Moody's
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa3 RATING TO NEW YORK UNIVERSITY'S $206.8 MILLION OF REVENUE BONDS, SERIES 2011A AND AFFIRMS OUTSTANDING RATINGS; OUTLOOK IS STABLE

Global Credit Research - 06 Oct 2011

UNIVERSITY WILL HAVE $1.8 BILLION OF RATED DEBT OUTSTANDING, INCLUDING CURRENT OFFERING

Dormitory Authority of the State of New York
Higher Education
NY

Moody's Rating

ISSUE	RATING
Revenue Bonds, Series 2011A	Aa3

Sale Amount $206,825,000
Expected Sale Date 10/19/11
Rating Description Private University Revenue Bond

Moody's Outlook Stable

Opinion

NEW YORK, Oct 6, 2011 -- Moody's Investors Service has assigned a rating of Aa3 to New York University's (NYU or the University) $206.8 million of Revenue Bonds, Series 2011A. We are also affirming the Aa3 rating on other outstanding debt of the University as listed below under RATED DEBT. The outlook on the rating remains stable.

In Moody's approach to rating NYU, we rely on the audited financial statements of the University, which include both the New York University Hospitals Center (NYUHC, rated Baa1 with a positive outlook) and Polytechnic Institute of New York University (formerly Polytechnic University; no underlying rating). While the credit of each of the three organizations is legally separate, Moody's analysis shows both the financial data for the University components that solely secure the debt of NYU (Washington Square campus and School of Medicine or the obligated group) as well as financial data that includes all of the credits, which we believe more accurately portrays the strategic relationships across the various units.

SUMMARY RATING RATIONALE

New York University's Aa3 rating and stable outlook reflect its solid market position as a large, comprehensive, urban university with a growing global presence, positive operating performance, and highly marketable real estate holdings in Manhattan. The rating and outlook also incorporate NYU's highly leveraged balance sheet, additional capital needs, and high level of exposure to the healthcare industry through the ownership and operation of a hospital and other clinical facilities.

STRENGTHS

*Large comprehensive urban university with a strengthening global presence. NYU is one of the nation's largest private higher education institutions, serving more than 39,000 full-time equivalent students, offering a broad array of academic programs including schools of law, medicine, business, dentistry, and the arts. In addition to attracting a high percentage of international students to its main campus, NYU has a campus in Abu Dhabi, is developing a campus in Shanghai, and has a dozen other global academic sites on six continents.

*Improving operating results, resulting from better performance at New York University Hospitals Center (NYUHC) and cost containment efforts at the NYU Washington Square campus. In FY 2010, the combined organization, including NYUHC and Polytechnic, generated an operating margin of 7.0% by Moody's calculation and an operating cash flow margin of 14.9% that provided 3.2 times direct debt service coverage. The core NYU credit, including only the Washington Square campus and the School of Medicine, produced an operating margin of 4.9%. Operating cash flow margin for the core University credit was 13.8% and generated 3.6 times debt service coverage.

*Significant holdings of marketable real estate including non-core residential, office and retail buildings, the potential value of which is only partially reflected in Moody's financial ratios, but is factored into the rating.

*Conservative debt structure, with nearly all long-term debt in a fixed rate mode, amortizing, with no debt-related derivatives.

CHALLENGES

*Highly leveraged balance sheet, with expendable financial resources covering the obligated group's debt by a thin 0.5 times and the consolidated entity's debt by 0.4 times. Moody's financial resource calculations are depressed by liabilities associated with defined benefit pension plans, other post-retirement benefit obligations, and deferred revenue. Total cash and investments provide a more comfortable cushion to debt of 1.5 times for the obligated group and 1.4 times for the consolidated organization.

*Additional capital needs identified by the obligated group and NYUHC. NYU has identified an additional $200 million of borrowing within the next year and is currently working on a long-term capital plan. NYUHC has sizeable future capital plans which are phased over the next several years and will require significant additional borrowing.

*High degree of exposure to the healthcare industry for the consolidated entity through the ownership and operation of a hospital and other clinical facilities. Under the combined financial reporting in FY 2010, health care revenues comprised nearly 44% of total operating revenues. Expectations of continued improved operating results at NYU Hospital Centers, rated Baa1 with a positive outlook, helps mitigate the near-term risk to the University's operating performance.

DETAILED CREDIT DISCUSSION

USE OF PROCEEDS: Proceeds of the Series 2011A bonds will reimburse the university for capital improvements, refund the Series 2001 IDA bonds, refund the 2001 Series 2 DASNY bonds, repay a credit facility used to refinance the 2003B DASNY bonds, and pay certain costs of issuance.

LEGAL SECURITY: NYU's outstanding bonds are general obligations of the University, secured by the core academic unit that includes the Washington Square campus and the School of Medicine. Security for the bonds consists of slightly different pledges. Repayment of the Series 2011A bonds is a general, unsecured obligation of the University, on parity with the Taxable Series 2010, Taxable Series 2009, Series 2009A, Series 2009B, Series 2008A, 2008B, 2008C, and Taxable Series 2008D issued through the Dormitory Authority of the State of New York (DASNY). For other outstanding bonds issued through DASNY repayment is a general obligation of the University, secured by Pledged Revenues, which in any given year consist of an amount equal to the Maximum Annual Debt Service from tuition and fees charged to students for academic instruction and all other revenues of the University. Given the University's strong credit rating and the limited additional pledge of revenues (limited to MADS each year), Moody's has not distinguished ratings between the series.

During FY 2009, ratings downgrades of bond insurers that provided surety bonds securing debt service reserve funds on the Series 1998 and 2001A bonds required NYU to cash fund these reserve requirements or provide letters of credit. The University will be funding a total of $15.8 million over a five-year period, and has reached a balance of approximately $11.1 million combined as of August 2011.

Although New York University Hospitals Center and Polytechnic Institute of New York University (Polytechnic, formerly Polytechnic University) are combined with NYU for financial reporting purposes, debt of those entities is separately secured. Bondholders of each organization have no legal claim against the revenues or net assets of the other organizations.

DEBT STRUCTURE: Conservative debt structure, with nearly all long-term debt in a fixed rate mode, amortizing, with no debt-related derivatives.

DEBT-RELATED INTEREST RATE DERIVATIVES: None

MARKET POSITION: LARGE COMPREHENSIVE URBAN UNIVERSITY WITH A STRENGTHENING GLOBAL PRESENCE

New York University (NYU)'s market position as one of the nation's largest private higher education institutions with a strengthening global presence provides the fundamental underpinning for its Aa3 rating. NYU is a large and growing comprehensive urban university, serving more than 39,000 full-time equivalent students, offering a broad array of academic programs including schools of law, medicine, business, dentistry, and the arts. NYU also offers engineering and technology programs through an affiliation with Polytechnic University in Brooklyn. Under this structure, Polytechnic is a subsidiary of NYU with the expectation that it would eventually become a school of engineering and technology within NYU. In addition to attracting a high percentage of international students to its main campus, NYU has a campus in Abu Dhabi, is developing a campus in Shanghai, and has a dozen other global academic sites on six continents. Although NYU was originally largely a commuter school, 77% of NYU's fall 2011 freshman class were from outside of New York, and 12% of the class were international students. International students comprise approximately 20% of graduate and professional enrollment.

The University enjoys a very healthy market position despite offering financial aid at a level below many of its Aa-rated peers. NYU accepted just 26% of first-time freshman applicants based on preliminary fall 2011 data, with over 34% of accepted students enrolling. NYU provides a lower tuition discount than its peers of 19.6%, excluding Polytechnic, in FY 2010 compared to a median of 33.7% for large private universities. This measure includes discounting for graduate and professional programs which account for 45% of FTE enrollment and typically are discounted at lower levels. NYU's lower spending on financial aid has not diminished its appeal. Net tuition per student of $32,844 , excluding Polytechnic, in FY 2010 is among the highest of the higher education institutions rated by Moody's and demonstrates NYU's significant number of graduate and professional programs as well as its ability to attract students who are less sensitive to price. In light of weak economic conditions and to remain competitive, NYU is increasing financial aid at a faster pace than student charges, which resulted in a decline in net tuition per student between FY 2010 and 2009. Management expects the discount rate to remain elevated around 20% until the national economy improves. Despite the slight increase in financial aid, NYU may find itself at a competitive disadvantage as peer institutions implement plans to bolster financial aid, and lower student loan debt incurred by their students.

The University is undertaking several initiatives to enhance its attractiveness to prospective students by expanding offerings and academic quality. As part of its strategy to become a "global network university," NYU established a liberal arts campus in Abu Dhabi. NYU Abu Dhabi is funded by the Abu Dhabi government, which provided land and funding for the campus. In fall 2010, NYU admitted its first class of 155 freshmen students. The Abu Dhabi campus is targeted to reach 2,000 undergraduate and 800 graduate students when fully developed. NYU's global expansion continues with the establishment of a campus in Shanghai, scheduled to admit 150 undergraduate students in September 2013. The Shanghai campus will be built by China to accommodate an enrollment of up to 3,000 students. These initiatives will be an integral part of the NYU global university network which now includes 10 academic centers. Moody's views these campuses as distinctive enhancements to NYU's market position, which may carry additional operational and reputation risks, but are likely to position the University at the forefront of the internationalization of higher education.

Sponsored research activity at the University has grown steadily, bolstered during fiscal year 2010 by $35 million in federal stimulus (ARRA) grants. Research expenditures reached nearly $474 million in FY 2010, half of which is attributable to the School of Medicine. Sponsored research is funded by federal agencies (62%), private sources (34%), and state grants (3%).

OPERATING PERFORMANCE: IMPROVED OPERATING RESULTS DRIVEN BY STRENGTHENED PERFORMANCE OF NYUHC AND COST CONTAINMENT EFFORTS AT WASHINGTON SQUARE CAMPUS

The University has historically produced positive operating results, with recent improvement driven by the strengthened performance of the NYU

Hospitals Center (NYUHC) and cost containment efforts at the Washington Square campus. Despite improved results, operating performance remains relatively thin compared to Aa-rated peers. On a consolidated basis, the annual operating margin averaged 4.3% during fiscal years 2008-2010, with a much improved 7.0% margin in FY 2010. The improved results was due in large part to the strong performance of NYUHC, which generated an 8.5% operating margin in FY 2010, including a $53 million combined "mission payment" and equity transfer to the School of Medicine as an operating expense. The operating margin for the obligated group, including only the Washington Square campus and the School of Medicine, was 4.9%, providing 3.6 times debt service coverage. Beginning in 2007, NYU undertook a series of actions to re-engineer the University's administrative systems, producing annual savings of $66 million a year. For FY 2011, the University expects the Washington Square campus operations to produce a larger operating surplus than FY 2010. Management anticipates ongoing deficits at the School of Medicine which will be offset to a significant extent by transfers from NYUHC. NYUHC continues to generate strong operating performance, and the University projects that Polytechnic will maintain at least break-even operations.

On a consolidated basis, NYU has a high degree of exposure to the healthcare industry through the ownership and operation of a hospital and other clinical facilities. Under the combined financial reporting in FY 2010, health care revenues comprised nearly 44% of total operating revenues. Expectations of continued improved operating results at NYU Hospital Centers (rated Baa1 with a positive outlook) helps mitigate the near-term risk to the University's operating performance. New York University is the sole corporate member of NYUHC, and NYU has the power to elect NYUHC's board of trustees and to review its mission, strategic plans, financial plans and budget. Although the debt of NYUHC is not an obligation of NYU and is separately secured. NYUHC includes Tisch Hospital (a 705 bed acute care facility), Rusk Institute of Rehabilitation Medicine (174 beds), the Hospital for Joint Disease (190 bed orthopedic facility), and several ambulatory centers in Manhattan and Queens. NYUHC benefits from a favorable payor mix, with relatively low exposure to government payors. In FY 2010, the gross payor mix included approximately: 35% from Medicare (including Medicare managed care), 10% Medicaid (including managed care plans), and 55% from private payors. For more details on NYUHC, please see our report dated December 17, 2010.

BALANCE SHEET POSITION AND CAPITAL INVESTMENT: BALANCE SHEET EXPECTED TO REMAIN HIGHLY LEVERAGED IN THE NEAR-TERM; SIGNIFICANT REAL ESTATE HOLDINGS NOT INCLUDED IN FINANCIAL RESOURCE CALCULATIONS

We expect NYU's balance sheet to remain highly leveraged in the near-term, with borrowing of the University and NYUHC offsetting fundraising plans and improved operating surpluses. We note that financial resources are depressed by recognized liabilities associated with defined benefit pension plans, other post-retirement benefit obligations, and deferred revenue. The University's August 31st fiscal yearend contributes to the high level of deferred revenue as NYU receives tuition, fee, and auxiliary revenue before the start of the fall term. For the obligated group, expendable financial resources of $1.2 billion covered $2.1 billion of debt a narrow 0.5 times and operating expenses by 0.4 times in FY 2010. On a consolidated basis, expendable financial resources of $1.2 billion provided a thin 0.4 times coverage of $2. 7 billion of debt and 0.3 times coverage of operating expenses in FY 2010. However, cash and investments provide a more comfortable cushion for debt and operations (total cash and investments covered debt 1.5 times and operating expenses by 1.1 times for the obligated group).

Moody's calculation of financial resources excludes the value of NYU's real estate holdings. These include properties in Manhattan that, while important in supporting the University's educational activities, could be sold over time. Because we do not expect NYU to liquidate real estate holdings at this time, we have not incorporated them into our ratio calculations. However, if NYU were to enter an extended period of financial stress, it has the ability to tap these real estate holdings, which provides a material credit distinction from most other higher education institutions. NYU has demonstrated the willingness and ability to leverage these assets by selling property to the City University of New York in the 1970's to avert a financial crisis.

NYU's debt structure is conservatively managed, with nearly all outstanding obligations in a fixed rate mode, with relatively level amortization, and no debt-related derivatives employed. Additional debt of approximately $200 million is expected within the year for the core entity. NYUHC has ambitious capital plans that could require significant additional borrowing, depending on fundraising efforts. We recognize that the mostly fixed rate debt structure eliminates ongoing market and counterparty risk for the University and provides stability in interest expense.

Fundraising success has enabled NYU to fund strategic initiatives and grow its balance sheet over time. Gift revenue averaged $356.5 million for the consolidated entity and $280.9 million for the Washington Square campus and School of Medicine during fiscal years 2008-2010. The University completed "The Campaign for NYU" in August 2008. Against a goal of $2.5 billion the University raised nearly $3.1 billion. Of this amount, $738 million remains outstanding in scheduled pledge payments. In Fiscal 2011, the University embarked on the quiet phase of a new fundraising effort to determine the feasibility of successfully completing a new 8 year campaign for an as yet undetermined amount. In spite of the continued volatility of the market conditions, preliminary FY 2011 results show a 40% increase in giving over FY10, increasing from $270.2 million to $380.4 million. Continued strong philanthropic support will be a key credit factor as NYU and NYUHC contemplate capital plans and additional borrowing.

Recent investment gains have helped strengthen the University's balance sheet, with NYU reporting a 12.6% annual return for FY 2011 (FYE August 31). As of August 31, 2011, NYU's $2.75 billion endowment was invested as follows: 39% in hedge funds, 25% in traditional equities, 16% in fixed income, 9% in private equity, and 9% in real assets. The portfolio is diverse, with no single manager or firm comprising more than 7.5% of the portfolio. NYU's endowment is overseen by a Chief Investment Officer, a staff of eight professionals, and the investment committee of the Board. Management reports that NYU has increased staffing in this area and will likely add another two investment professionals in the near-term. NYU's unrestricted cash and investments that could be liquidated within one month provides relatively thin coverage of the obligated group and consolidated organization's large expense base, 195 days and 163 days, respectively. NYU maintains robust coverage of its modest amount of demand debt outstanding, in the form of bank lines. NYU maintains $500 million in operating lines of credit for its core entities, including $300 million from Bank of America, N.A. (on which $136.4 million was drawn as of August 31, 2011) and $200 million from JPMorgan Chase Bank, N.A (undrawn at August 31, 2011). NYUHC has a combined $74 million in operating lines of credit.

GOVERNANCE AND MANAGEMENT: RAPID GROWTH OF THE ORGANIZATION CONTRIBUTES TO DECENTRALIZED ADMINISTRATIVE FUNCTIONS

NYU's rapid and beneficial change over the past two decades, including expanded programs, separation and reunification with its hospital, addition of new subsidiaries and new campuses, has also worked against centralized control and coordination of administrative and oversight functions. Each college and subsidiary maintains substantial control of its budget and operations. While decentralization is often typical of large research universities, and high growth has exacerbated this tendency at NYU, the decentralized management structure could limit NYU's ability to increase organization-wide efficiencies and monitor financial changes in an era of scarcer resources. Management notes that the obligated group and NYUHC report on a regular basis to the Finance Committee of the Board. However, Polytechnic does not participate in these meetings, but will likely be included over time as the merger develops. We recognize that the lack of centralized management of some functions in such a large organization can create advantages by allowing more independent action at the school level. For example, in recent years, the obligated group and consolidated organization have responded well to the changing financial environment despite the lack of centralized reporting. However, we feel that the inability of the University to easily provide interim information on major operating units is a credit weakness.

Outlook

The stable outlook reflects Moody's expectation that NYU will at least maintain its solid market position, generate positive operating performance, and financial resources will grow over time at a pace commensurate with future debt issuance.

WHAT COULD MAKE THE RATING GO UP

Substantial increase in financial resources through fundraising success and improved operating surpluses, sustained improved positive operating performance by the combined organizations including ongoing strong performance at the hospital

WHAT COULD MAKE THE RATING GO DOWN

Deterioration in the financial position of the health care enterprise, borrowing without commensurate growth of financial resources, narrowing operating performance

KEY DATA AND RATIOS Fall 2010 Enrollment, FY 2010 Financial Information (Obligated Group, Consolidated Organization)

Total enrollment: 39,001 full-time equivalent students

Freshman Selectivity: 30.2%

Freshman Matriculation: 33.0%

Total Direct Debt: $2.1 billion, $2.7 billion

Total Comprehensive Debt: $2.2 billion, $3.7 billion (including unfunded pension liability and capitalized operating leases)

Expendable Financial Resources: $1.2 billion, $1.2 billion

Monthly Liquidity: $1.5 billion, $1.9 billion

Expendable Financial Resources to Comprehensive Debt: 0.5 times, 0.3 times

Expendable Financial Resources-to-Operations: 0.4 times, 0.3 times

Three-Year Average Operating Margin: 5.3%, 4.3%

Three-Year Average Debt Service Coverage: 3.6 times, 3.0 times

Monthly Days Cash on Hand: 190.4 days, 163 days

Reliance on Tuition & Auxiliaries: 49.6%, 34.4%

RATED DEBT

DASNY Series 1998A, 2003A, and 2003B: Aa3; National Public Finance Guarantee Corporation insured

DASNY Series 2001A, 2001 Series 1 and 2, Series 2007A: Aa3; Ambac insured

DASNY Series 2004A: Aa3; FGIC insured

DASNY Series 2008A, 2008B, 2008C, 2008D, Series 2009A, Series 2009B, and 2011A: Aa3

NYCIDA Series 2001: Aa3; Ambac insured

Taxable Bonds Series 2009 and 2010: Aa3

For rated debt of NYUHC, please see our report dated December 17, 2010.

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PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was U.S. Not-for-Profit Private and Public Higher Education published in August 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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STANDARD & POOR'S

Standard & Poor's Research

October 11, 2011

New York University; Private Coll/Univ - General Obligation

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New York University; Private Coll/Univ - General Obligation

Credit Profile		
US$226.0 mil rev rfdg bnds ser 2011 dtd 10/01/2011 due 07/01/2041		
Long Term Rating	AA-/Stable	New
New York City Indl Dev Agy, New York		
New York Univ, New York		
Series 2001		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
New York State Dorm Auth, New York		
New York Univ, New York		
Series 2004A		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating to New York State Dormitory Authority's series 2011A bonds issued on behalf of New York University (NYU). At the same time, Standard & Poor's also affirmed its 'AA-' long-term rating and underlying rating (SPUR) on NYU's parity debt, as well as the 'AA-' issuer credit rating (ICR) on the university. The outlook is stable.

We believe NYU's comprehensive nature, highly selective demand, and strong operating performance mitigate its low financial resource ratios for the rating category and high nominal debt level. In our opinion, significant additional debt without commensurate growth in financial resources could pressure the rating in the future.

The ratings reflect our view of the university's:

- Positive operating performance and diverse revenue stream;
- Fairly stable enrollment and strong demand profile as one of the nation's largest private institutions;
- Successful fundraising efforts, with the university raising nearly $380 million in fiscal year 2011 and additional future campaign plans;
- Unique New York City location and large portfolio of real estate assets; and
- Manageable pro forma maximum annual debt service (MADS) burden of 4.1% in fiscal 2010, consolidated operating expenses, and a largely fixed-rate debt structure.

In our opinion, partially offsetting credit factors include consolidated NYU's:

- Low financial resource level relative to other 'AA' category comprehensive institutions, with fiscal 2010 expendable resources on a consolidated basis of $1.7 billion representing only 35% of adjusted operating expenses and 63% of total pro forma debt of $2.71 billion;
- Endowment per full-time-equivalent (FTE) student of $68,000 as of August 2010, which is low compared with

'AA' category private universities; and
- Additional debt plans in the next few years and significant long-term debt plans.

NYU is a private comprehensive university located in New York City. As one of the largest private institutions in the U.S., it enrolls a broad and diverse student population drawn from the U.S. and internationally. Management states that preliminary fall 2011 enrollment was flat from the previous year at slightly more than 55,000 total students, but FTEs were up about 1,000 to 39,000.

The consolidated unit's academic components are the Washington Square Campus and the School of Medicine (SOM). The affiliated components are Polytechnic Institute of New York University (Polytechnic; BBB-/Stable) and the NYU Hospitals Center (NYUHC; BBB+/Stable).

Securing the series 2011A bonds is a general obligation of the university's academic component only. The university will be issuing about $226 million of tax-exempt debt. NYU will use most of the bonds proceeds to refund existing debt: $65 million for the New York City Industrial Development Agency's series 2001 bonds, $96 million for the state dormitory's series 2001 bonds, and $27 million for the series 2003B bonds. The university will use the remaining proceeds to refinance bank debt. The maturity will not change for the refunded series and the new money debt will be issued with a 30-year amortization.

Post issuance, the consolidated unit will have $2.7 billion of debt outstanding, with the vast majority fixed rate, which we consider a conservative structure. There is approximately $135 million of variable-rate debt outstanding under the university's various bank lines, a portion of which it will refinance with the series 2011A issuance. We consider the pro forma MADS of $199 million manageable at 4.1% of the consolidated component's fiscal 2010 operating expenses of $4.9 billion. Management states the university plans to issue additional debt totaling approximately $200 million in the next 12 to 18 months and significant additional debt plans over the next 20-year period, beginning in 2015. The liquidity ratios, debt coverage, and debt service burden cited in this report do not include the planned debt issuances in 2011 or beyond as part of the pro forma debt total. The university does not have a formal debt policy.

Outlook

The stable outlook reflects our expectation that during the two-year outlook period, the university will generate operating surpluses, increase financial resources relative to the rating category, and issue any additional debt commensurate with financial resource growth. At the same time, we expect stable enrollment levels and strong demand and fundraising trends. We also expect SOM's operating performance to continue to improve and the entire academic component's operating performance to remain positive on a generally accepted accounting principle (GAAP) basis.

Credit factors that could have a negative effect on the rating include weakening of financial resource ratios relative to operations and debt, operating deficits in the academic unit, or softening demand. Significant issuance of debt could also pressure the rating without a commensurate growth in financial resources. It is unlikely that we would raise the rating during the two-year outlook period because of the low financial resource ratios for the rating category.

Unique Urban Niche And Substantial Real Estate Holdings

Founded in 1831, NYU is a private comprehensive, not-for-profit institution. The university's main campus is in Manhattan. It also has a presence in Brooklyn, N.Y. through its affiliation with Polytechnic University (now Polytechnic Institute of NYU). Unlike many of its peer schools and more traditional college campuses, NYU is an urban campus consisting of buildings located primarily in and around Washington Square in the Greenwich Village section of Manhattan. The SOM is across town on the East River. The university provides housing for both its students and a large number of faculty. Due to its urban-core location, the university owns more than 15-million-square feet of real estate, or the equivalent of approximately 347 acres. According to management, the real estate value for the academic component was estimated at $7.1 billion as of July 2011. NYU has a satellite campus in Abu Dhabi, U.A.E., which opened in fall 2010, with plans to open an additional campus in Shanghai with its first entering class in fall 2013.

Solid Demand

Management's preliminary demand for fall 2011 remains in line with previous years. In our opinion, NYU is highly selective. The number of freshman applications for fall 2011 increased slightly to 42,274 compared with 38,024 the previous fall. Due to this increase, the acceptance rate was slightly more competitive than previous years, with only 26% of applicants accepted after several years of 30% acceptance rates. Preliminary data shows that 35% of accepted students matriculated, which corresponds to historical results. We consider this impressive given the regional competition for students. Graduate and professional programs remain highly competitive.

NYU provides a comprehensive academic program; however, its niche is its size, diversity, and location in New York City. NYU considers Georgetown University, D.C.; Columbia University, N.Y.; Tufts University, Mass.; Barnard College, N.Y.; University of Southern California; University of Chicago; Boston University; Northwestern University, Ill.; and University of Pennsylvania among its peers.

NYU remains among the highest-priced school in the nation: Undergraduate tuition totals about $43,640, excluding room and board fees of about $15,182 for academic 2011-2012. Management reports there is no indication that the cost of education has affected demand.

Surplus Operating Performance On Consolidated Basis Despite Planned Deficits At The SOM

Consolidated finances

Starting with fiscal 2008, the university began producing consolidated audited financial statements. The consolidated reporting entity for NYU consists of the university, which represents the Washington Square campus; the School of Medicine; the Polytechnic Institute; and the NYU Hospitals Center. The obligated group for the university's debt is the academic component, which is composed of the Washington Square campus and the SOM. Although NYU is affiliated with Polytechnic Institute, there are no cross-obligations. The university has not assumed any legal responsibility for the financial obligations of NYUHC or Polytechnic Institute. Thus, our analysis focuses primarily on the financial performance of the academic component.

On a consolidated GAAP basis in fiscal 2010, total adjusted revenues of $5.2 billion exceeded total adjusted expenses of $4.9 billion by $263 million, or a 5% margin, before nonoperating activities. This operating performance was an improvement over the fiscal 2009 $77 million surplus before nonoperating activities. Including nonoperating activities, the total change in unrestricted net assets for fiscal 2010 was a slightly lower $242 million. NYU continues to have strong revenue diversity with 40% of fiscal 2010 revenues coming from tuition, room and board, and auxiliary revenues, 37% from hospital operations, 10% from government grants, 3% from private gifts and grants, and 2% from endowment income.

Academic component finances

As in the past, the academic component unit made up the majority of NYU's operating revenue and expenses with $3.5 billion of adjusted operating revenues and $3.4 billion of adjusted operating expenses, resulting in an approximate $73 million operating surplus, reaching surplus operating performance on a GAAP basis sooner than expected. Including nonoperating activities, the bottom-line change in unrestricted net assets was $145 million, due primarily to investment gains.

Fiscal year 2011 ended Aug. 31, and management states that the academic component reached a surplus on a cash basis, but indicated that it is too early to estimate results on a GAAP basis. On an operating basis, management states that the academic component produced another surplus in fiscal 2011, stemming from a healthy surplus at the Washington Square campus, which was slightly offset by continued deficits at the SOM. Included in the SOM fiscals 2011 and 2012 forecasts are approximately $50 million each year from NYUHC intended to support certain joint strategic programs that promote the common mission (patient care, medical education, and research) of NYUHC and the SOM. Until NYU can realize the strategic investments in the SOM over the next few years, management expects it to generate operating deficits.

We consider NYU's budgeting practices to be conservative. Management budgets for a general operating contingency and recently created two new contingency funds. The strategic contingency reserve had a balance of $49.7 million at the end of fiscal 2010 and a projected balance of $71.5 million at the end of fiscal 2011. In fiscal 2011, the university started a "Momentum Fund" initiative, creating budget authority allocated specifically for academic purposes.

High Financial Resources Diluted By The University's Size

Just as the academic component makes up the majority of NYU's revenues and expenses, it also accounts for most of the financial resources as well as the consolidated entity's debt. Of the $4.3 billion in total net assets, $3.7 billion belonged to the academic component in fiscal 2010. Of the total pro forma debt of $2.7 billion of the consolidated entity, about $2.1 billion belonged to the academic component.

Although NYU's financial resources are high on an absolute level, we consider them low relative to expenses and debt compared with those of NYU's peer group and rating category. We view NYU's financial resources as partly offset by its revenue diversity, size, comprehensive nature, and global reach. In fiscal 2010, the consolidated component's expendable resources were $1.7 billion, representing 35% of adjusted operating expenses and 63% of pro forma debt, which we consider low. Cash and investments were stronger at $3.8 billion, representing 77% of operating expenses and 139% of pro forma debt, which we consider moderate. We would view deterioration in financial resources relative to debt and operating expenses negatively.

Solid Endowment But Low On An FTE Basis

The consolidated endowment's market value was $2.7 billion as of the fiscal year ended Aug. 31, 2011. While we consider the market value strong for its peer group, the endowment per FTE is moderate at about $68,000 per FTE (using fiscal 2010 audited endowment values and FTE). For the 12 months ended Aug. 31, 2011, the return on endowment was a 12.6% gain.

As of June 30, 2011 NYU's asset allocation was 25% public equity, 9% long and short equity, 10% private equity, 10% real assets, 27% alternative strategies, and 17% fixed income. As of the same date, total unfunded capital commitments were $201 million, approximately 8% of the total endowment fund. The portfolio structure is liquid for its size, and 29% of the portfolio can be liquidated within 30 days and 68% within one year. According to the fiscal 2010 audit, 49% of long-term investments were qualified as levels 1 and 2, which we use as a proxy for liquidity. The university bases its endowment spending policy on 5% of a 12-quarter-moving average.

In addition to the liquidity in the endowment, management states that it maintains between $250 million and $800 million in working capital funds throughout the year, which we view as relatively liquid. It also has $500 million available in two lines of credit, which it has not used for working capital needs in the past, but currently has $136 million outstanding that it used for construction expenses. Management states that the lines can be drawn for any university-related liquidity needs but it has been NYU's practice to draw for capital needs pending permanent financing. The university does not have a formal liquidity policy.

NYU completed its most recent comprehensive campaign in 2008, surpassing the original goal of $2.5 billion by raising $3.07 billion (including the health care system). The university raised between $200 million and $400 million annually since fiscal 2008, with approximately $380 million raised in fiscal 2011. NYU is currently in the quiet phase of its next comprehensive campaign.

Component Units: Polytechnic And NYUHC

Effective July 2008, Polytechnic University became affiliated with NYU. Polytechnic is in Brooklyn, N.Y. and offers primarily programs in engineering, applied sciences, and management. The university has not yet legally assumed any responsibility or liability for the financial obligations of Polytechnic. Eventually, NYU plans to acquire Polytechnic fully, although a specific time frame is not yet defined.

In 1998, the university created NYUHC as a separate legal entity to house the hospital operations and all related liabilities. From an operating perspective, NYUHC and the SOM operate together as an integrated academic medical center -- NYU Langone Medical Center -- managed by the SOM's dean. The NYU Medical Center has a governing board separate from the university's, which is composed of the NYUHC Board of Trustees and the SOM Advisory Board. In October 2007, the university became the sole member of NYUHC.

Although Polytechnic and NYUHC are separate legal entities, their financial statements are consolidated with those of the university. Polytechnic (BBB-/Stable) and NYUHC (BBB+/Stable) separately secure their bonds. For more information on the component units, please see "New York State Dormitory Authority; NYU Hospitals Center," published Dec. 23, 2010 and "New York City Industrial Development Agency; Polytechnic Institute of New York University," published March 25, 2011, on RatingsDirect On the Global Credit Portal.

Related Criteria And Research

USPF Criteria: Higher Education, June 19, 2007

Ratings Detail (As Of October 11, 2011)		
ICR, Series 2009, Series 2010		
Long Term Rating	AA-/Stable	Affirmed
New York State Dorm Auth, New York		
New York Univ, New York		
New York St Dorm Auth (New York University) (AMBAC)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
New York St Dorm Auth (New York University) (AMBAC) (BHAC)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Series 1998A		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Series 2008 A, Series 2008 B, Series 2008 C, Series 2008 D, Series 2009 A and Series 2009 B		
Long Term Rating	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.