RIDGEWATER COLLEGE

Hutchinson and Willmar, MN

FINANCIAL TRENDS AND HIGHLIGHTS

For the Fiscal Year Ended June 30, 2011

Creating Opportunities,
Changing Lives.

Ridgewater College

FINANCIAL TRENDS AND HIGHLIGHTS REPORT
For the year ended June 30, 2011

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Ridgewater College

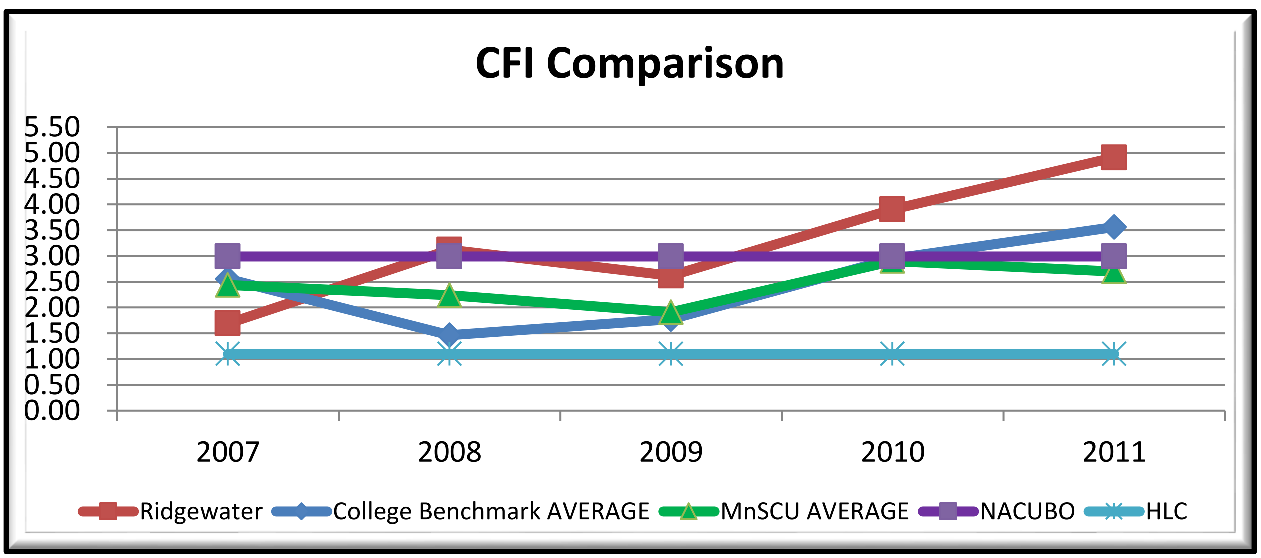
Fiscal Year 2011 Financial Trends and Highlights

Composite Financial Index (CFI)

Composite Financial Index						
	Fiscal Year					NACUBO
Financial Ratios:	2011	2010	2009	2008	2007	Threshold
Primary Reserve	0.77	0.54	0.51	0.52	0.45	1.05
Return on Net Assets	1.38	1.53	0.13	0.70	(0.57)	0.60
Viability	2.50	1.85	2.07	1.91	1.46	1.05
Operating Margin	0.27	(0.03)	(0.10)	0.09	(0.02)	0.30
CFI	**4.91**	**3.90**	**2.62**	**3.22**	**1.32**	**3.00**

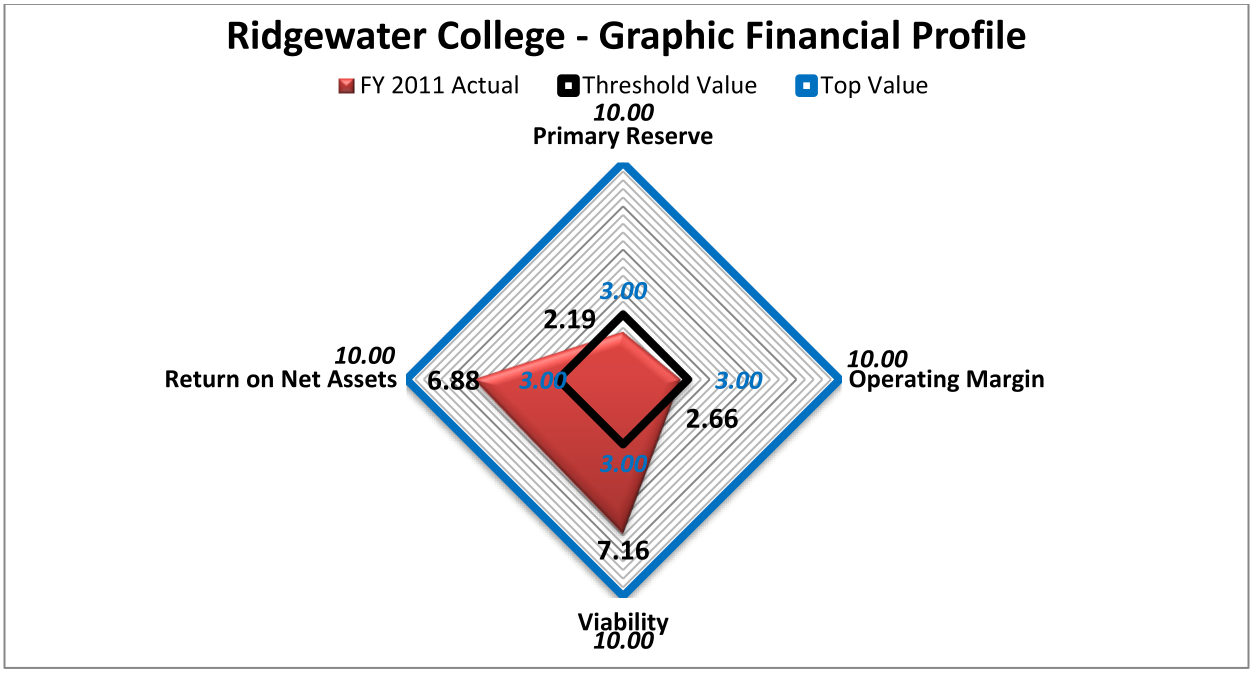
Note: The values above have been updated for the financial statement reclassifications in 2011 and the CFI strength changes in 2010.

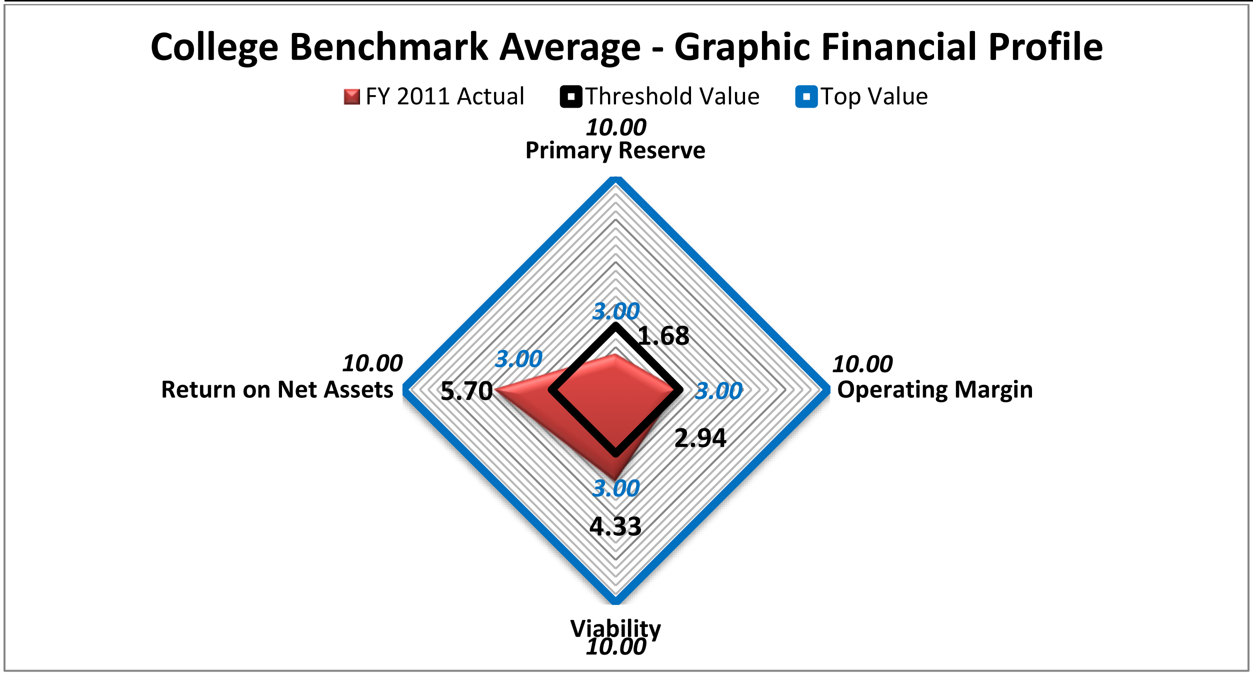
Composite Financial Index increased in FY 2011: Ridgewater's financial health improved significantly in FY 2011 as measured by the Composite Finance Index (CFI) performance indicator. Our CFI increased from 3.90 in FY 2010 to 4.91 in FY 2011 placing our CFI value well above the NACUBO threshold.



CFI benchmark comparisons: Once again the Ridgewater FY 2011 CFI exceeds all four of our benchmark comparisons: MnSCU System Average, NACUBO, *College Benchmark Average and the Higher Learning Commission (HLC) "Above the Zone" limit. This marks the 2nd year in a row and 3rd in 4 years that Ridgewater has exceeded all four of these benchmarks. Overall, the FY 2011 CFI of 4.91 is Ridgewater's strongest performance within the five year timeframe.

** College Benchmark Average consists of 8 colleges Ridgewater has selected as a benchmark group for CFI comparisons based on comparable student enrollment (FYE): Central Lakes College, Lake Superior College, Minnesota West Community & Technical College, Northland Community & Technical College, Riverland Community College, Rochester Community & Technical College, South Central College, and St. Cloud Technical and Community College.*

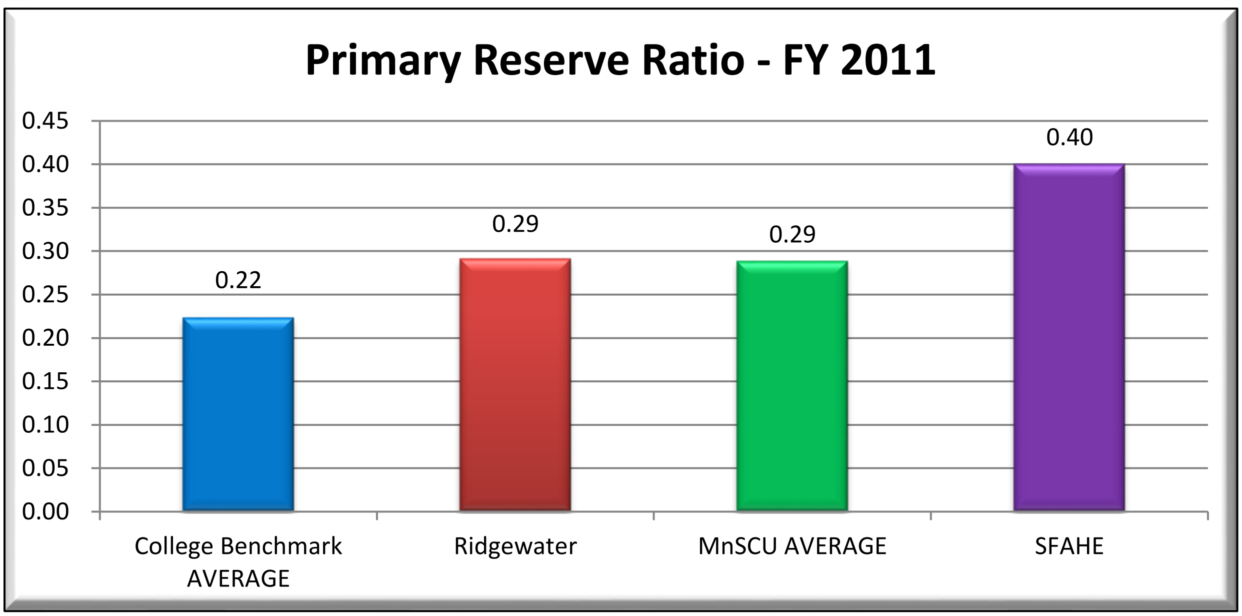




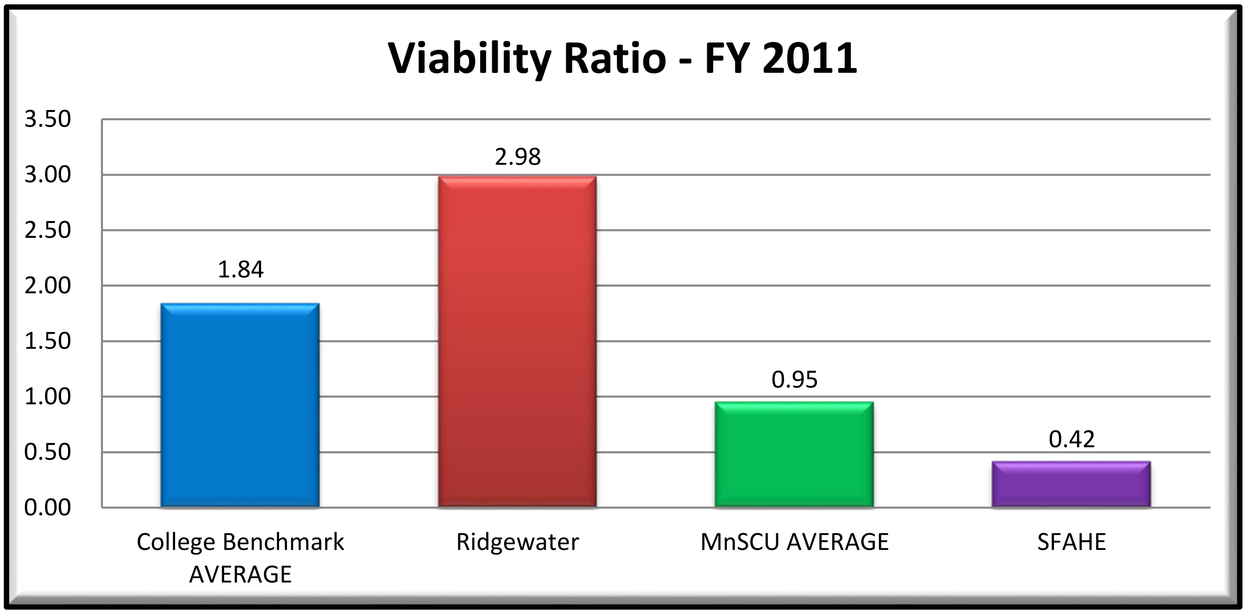
Graphic Financial Profile Analysis: Utilizing ratio comparisons from the book "Strategic Financial Analysis for Higher Education (SFAHE) both of the above presentations map the ratio's on a diamond to show the "shape" of their financial health. This illustration helps to show the relationship between the ratios and to demonstrate how a weaker ratio is offset by a stronger ratio. In these charts a ratio of 1 or less represents very low financial health; 3, represents the threshold value and a stronger financial position while 10 is the top value that can be achieved for any ratio. Even though an institution can have a strong CFI, there can still be weaknesses within the components of the CFI.

In comparing Ridgewater's profile with that of the "College Benchmark Average profile you can see similarities in each representation, as each composite financial index exceeds the MnSCU average and the NACUBO threshold. It is also easy to see the relationship between the ratios and how they are able to offset one another. Both examples demonstrate a general weakness in their operating results and are slightly undercapitalized while at the same time they are generating a reasonable return on assets and a capacity to handle more debt.

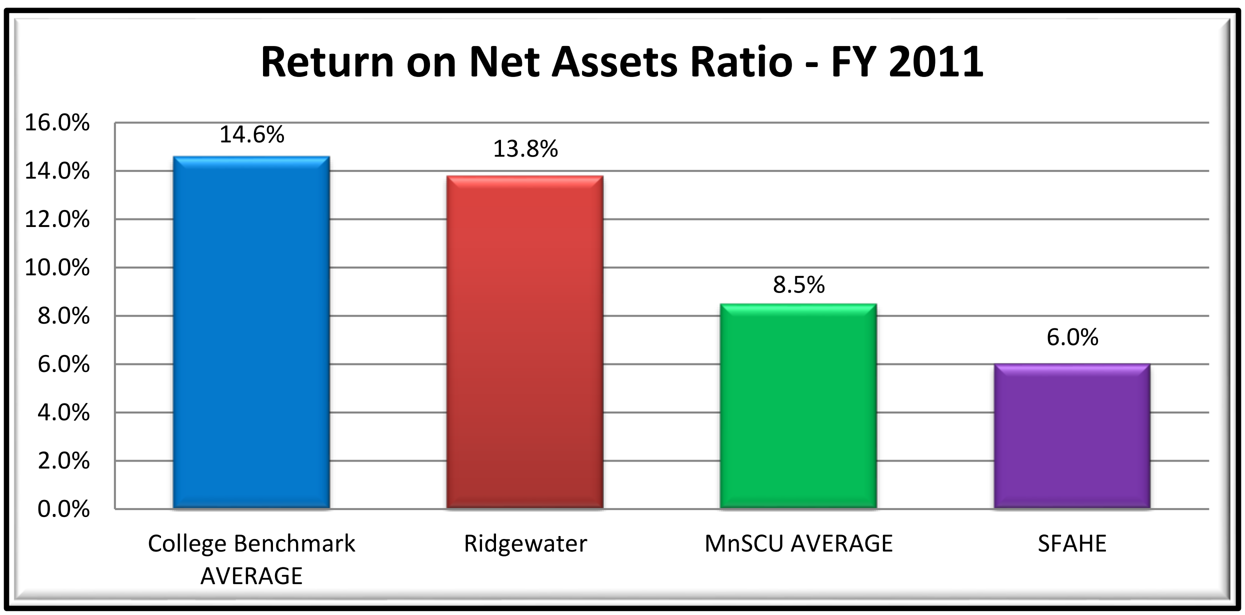
CFI Components



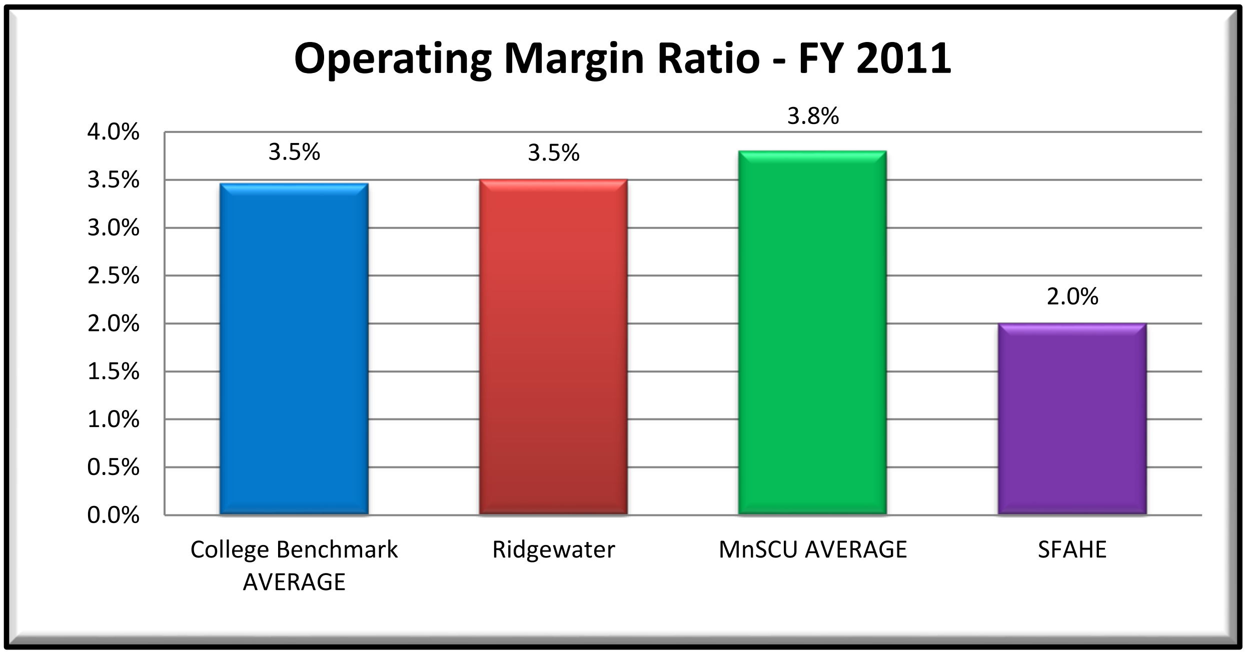
The **Primary Reserve Ratio** exceeds our College Benchmark average and is equal to the MnSCU average, while still significantly less than the Strategic Financial Analysis for Higher Education (SFAHE) recommendation of .40. The increase (from .21 to .29) from last year indicates the college has slightly improved its financial strength and flexibility by increasing expendable net assets in proportion to total expenses. This gives us a snapshot of how long the college could function using our expendable reserves without additional assets. Our ratio indicates that the college has the ability to cover approximately 3.5 months of operating expense coverage.



Our **Viability Ratio** has exceeded all three benchmarks again in FY 2011 marking the fifth straight time that this has occurred. SFAHE suggests that a ratio over 1.23 or greater indicates that there are sufficient resources to satisfy debt obligation. With a 5-year average ratio of 2.3 Ridgewater College has sufficient resources to assume the new debt associated with phase II of our capital project which is currently rated number 3 on the MnSCU capital project list.



The **Return on Net Assets (RONA) Ratio** of 13.8% exceeds the MnSCU system average and SFAHE recommend average in FY 2011. Our 5-year RONA average is at 7.2% which when reduced by the 5-year average inflation rate of 2.23% gives Ridgewater a real rate of return during this time of nearly 5%. The real rate of return on net assets for FY 2011, after inflation, is 10.53%.



Our **Operating Margin Ratio** reversed a 2-year negative trend with a strong performance in FY 2011 increasing substantially from -.3% in FY 2010 to 3.5%. SFAHE considers a ratio of 2% to be adequate in order to keep up with growth in operating expenses; our ratio of 3.5% demonstrates our ability to fund operations. Our FY 2011 ratio exceeds the SFAHE recommended percentage, matches the College Benchmark Average and is not far behind the MnSCU Average.

Key factors contributing to our positive operating margin & CFI

Several factors contributed to our positive operating margin of $1.42 million in FY 2011. First, tuition and fee revenue increased slightly by 1% due to a .65% change in student FYE however overall operating revenues decreased by over $603,000 due mainly to a Carpentry home sold and lower bookstore sales in FY 2010.

Next, there were significant operating expense changes which equated to a reduction of $2.285 million in FY 2011. A major portion of these reductions occurred in personnel costs where we reduced our obligations by 3.68% or $979,000 from FY 2010. Ridgewater has had over 22 positions reductions over the past 3-years due mainly to retirements, layoffs and attrition. All other operating expenses decreased by over $1.3 million mainly due to faculty and staff monitoring their budgets and purchasing wisely and the use of ARRA money to fund equipment purchases.

Finally, with a strong positive operating margin and a capital appropriation of $2.4 million we were able to increase our net assets by $3.98 million in FY 2011, an increase of 14% from FY 2010. Couple this with much lower operating expenses and a relatively low amount of debt we were able to achieve a CFI of 4.91 which places us as the 7th highest CFI within the MnSCU system.

Per Full Year Equivalent Student Data

Per Full Year Equivalent Student Data	2011	2010	2009
Total Operating Expenses	$ 11,177	$ 11,900	$ 12,365
Direct Student Expense	$ 7,356	$ 7,456	$ 8,183
% Direct Student Expense	**65.8%**	**62.7%**	**66.2%**
Student-based Revenue - All	$ 6,213	$ 6,267	$ 5,917
% of Total Revenue	**50.3%**	**48.1%**	**47.3%**
Student-based Revenue - Financial Aid	$ 2,313	$ 2,169	$ 1,731
% of Total Revenue	**18.7%**	**16.6%**	**13.8%**
Appropriation Revenue	$ 4,289	$ 4,544	$ 5,412
% of Total Revenue	**34.7%**	**34.8%**	**43.3%**
Capital Appropriation Revenue	$ 681	$ 1,112	$ 264
% of Total Revenue	**5.5%**	**8.5%**	**2.1%**
Grant Revenue Excl Fin Aid	$ 935	$ 995	$ 815
% of Total Revenue	**7.6%**	**7.6%**	**6.5%**
Operating Margin	**$ 401**	**$ (48)**	**$ (164)**
% Change in Student FYE	**0.65%**	**6.29%**	**0.06%**

Changes to Per Full Year Equivalent Student Data

Both **operating expenses and student expenses** per FYE decreased in FY 2011 mainly due to a $2.3 million reduction in operating expenses and an enrollment increase of 23 FYE. Reductions in operating expenses did not happen at the expense of the student as evident by the slight reduction in student expenses per FYE.

Student-based revenue – all per FYE decreased mainly due to lower student based revenue in FY 2011 in comparison to FY 2010 revenue which was primarily due to the sale of a carpentry homes in excess of $533,000.

The **student-based revenue – financial aid** per FYE is tied directly to the amount of the scholarship allowance in the corresponding year. A higher scholarship allowance was used in FY 2011 which is the reason for the higher percentage of revenue.

Our **appropriation revenue** per FYE declined due to a larger portion of our non-capitalized capital appropriation being reclassified as appropriation revenue in FY 2010. There was also a slight reduction in the base allocation in FY 2011 which contributed to the reduction per FYE.

The FY 2011 **capital appropriation revenue** per FYE decreased significantly due to the completion and capitalization of two major projects in FY 2011. No additional capital projects were initiated in FY 2011.

Grant revenue excluding financial aid per FYE decreased slightly while maintaining the same percentage per FYE as in FY 2010. There was very little change in overall grant revenue from FY 2010 to FY 2011.

Current Financial Health

Key drivers behind the data that is out of the expected range

Personnel costs were much lower than expected. A combination of conservative budgeting and the cumulative effect of 22 staffing reductions due to retirements, layoffs and attrition over the past 3-years contributed to the positive results.

Conservative budgeting in these times is very important with contracts yet to be settled and double digit health care increases looming. No correction will be made with the exception of adding features in the personnel model to tighten the margin between budget and actual results.

Financial Statement Highlights

Ridgewater College had an outstanding year in FY 2011. Our financial statements show a 13.8% growth in net assets and a substantial increase in our operating margin. The majority of the College's performance measures increased during the year were at or above MnSCU system average or exceeded the College benchmark averages.

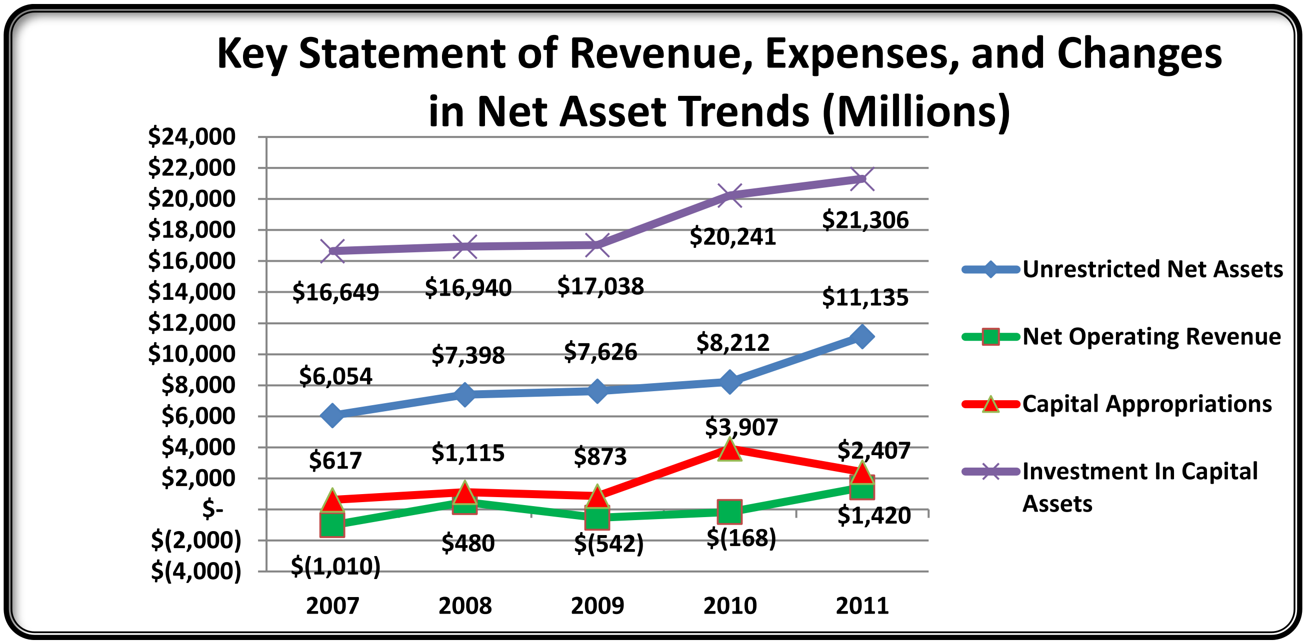
Major factors impacting our financial results include:

- Enrollment increased slightly from 3,514 FYE in FY 2010 to 3,537 FYE in FY 2011, a slight increase of 23 FYE or .6%.

- Overall revenues decreased by over $2.14 million or 4.7% from FY 2010.
    - State appropriations and special appropriations decreased by over 5% from FY 2010 which resulted in a reduction of $810,000.
    - Tuition, fees and sales decreased by $603,000 over FY 2010 actual results. This includes:
        - 5% increase in tuition.
        - Scholarship allowance reduction less than that in FY 2010.
        - Lower Carpentry Program homes sales in FY 2011 resulting in a reduction of nearly $533,000 from FY 2010.
        - Lower Bookstore sales.
    - Financial aid revenues increased by 3%, a $370,000 increase from FY 2010. The increase is attributed to:
        - $1.15 million or 13.2% increase in PELL funding.
        - State funding reduction of $669,000 or 30.9% decrease from FY 2010.
    - Capital appropriations decreased by $1.5 million in FY 2011 to $2.41 million from $3.91 million in FY 2010.

- Expenses decreased by nearly $2.3 million in FY 2011 as compared to FY 2010, which is a 5.5% decrease. Major factors in this decreases are:
  - Salary and Benefits decreased by 3%, a reduction of $979k.
  - All other operating expenses decreased by 3% which is a reduction of $1.34 million from FY 2010.

Key Statement of Revenue, Expenses, and Changes in Net Asset Trends:



Ridgewater College increased the “unrestricted net assets” balance by $2.92 million to a total of $11.135 million in FY 2011 which represents a 36% increase from FY 2010. This correlates with a substantial increase in net operating revenue and strong capital appropriations.

“Investment in Capital Assets” increased by $1.07 million as revenue from capital appropriations decreased by 38%, signifying lower capital project/HEAPR funding, and modest capitalization.

The unrestricted net asset balance is made up of the following reserves and designations:

- Actual reserve balance of 7% or $2.58 million representing 23% of the total balance.
- Projected reserves for FY 2012 & 2013 of $1.7 million, or 15% of the total balance.
- Funds designated for programs makes up the remaining 62% which is $6.855 million.

Ridgewater College has and will continue to budget conservatively to support growth in our unrestricted net assets in preparation of the awarding of phase II of our capital project proposal and provide assets to allow for investment in our premier programs.

Financial health in terms of impact on students, academic programs and staff

Initiatives and projects that impacted Ridgewater College in 2011 include:

- The $325,000 Bio Science initiative. This $325,000 appropriation was received in late FY 2008 and was completed in FY 2011. This exciting opportunity allowed us to create and maintain a BioBusiness Clearinghouse website and Digital Learning Objects Repository, and to serve as the convener of the managers of the four system-wide Bioscience Initiative projects.
- The Access, Opportunity & Success initiative. FY 2011 was our fourth full year managing this initiative which is funded by a state appropriation of $175,528. The goal is to assist in recruiting and retaining underrepresented students.
- Presidential Incentive Scholarship. Established in FY 2010 and continuing through FY 2011 this incentive program which is funded by federal stimulus dollars is targeted specifically at the financially neediest college students. Seventy Five eligible students that met federal criteria and enrolled in at least 12 credits received $1,500 towards college-related expenses by completing all course work with a minimum GPA of 2.5. By meeting these criteria each semester, students were eligible to receive the $1,500 award for three consecutive semesters. Ridgewater provided $250,500 awards during this period.
- ARRA equipment funding. As a part of the American Recovery and Reinvestment Act of 2009 (ARRA) Ridgewater College invested nearly $850,000 in new equipment for instruction, student support and safety. Many programs benefited from state-of-the-art equipment that will enhance students experience for years to come.
- EGL Costa Rica Study Abroad Program. Beginning in FY 2011 students now have the opportunity to part in international/global educational opportunities. Ridgewater College faculty will now lead the MnSCU EGL initiative.
- Ridgewater College Nuclear Scholarship Program. Funded by $90,000 grant from the Nuclear Regulatory Commission the Ridgewater College Nuclear Ultrasonic Technician Fast-Track Program developed a new academic program to serve the nuclear industry, 26 scholarships totaling $53,702 were awarded to 19 students, $19,000 was leveraged to purchase ultrasonic equipment worth over $40,000, and weld flaw samples worth over $200,000 were shared with partners to train students for nuclear ultrasonic inspections.
- Habitat for Humanity Partnership. Ridgewater College has partnered with Habitat for Humanity in Willmar to build two homes in Willmar. Our Carpentry program students built and finished an energy efficient home, while the Electrician program installed all of the wiring and fixtures. The home provided the opportunity to learn construction techniques in a real life setting and an opportunity to experience service learning while working with the family who became the owners of the home.
- TRIO grant renewal. Ridgewater successfully obtained reauthorization of the TRIO grant for another five years for approximately $1.0 million over the term of the grant. The TRIO offers numerous student support services for students with disabilities, low income students and first generation students.

- Central Heating Plant, Phase I Completion. Work was completed on phase I of the renovation of the Willmar Campus HVAC system. The project involved the replacement of five outdated and inefficient boilers with seven new efficient condensing boilers. The college expects to see a 30% reduction in utility costs and has received rebates in excess of $100,000.
- Hutchinson Main Campus Remodeling Projects. Minor projects continued in 2011 to address the space needs of the Art program and the testing center, and provide a better space for a multicultural student room. Total Cost of the remodeling was less than $20,000 however better usage of this space was achieved.
- Hutchinson East Campus simulated apartment. Emergency services trainees can now take advantage of a simulated apartment on the Hutchinson East Campus. This simulated apartment creates a more realistic experience for students. Students now have the challenge of assisting a patient in tight quarters such as a three-quarter bathroom or narrow hallways. The total cost of the project was approximately $19,000 however many public donations were received for furniture and appliances which help to create a great learning environment.

Fiscal Sustainability

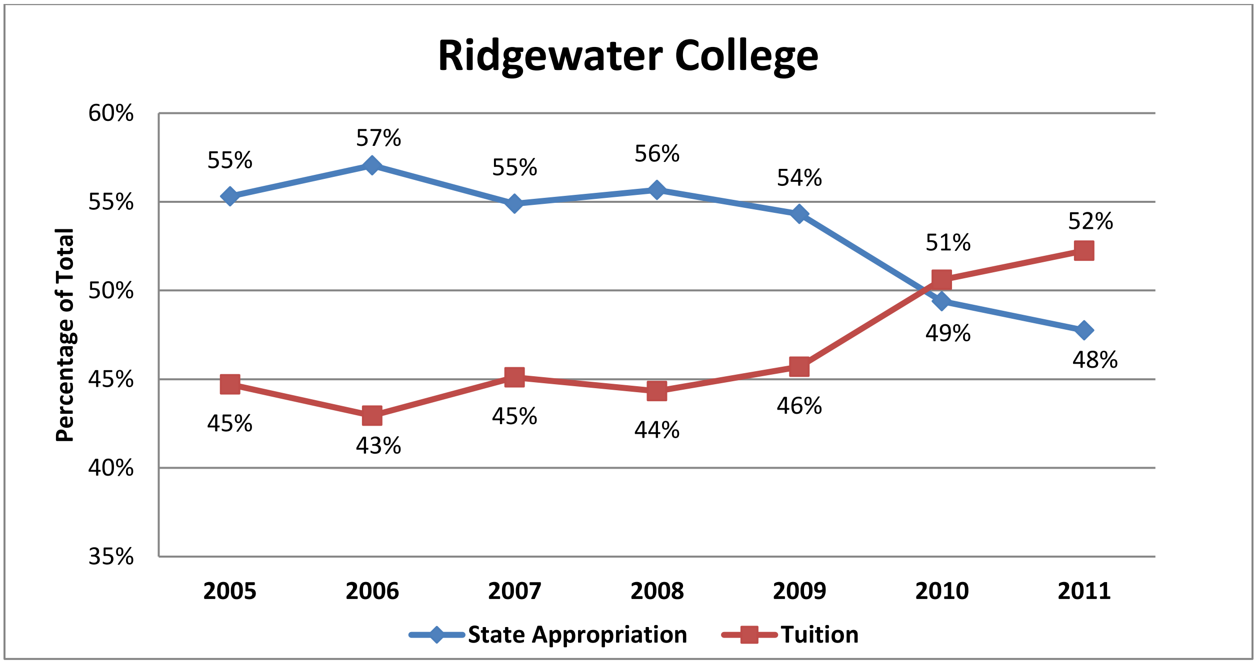
Although Ridgewater's mission and strategic goals are generally supported by our financial resources there are still reasons for concern in the coming years. The college will continue to proactively address economic variables that impact our financial health and keep our mission and strategic plan aligned with financial resources in the future. We know that the college will continue to look at best practices, procedural enhancements and staffing levels to maintain our CFI goal of 3.0. Our goal is not simply surviving during this time of recession and slow growth, but to come out of this positioned for future success.

There are several economic challenges that will impact our fiscal sustainability

Demographics and enrollment

Our region's demographics show that total high school graduates are projected to continue a steady decrease within the next 5 years in and around Willmar and Hutchinson. The latest Minnesota Office of Higher education report states that about 70% of Minnesota's 2008 high school graduates generally enroll in postsecondary education following graduation. Unless high school to college participation rates sharply increase – especially among low-income students, students of color and other students traditionally underrepresented in post-secondary education – our college, and others in Minnesota, will have a smaller pool of students to recruit from. The Willmar Public Schools has seen their minority enrollment increase from 10% to over 40% in less than 10 years and the trend is expected to continue. In addition, Willmar's elementary schools have over 55% of their students qualifying for free/reduced lunch.

Tuition
As the amount of state funding for higher education decreases more pressure is placed on students to fund the cost of a college education. Tuition for undergraduate students that attend two-year colleges was capped at 4% in the second year of the biennium by the legislature this past summer in an effort to minimize the cost to students. Future tuition planning will be more critical as state appropriations continue to decrease and college affordability becomes the emphasis. Tuition and state appropriations provide nearly 90% of our General Fund revenue. As you can see from the chart below, tuition revenue has become a more significant part of our revenue stream over the past seven years.



State Appropriations
Future higher education funding will continue to be susceptible to the political climate. MnSCU funding for the 2012-2013 biennium was reduced by $120 million, or 10%. This marks the second consecutive biennium that funding for higher education has been reduced. The total reduction in the 2010-2011 biennium was $127 million which included a $20 million unallotment in FY 2009. There is reason for optimism; however the state of Minnesota received some welcome news in November with a projected positive balance of $876 million. The reason for the positive outlook was mainly due to revenues that outpaced the revenue forecast by over $358 million and state spending that is expected to be $553 million less than forecast.

While the US economic forecast has weakened and economic growth was slower than expected the Minnesota economic outlook continues to grow modestly. October marked the first time since the housing bubble started to burst in 2006 that the industry reported positive job gains and Minnesota's job market appears to on a path to recovery.

Employee Contracts
The clock continues to tick on employee contract negotiations. Currently all state unions are working without a contract and negotiations are moving slowly. With another round of state appropriation reductions and a forecasted health insurance increase of 19% potential settlements are difficult to predict.

Capital Projects
Ridgewater has been actively pursuing phase II of our Technical Instruction Addition and Renovation project for the past four years and is currently on the Governor's proposed bonding list for the FY 2012 bonding session. Until this project is funded our assumptions will include this $13.9 million capital project, increased depreciation costs and increased debt service.

Student Financial Aid
All signs suggest that there will be decreases in grant funding from the State and the Federal government. The Department of Education and Congress are making changes to the formula that allocates funding to individual students; so while the max amount a student may qualify for seems to be staying flat, in reality the number of students that qualify and the amount they qualify for will and has been decreasing. Students will also be facing a hard limit on the number of semesters that they may receive the Federal Pell Grant. In the past students could come back to college for retraining and as long as they had not earned the Bachelor's degree they could still qualify for Pell Grant. Current law states that it will be limited to 12 semesters of eligibility.

We are also looking at some significant increases in the cost to students in the Federal Stafford Loan program. Currently the interest rate for a subsidized Stafford loan is 3.4%. Next year that rate will increase to 6.8%. Also, starting next year, students will also be losing their interest subsidy on their loans during their grace period (the six months between when the leave school until they have to make their first payment).

Additional reductions may also occur for campus based financial aid programs. These would include the Perkins Loan, SEOG and Work Study.

<u>Fiscal sustainability strategies that enhance a new college business plan</u>

In light of the downward trend in state funding and increases to tuition, Ridgewater must develop a systematic plan to address revenue shortfalls and expense increases while maintaining our commitment to our vision and mission to be a dynamic educational leader that provides quality educational opportunities for diverse student learners. Ridgewater College must engage in a new business plan which is based on future fiscal sustainability.

Create a realistic multi-year budgeting model
In order for Ridgewater College to determine its fiscal direction, 5-10 year revenue and expense modeling must be development and implemented. Given the unknowns that we have in regards to state funding this task will be challenging however a conservative approach will give us an idea of our future direction and potential issues.

Integrate CFI and components into budget planning
This component will be a necessary part of the multi-year budgeting model and will assist in decision making. Internally Ridgewater College would like to maintain a CFI rate of 3.0.

Detailed Program review
A detailed program assessment must be conducted to maintain our fiscal accountability. All academic programs must be continuously evaluated to ensure program quality and viability. Programs must not only be fiscally sound they must demonstrate student success.

Continue to look for process improvements and enhancements
With increased accountability demands from the public we must all become good stewards of student and tax payer money. We are already engaged in several process enhancements and facility upgrades which will help to reduce future costs. Over the summer our business office reviewed current procedures and processes and was able to reduce staffing by .6 FTE while improving customer service. We are also seeing the rewards from our Central Heating plant project which will give us the potential to see up to 30% reductions in energy usage.

Continue to develop new sources of revenue
We have several opportunities that will direct us to new revenue sources. We are currently taking part in the Shared Services Cooperative by offering reconciliations services to other institutions. Prior to our commitment to the cooperative we engaged in assisting Northland College with their SWIFT to MnSCU reconciliations. Ridgewater is also looking at the expansion of on-line learning opportunities which may deliver additional revenue in the future.

Future Year Planning

FY 2012 budget assumptions:

After an exceptional **enrollment** year in FY 2011 Ridgewater is projecting a 7% decrease in enrollment and assumes student FYE at 3,275 for FY 2012. As a result of the reduction of 262 FYE's the college will have a decrease in tuition revenue of approximately $1.2 million.

Ridgewater did increase **tuition** in FY 2012 however in an effort to minimize the cost to students we limited our increase to 3% and were one of a few institutions that were below 4%.

Our total **state appropriation** decreased by $1.51 million in FY 2012. In addition to the reduction in Higher Education aid Ridgewater also received a reduction in aid as our percentage share of the allocation formula decrease from 2.72 to 2.69.

Projected **personnel costs** assume a 2.5% increase in FY 2012 which is based on belief that negotiations will be completed during the fiscal year. The College has been proactively reducing personnel commitments over the past several years. There have been over 22 positions over the past 3-years due mainly to retirements, layoffs and attrition.

Non-personnel costs are projected to decrease by nearly 10% in FY 2012.

The fiscal 2012 budget will presume that the phase II of the Technical Addition and Renovation project will be funded as a part of the 2012 bonding bill. The project has a cost of $13.9 million and it is projected will receive $4.0 million in **capital appropriation** funding.

Impact on FY 2012 Performance Measures
The FY 2012 budget assumptions lead us to conclude that our CFI will increase from 4.91 to 5.65. Our primary reserve ratio and viability ratio will increase significantly in FY 2012 while our return on net assets and operating margin ratio will decrease from our FY 2011 rates. The impact of a breakeven budget will limit our ability to maintain investment in programs and student services.

The projected **primary reserve ratio**, which increases from by .26 from FY 2011, still lags behind the SFAHE recommendation but does exceed the NACUBO threshold. This ratio indicates that the college would have the ability to cover approximately 4.7 months of operating expenses.

Ridgewater's **return on net assets (RONA) ratio** declines slightly in FY 2012 due to a minimal reduction in the change in net assets. Assuming an inflation of 3% our real rate of return is a very strong 9.6%.

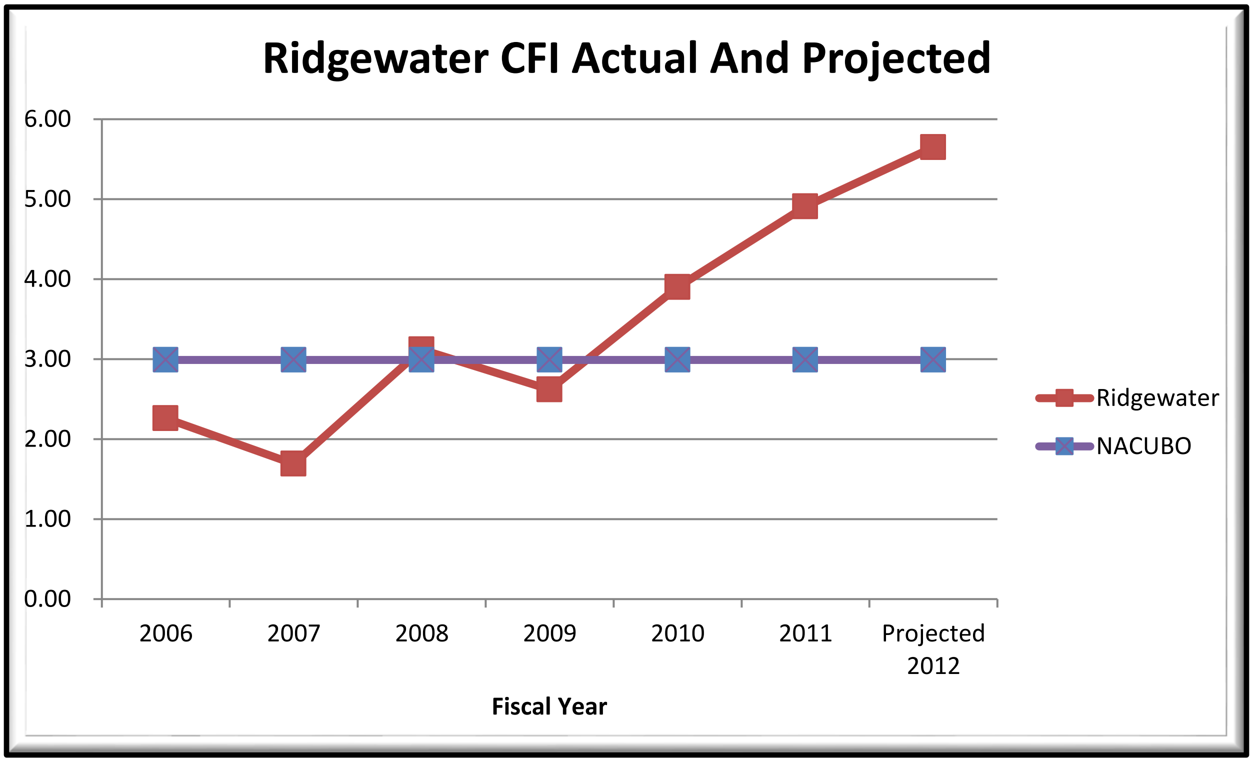
Our **viability Ratio** continues to exceed the SFAHE recommendation and the NACUBO threshold in FY 2012 which assures us that we have sufficient resources to assume the new debt.

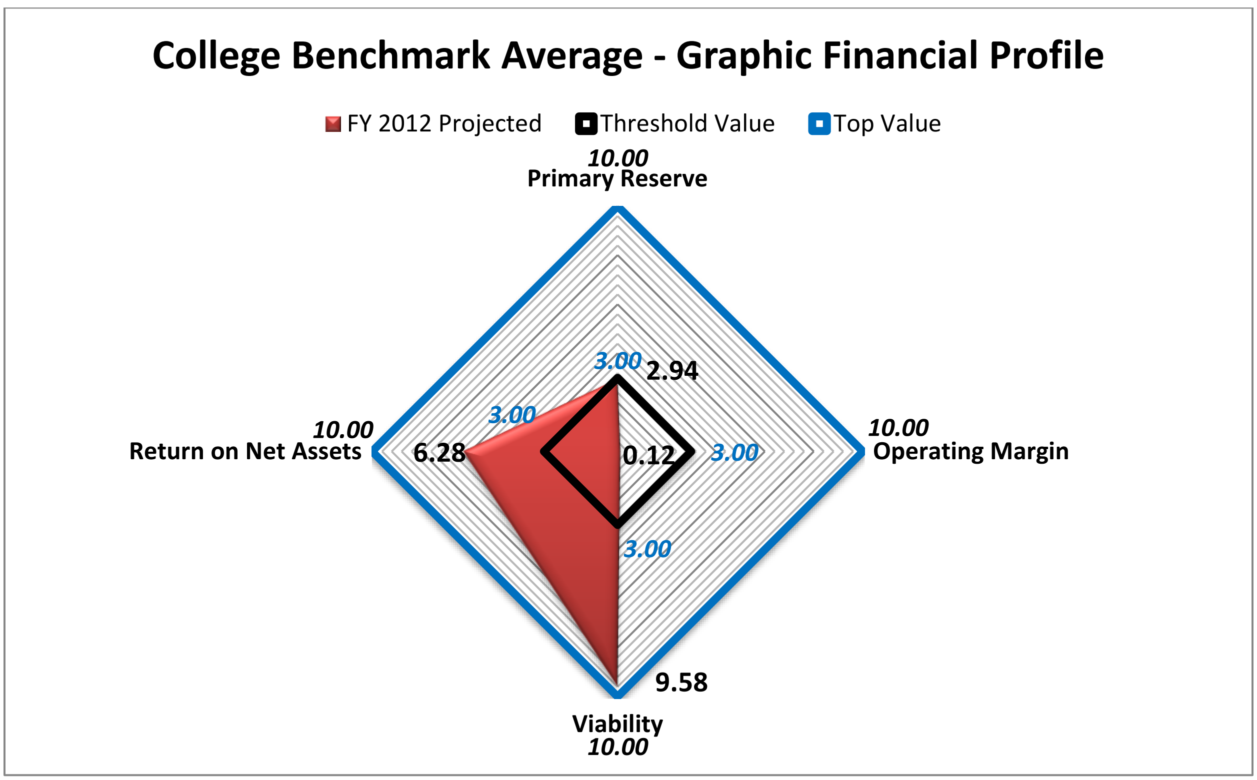
The **operating margin ratio** will be minimal in FY 2012 and far below the SFAHE recommendation of 2% however we will still be able to finance operations.

Composite Financial Index

Financial Ratios:	Projected 2012	2011	2010	2009	2008	NACUBO Threshold
Primary Reserve	1.03	0.77	0.54	0.51	0.52	1.05
Return on Net Assets	1.26	1.38	1.53	0.13	0.70	0.60
Viability	3.35	2.50	1.85	2.07	1.91	1.05
Operating Margin	0.01	0.27	(0.03)	(0.10)	0.09	0.30
CFI	5.65	4.91	3.90	2.62	3.22	3.00

Note: The values above have been updated for financial statement reclassifications in 2011 and CFI strength changes in 2010.


Ridgewater CFI Actual And Projected
6.00
5.00
4.00
3.00
2.00
1.00
0.00
2006
2007
2008
2009
2010
2011
Projected 2012
Fiscal Year
Ridgewater
NACUBO


College Benchmark Average - Graphic Financial Profile
FY 2012 Projected
Threshold Value
Top Value
10.00
Primary Reserve
3.00
2.94
10.00
Return on Net Assets
3.00
6.28
0.12
3.00
10.00
Operating Margin
3.00
9.58
Viability
10.00

FY 2013 budget assumptions:

FY 2013 student **enrollment** is projected at 3,300 FYE, a slight increase from FY 2012 of 25 FYE.

Tuition for two-year colleges was capped at 4% by the legislature summer 2011 and our projection assumes that we will implement a 4% increase in tuition for FY 2013.

State appropriation revenue will decrease slightly from FY 2012 due to minor changes in the allocation percentage.

Projected **personnel costs** are based on projected contract settlements and estimated staffing levels. A 5% increase to total compensation is expected which includes potential health care increases of 19% in January 2013.

Non-personnel costs are projected to decrease by 5% in FY 2013.

Capital appropriation funding will be based on an approved phase II of the Technical Addition and Renovation project which was assumed to be funded as a part of the 2012 bonding bill. The analysis assumes $5.0 million in funding in FY 2013.

Impact on FY 2013 Performance Measures
FY 2013 CFI will increase from the projected FY 2012 CFI of 5.65 to 6.20 based primarily on the strength of the increased net assets and the influx of capital appropriation revenue. Under this scenario the primary reserve ratio and the viability ratio increase substantially over the FY 2012 projected ratios. A decrease occurs in the return on net assets due to higher projected total net assets and the operating margin ratio decreases sharply and shows a negative ratio for the first time since 2010.

Ridgewater's **primary reserve ratio** will increase by over .12 based on the increase in net assets for FY 2013. Although our rate is still ahead of the NACUBO threshold and SFAHE recommendation we will now have the ability to cover 5.3 months of operating expenses.

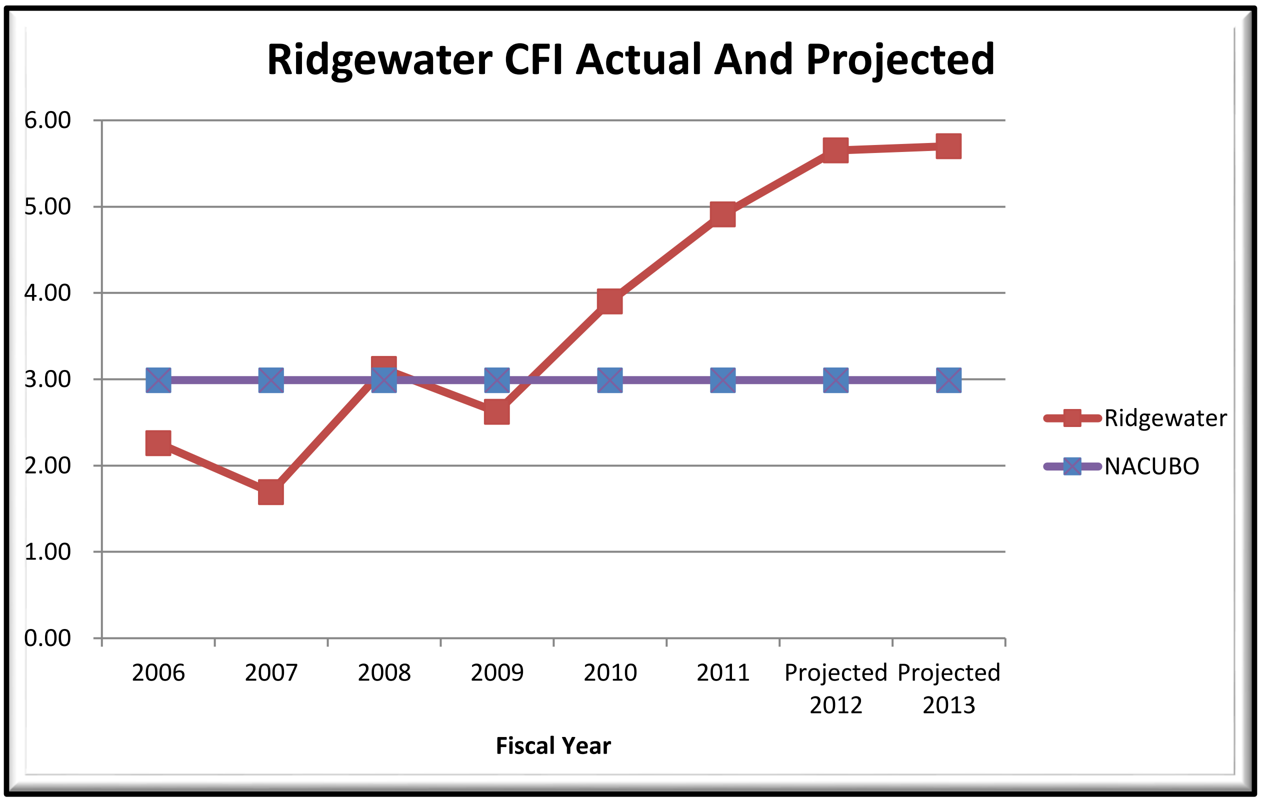
Our **return on net assets (RONA) ratio** decreases by a small margin in FY 2013 due mainly to a smaller "change in net assets". Assuming an inflation of 3% our real rate of return is well over 8.5% for the year.

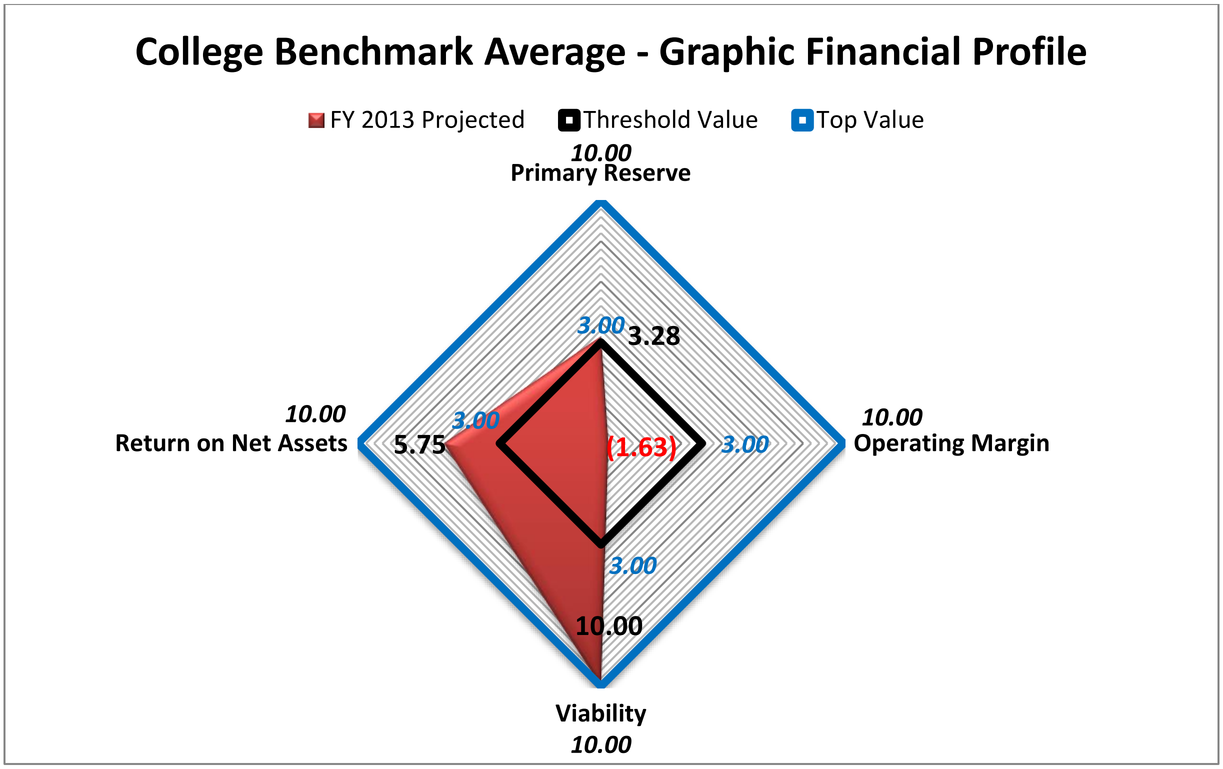
The **viability Ratio** continues to exceed the SFAHE recommendation and the NACUBO threshold in FY 2012 which assures us that we have sufficient resources to assume the new debt from the projected 2012 capital appropriation.

The **operating margin ratio** is assumed to be negative under the current assumptions and should not be considered as the plan. We will be proactive in looking at expense and revenue budget to determine the best plan in order to proceed.

Composite Financial Index						
	Fiscal Year					NACUBO
Financial Ratios:	Projected 2013	Projected 2012	2011	2010	2009	Threshold
Primary Reserve	1.15	1.03	0.77	0.54	0.51	1.05
Return on Net Assets	1.15	1.26	1.38	1.53	0.13	0.60
Viability	3.50	3.35	2.50	1.85	2.07	1.05
Operating Margin	(0.10)	0.01	0.27	(0.03)	(0.10)	0.30
CFI	5.70	5.65	4.91	3.90	2.62	3.00

Note: The values above have been updated for financial statement reclassifications in 2011 and CFI strength changes in 2010.





Future Financial Planning Conclusion:

A big assumption in our fiscal planning for FY 2012 & 2013 is that we will receive funding for the Technical Instruction Addition and Renovation, Phase II project during the 2012 legislative session. My assumptions, which include smaller capital appropriation amounts phased during the two fiscal years, may occur at different levels than what is presented. Given this information, the projected CFI and corresponding ratios may look entirely different.

Fortunately our FY 2011 results have prepared us to be in a good position as we deal with the uncertainties of the future. Obviously the projected FY 2012 and 2013 data is a best estimate with more details to be determined within the next two years. It does however provide an idea of our projected financial results and gives us an opportunity to proactively plan accordingly.

Questions concerning information provided in this report or requests for additional financial information should be addressed to:

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