and a write off of pledges receivable which, while noteworthy, do not measure or reflect core operating performance and the College's ongoing ability to cover its debt service from operations. The College complied with its requirement to hire an independent consultant and has not

created an Event of Default per the Master Trust Indenture.

DEBT-RELATED INTEREST RATE DERIVATIVES: The College entered into a floating to fixed rate swap associated with its Taxable Series 1998 Revenue Bonds with an initial notional amount of $19 million. The counterparty is SunTrust Bank (rated A2/P-1). The notional amount amortizes according to the Series 1998 schedule through 2028 and is currently $15.6 million. The College pays 6.11% and receives one month LIBOR under the agreement. Following the issuance of the Series 2010 bonds the College will no longer have any variable rate debt for which the swap serves as a hedge. Management plans to monitor the swap's market / termination value which, at May 31, 2009, was $3.6 million as a liability to the College and as of February 26, 2010 was a liability of $3.3 million. Ambac Assurance (financial strength rating of Caa2 with a developing outlook) is the Credit Support Provider to the agreement and so long as Ambac is rated below A3, in the event the College's senior debt was rated below Baa3, SunTrust would have the right to terminate the agreement. Insolvency of the Credit Support Provider would also allow SunTrust the right to terminate the agreement. Our A1 rating incorporates the risks related to the swap.

DEBT STRUCTURE: Following the current plan of finance the College will be converting approximately $52 million of demand debt and will have an all fixed rate debt structure with relatively level debt service and maximum annual debt service of $7.7 million, or 8% of FY 2009 operating expenses. Moody's views the removal of letter of credit debt and bank note with a bullet maturity as a credit positive for the College.

STRENGTHS

* Strong and improving student demand, particularly at the undergraduate level, in a demographically vibrant state. Rollins is a private college located in Winter Park, Florida that combines a residential liberal arts college, a program serving non-traditional age students, and a graduate business school, with a combined total of 3,075 full time equivalent students in fall 2009. The College admitted 62% of its freshmen applicants for the fall of 2008 and has seen steady growth in net tuition per student which was up 8% to $19,516 in FY 2009.

* Healthy financial resource base despite FY 2009 losses ($296 million in total financial resources at FYE 2009) aided by donor support with average gift revenue of $14 million per year. Expendable financial resources of $112 million cushions pro forma debt 1.1 times and operating expenses by 1.2 times. With a May 31 fiscal year end, the College has seen significant resource growth in FY 2010, with 13.3% return in the first seven months of FY 2010.

* Prudent management with a track record of producing consistently strong operating performance. Operating margins averaged 5.7% over the past three years, as calculated by Moody's, supporting average debt service coverage of 3.1 times. The College's endowment spending policy is relatively conservative at what amounts to 4.5% of a trailing, inflation-adjusted average.

* Attractive campus with relatively low deferred maintenance needs (FY 2009 age of plant 7.3 years) leading to manageable capital and related future borrowing plans. Future borrowing plans remain limited and are likely to include a portion of a $20 million science building project over the next 2-3 years, the majority of which management expects to be funded though donor support.

*Successful commercial real estate venture with high occupancy adjoining the campus in Winter Park previously valued at approximately $45 million is a strategic asset not fully reflected in the organization's financial statements.

CHALLENGES

* Competitive student market with key competitors including both wealthier private institutions and lower cost public universities in Florida, reflected in yield on admitted freshmen of 26% in fall 2009. Competition likely to fuel demand for future investments in student housing and science classroom facilities.

*Increased debt service requirements on operations, with debt-to-revenues of 1.0 times compared to a median of 0.90 times for similar colleges and maximum annual debt service representing 8% of operating expenses, well above the 5% median for A1-rated private universities. The College's limited debt plans will help provide it time to grow its revenues to diminish the operating leverage.

* Potential vulnerability to the hospitality industry with the College's plan to partner with a developer to construct a small hotel or inn on its land could expose the College to the more volatile hospitality industry. Given the scarcity of nearby quality lodging options, the Board has identified this project as a strategic priority that it believes will help burnish the image of the College with visiting students and families, potential donors and other guests.

* Relatively high degree of reliance on student charges which comprised 71% of Moody's adjusted operating revenues in fiscal year 2009.

MARKET POSITION/COMPETITIVE STRATEGY: STRONG AND IMPROVING STUDENT MARKET POSITION LED

BY RESIDENTIAL LIBERAL ARTS COLLEGE

Moody's believes that Rollins is well positioned to continue bolstering its student market position as it continues to stress themes of global citizenship, applied learning and responsible leadership. With 3,075 full-time equivalent students last fall, programs are diversified among a comprehensive liberal arts college with increasing geographic reach (1,773FTEs), the Crummer Graduate School of Business which is focused on various MBA programs (418 FTEs), and the Hamilton Holt School offering continuing education at the undergraduate and graduate level (884 FTEs). On a combined basis Rollins has enjoyed healthy growth in net tuition per student, which reached $19,516 in FY2009, 27% over FY 2006. The costs of attendance for an academic year are on the higher end for the southeast, priced at $47,540 in the 2009-2010 academic year.

The College of Arts and Sciences offers a residential liberal arts curriculum and is becoming increasingly selective as it manages to enrollment in the 1,750 student range. Selectivity has generally improved and was 62% for the fall 2009 with a yield of 26%. With a sound market presence in the Florida market, the College continues to expand its geographic reach as it enhances its broader reputation. In the fall of 2009, 42% of the student body came from Florida, 18% from the mid-Atlantic, 17% from northeast states, 11% from other southeastern states and 12% from other locations. The top five overlap institutions include the University of Miami (rated A2), the University of Florida (rated Aa3), University of Central Florida (A2), Southern Methodist University (Aa3), and Florida State University (rated Aa3).

The College's campus in Winter Park, Florida continues to support its market aspirations. The campus, which has been the home of the College since its founding in 1885, has benefited from over $75 million of capital investment over the past four years, and management plans to continue its program of targeted capital spending. Reflecting the substantial investments, Moody's calculation of Age of Plant for FY 2009 is 7.8 years, much lower than our median of 11.2 years for A-rated private universities.

As the College enhances its market profile and increasingly competes in a broader geographic realm, it will be pursuing well-qualified students who are considering much wealthier institutions. As the College continues to enhance the academic profile of its incoming classes, it has a growing pool of merit scholarship funds to attract the best qualified students. While Rollins has total financial-resources-per-student of $96,254, some of these competitors will have more than double that level of resources, which could lead to increased pressure to increase discount rates.

Rounding out the enrollment at the College are both the Crummer Graduate School of Business and the Hamilton Holt School. Crummer has international accreditation from AACSB International-The Association to Advance Collegiate Schools of Business-and focuses entirely on the MBA. Demand for the School is strongest for its Early Advantage MBA, catering to those with recent undergraduate degrees as well its Part Time MBA program. The College added a new Key Executive MBA scheduled to begin in Fall 2010. The Holt School offers continuing education at the undergraduate and graduate level and benefits from a state grant program available to Florida resident students. The Holt School has seen overall tuition revenue growth even as it increased prices with a $1,500 per course charge in the 2009-2010 academic year. We believe the MBA programs and Holt School will continue to add diversity to the student-derived revenues of the College.

OPERATING PERFORMANCE: STRONGLY POSITIVE OPERATING PERFORMANCE REFLECTS PRUDENT MANAGEMENT CULTURE

Moody's believes that management's strong financial oversight and planning will support ongoing favorable operating performance which has averaged 5.7% over the last three years, above our A-rated median of 4.3%. The operating performance indicates a favorable management culture that facilitates realistic budgeting, including conservative assumptions for incoming students as well as various contingency reserves. Given the large depreciation expense, operating cash flow has been very strong at 19.5% in FY 2009. Average actual debt service coverage has been solid at 3.1 times and after incorporating the current additional borrowing and fixed interest expense, average maximum annual debt service coverage is 2.7 times.

Student charges remain the primary revenue stream, accounting for 71% of revenues in 2009, with investment income (19%) and gifts (9%) providing additional support for operations. The College's endowment spending policy is relatively conservative at 4.5% of a trailing, inflation-adjusted average. Operational flexibility is also enhanced by management's decision to keep the spending of the transformative Cornell bequest (discussed below) unencumbered by long-term program commitments.

BALANCE SHEET POSITION: HEALTHY FINANCIAL RESOURCE BASE PROVIDES SOUND CUSHION AS DEBT INCREASES TO 1.01 TIMES REVENUE BASE; FUTURE BORROWING PLANS REMAIN MANAGEABLE

Moody's believes that the College's balance sheet profile will continue to provide a healthy underpinning for the A1 rating. Despite investment losses in FY 2009, Rollins has enjoyed longer term marked growth in Total Financial

Resources, which were $296 million at the end of FY 2009 compared to $421 million in FY 2008. Resource growth was aided by the approximately $103 million Cornell bequest along with other fundraising successes, combined with inflows to various reserves from operations. Expendable financial resources at FYE 2009 of $112 million provide a 1.1 times cushion to pro forma debt of $105 million, and a 1.2 times coverage of operating expenses. With a 13% return on the pooled endowment for the first seven months of FY 2010, expendable resources have increased considerably.

Rollins has substantial direct commercial real estate holdings near its campus whose value is not fully reflected in its financial statements. The most prominent example, SunTrust Plaza, was developed by the College in 1998 on land it had held for decades. The Plaza includes Class A office space and an adjoining parking structure. The College reports that the market value of the commercial properties is estimated in the $45 million range, while they are on the balance sheet for approximately $13.8 million as plant assets net of depreciation. We note that Moody's calculation of financial resources does not include any value for the facilities, although we do believe the property enhances credit quality. The commercial properties are 95% leased and the cash flow of the enterprise is comfortably servicing its related debt service and maintenance reserve requirements.

Earlier this decade Rollins received its largest gift to date, a bequest from former Trustee George Cornell, which has totaled $103 million. One ongoing use of the bequest is the Cornell Scholar program designed to attract ten students per year with very strong academic credentials as the College continues to increase the qualifications of its incoming classes.

The College's prior comprehensive campaign, which began in 1994 and concluded in 2001, garnered $160 million, 49% of which was for endowed funds. Total gift revenue has averaged $14.4 million across the last three years and the College has a number of focused goals around an initiative in support of its 125th Anniversary. In the current recessionary climate, total gift revenue did decline in FY 2009, with the annual fund garnering $1.65 million as compared to $1.9 million in the prior year and with a similar decline in restricted gifts. Moody's believes that Rollins is well positioned to continue its fundraising successes given its deep list of prospective donors, committed board members and academic reputation. In FY 2009 Rollins wrote down a $12-million pledge in support of international programs made by Thomas J. Petters, a businessman and former College trustee who has been charged with financial fraud. The provision for uncollectible contributions receivable totaled $13.4 million in FY 2009, $1.7 million of which was unrestricted.

The University's pooled endowment returned an investment loss of 20.9% in the twelve month period ending May 31, 2009 and gained 13.3% in the first seven months of FY 2010 (June 1, 2009 to December 31, 2009). At the end of last calendar year, the endowment was allocated among domestic equity (19%), international equity (28%), hedge funds (25%), private equity (6%), real assets (10%), and fixed income (12%). Manager diversity is generally favorable with one domestic equity fund comprising 11.6% of the pool but all alternative managers comprising less than 3%.

In the fall of 2009 Rollins experienced a reduction in liquidity when its assets in the Commonfund Short Term Fund and Intermediate Fund were frozen. As of May 31, 2009 the liquidity profile was sound with monthly liquidity of $78 million equating to 322 days of operating expenses and covering demand debt at that time by 149%. With the current plan of finance there will be no demand debt, eliminating a potential call on the College's liquidity.

Because the College has made significant investments in its physical facilities in recent years, its capital plans are manageable and will be only partially funded with debt. Future borrowing plans remain limited and are likely to include a portion of a $20 million science building project over the next 2-3 years, the majority of which management expects to be funded though donor support. With the current new money portion debt to revenues is increasing to 1.01 times, with maximum annual debt service to operations expected to be in the 8% range, significantly above the 5% median for A1-rated private universities. Reserves could be used for the occasional land acquisition as the College seeks to strategically expand its footprint from time to time.

The College's plan to partner with a developer to construct a small hotel or inn on its land could expose the College to the more volatile hospitality industry. Given the scarcity of nearby quality lodging options, the Board has identified this project as a strategic priority that it believes will help burnish the image of the College with visiting students and families, potential donors and other guests. Nonetheless, Moody's will determine the impact on the College's credit profile upon analysis of the agreements and funding structure.

Outlook

The College's rating outlook is stable based on strong student demand and tuition revenue trends, positive operating performance and a healthy financial resource base combined with manageable borrowing plans.

What Could Change the Rating - UP

Continued growth in financial resources combined with solid operating performance, further strengthening of student

market position, increased donor support and revenue diversity.

What Could Change the Rating - DOWN

Declines in tuition revenue; material decline in financial resource levels; large increase in debt without offsetting growth in financial resources or cash flow from operations.

KEY INDICATORS (Fall 2009 Enrollment, FY 2009 Financial Information):

Total direct debt: $105 million

Expendable financial resources: $112 million

Total financial resources: $296 million

Expendable financial resources-to-direct debt: 1.1 times

Expendable financial resources-to-operations: 1.2 times

Monthly Liquidity: $78 million

Monthly Days Cash on Hand (unrestricted funds available within 1 month divided by operating expenses excluding depreciation, divided by 365 days): 322 days

3-Year Average Operating Margin: 5.7%

Freshmen selectivity: 62%

Freshmen yield: 26%

Net tuition per student: $19,516

RATED DEBT

Series 2007: A1, insured by Ambac

Taxable Series 2010 and Series 2010: A1

CONTACTS

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METHODOLOGY

The principal methodology used in rating Rollins College was Moody's Rating Approach for Private College and Universities, published in September 2002 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's.

The last rating action with respect to Rollins College was on April 9, 2009 when the A1 rating was affirmed.

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