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ABSTRACT

This document reports a study of the financial viability of private institutions of higher education in Maryland. Study findings indicated that the present level and form of State assistance is not adequate in terms of the private institution's needs and that both should be altered. Also an ongoing aid program should be developed which might more adequately preserve the viability of these institutions. Recommendations suggest the amount of annual assistance be computed by multiplying $243 by the fall semester Full Time Equivalent enrollment at private institutions of higher education and accumulatively adjusting the $243 yearly after fiscal year 1973-74 by the consumer price index computation applied yearly to the State of Maryland Retirement Systems. This recommendation would in the first year increase the State assistance to these colleges and universities from $2,700,000 to approximately $4,800,000. (Author/MJM)

PRIVATE HIGHER EDUCATION IN MARYLAND

A REPORT
CONCERNING THE FINANCIAL CONDITION OF PRIVATE HIGHER EDUCATION IN MARYLAND AND THE STATE'S RELATIONSHIP TO THESE INSTITUTIONS

MARYLAND COUNCIL FOR HIGHER EDUCATION

To His Excellency, THE GOVERNOR
AND THE GENERAL ASSEMBLY OF THE STATE OF MARYLAND

Annapolis – June, 1973

STATE OF MARYLAND

MARYLAND COUNCIL FOR HIGHER EDUCATION

93 MAIN STREET - ANNAPOLIS 21401

301-267-5961

November 26, 1973

PRIVATE HIGHER EDUCATION IN MARYLAND
ABSTRACT

In the summer of 1972 the Maryland Council for Higher Education created a committee to study the financial viability of the private institutions of higher education in Maryland. The Council believed that such a study was essential and timely since four private institutions of higher education had closed since the General Assembly had enacted legislation in 1970 granting the private colleges and universities five hundred dollars per bachelor's degree and two hundred dollars per associate degree yearly.

A committee of five distinguished citizens of Maryland chaired by Mr. Philip Pear of Bethesda and staffed by Dr. Monte P. Shepler of the Council's staff was formed to conduct the study. The committee met during 1972 and filed its report with the Governor in June of 1973. Generalized, its findings and recommendations were as follows:

Findings

(1) That the present level and form of State assistance would not be adequate in terms of the private institution's needs and that both should be altered and an ongoing aid program developed which might more adequately preserve the viability of these institutions.

Recommendations

(1) The amount of annual assistance be computed by multiplying $243.00 by the fall semester Full Time Equivalent enrollment at private institutions of higher education and accumulatively adjusting the $243.00 yearly after fiscal 73-74 by the consumer price index computation applied yearly to the State of Maryland Retirement Systems.

This recommendation would in the first year increase the State assistance to these colleges and universities from $2,700,000.00 to approximately $4,800,000.00

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A REPORT
CONCERNING THE FINANCIAL CONDITION OF PRIVATE HIGHER
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THE STATE'S RELATIONSHIP TO THESE INSTITUTIONS

to the Governor,
the General Assembly,
and
the Maryland Council for Higher Education

by the
Committee to Study Private Higher Education in Maryland
June 1973

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STATE OF MARYLAND
MARYLAND COUNCIL FOR HIGHER EDUCATION

93 MAIN STREET – ANNAPOLIS, MARYLAND 21401

The Honorable Marvin Mandel, Governor
State of Maryland
Executive Department
Annapolis, Maryland 21404

Your Excellency:

In accordance with your request to the Council of June 1972 to conduct a comprehensive study of the financial condition of private higher education in Maryland I am herewith presenting to you the Pear Committee report entitled "Private Higher Education in Maryland." At the July 20, 1973 meeting of the Council the majority recommendations of the report were accepted and adopted.

The Council is indeed in debt to Mr. Philip Pear and the members of his committee. I think you will agree that their report meets, if not surpasses, the charge given to them last year.

The Council, through its committee, presents what they believe is the essential level of assistance necessary to preserve these educational institutions. It is our hope that the recommendations contained in the report will receive favorable consideration by the General Assembly in 1974.

Respectfully yours,

William P. Chaffinch

William P. Chaffinch
Chairman

MEMBERS

OF THE

COMMITTEE TO STUDY PRIVATE HIGHER EDUCATION

Mr. Philip Pear, Chairman
Member of the
Maryland Council for Higher Education

Dr. Parlett Moore
Former President
Coppin State College

Dr. C. Joseph Nuesse
Academic Vice President and Provost
Catholic University of America

Mr. Austin Penn
Chairman of the Executive Committee
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Dr. G. Russell Tatum
Consultant, Automation Industries, Inc.
Former Chairman of the
Maryland Council for Higher Education

Dr. Ann (Pannell) Taylor
Former President
Sweetbriar College

Dr. Monte P. Shepler
MCHE Staff Member to the Committee

Ex Officio Member:

Mr. Richard Francis
Executive Director
Maryland Independent College and
University Association

June 1973

Mr. William P. Chaffinch, Chairman
Maryland Council For Higher Education
93 Main Street
Annapolis, Maryland 21401

Dear Mr. Chaffinch:

In accordance with the resolution adopted in May of 1972 by the Maryland Council for Higher Education establishing a Committee to Study Aid to Private Higher Education, we herewith transmit our report.

The Committee has been engaged in this study since June of 1972. The study was divided into two principal parts: (1) a review of the financial statements of the sixteen institutions participating in this study and subsequent financial projections based upon accepted guidelines, (2) a review of the financial operations of these institutions based upon discussions by the Committee and its staff with the presidents and financial officers of the colleges participating in the study. Once the material was assembled, the Committee then was able to undertake the preparation of its recommendations.

It is to be noted that the financial projections contained in these reports were acceded to by the participating institutions. However, certain conditions that were assumed, namely, federal grants and the possibility of tuition fee adjustments may not materialize. In particular, between the time the study was initiated and the present, there has been a consequential reduction in the amount of federal grants and monies anticipated. Also, the Committee has received a number of comments from various institutions to the effect that tuition is reaching a level where continuing substantive increases will only be self-defeating. That is, increases in tuition will decrease enrollment, hence further reducing income.

It is the opinion of the undersigned that the fundamental question for the people of Maryland is whether the private segment shall be a viable part of the system of higher education or a declining, perhaps even a disappearing, part. The public sector is made up of three segments, namely, the State Colleges, the University of Maryland, and the Community Colleges. The fourth segment, the private sector, has a profound role in higher education, but from the aspect of State assistance and governance, its participation has been relatively minor.

It is the belief of the Committee that it is the express wish of the people of Maryland that pluralism in education which has been a firm and well-established principle for over a hundred years in the State should be maintained. This pluralism has been supported by special State grants to various private institutions of higher education and, also, by the present formula of State aid to private higher education based on degrees granted.

The private sector provides facilities and services to 20% of the total number of Maryland resident students enrolled in all Maryland institutions of higher education, both public and private; and yet it receives less than 2% of the State budget for higher education.

The enrollment growth and improvement of quality of the public institutions of higher education has created a situation in which the private institutions are competing against the heavily subsidized public institutions in a manner which threatens their survival. The pluralistic influence in higher education contributes to quality and variety that allows the student to select the institution which is most appropriate for his needs. Some of these private institutions have national reputations as quality institutions. Therefore, there is much to be said for the preservation of the private institutions in Maryland.

In examining the economic implications of the continuance of the private institutions, this report will demonstrate that on a pragmatic and monetary basis, the private institutions are contributing a very substantial portion of their facilities and budget to Maryland resident students and therefore the taxpayers of the State are benefiting from this contribution.

The Committee is satisfied that the cost to the State would be substantially less if it granted more assistance to the private institutions at the levels provided for in this report, than if it were compelled to educate these students in public institutions.

The president of every participating private institution of higher education in the State has appeared before our Committee and each one has indicated his willingness to be accountable for State funds which would be given to his institution.

Based upon our studies, it is the conviction of the majority of the Committee that the taxpayers of Maryland will be better off if the institutions of private higher education of the State of Maryland are given substantially greater assistance from the total budget of the State.

Respectfully yours,

Philip Pear, Chairman
Committee to Study Private Higher Education

Dr. Parlett Moore
Dr. C. Joseph Nuesse
Mr. Austin Penn
Dr. G. Russell Tatum
Mrs. George A. Taylor

Ex Officio Member
Mr. Richard Francis

PP:MS:mr

ACKNOWLEDGEMENTS

The Committee is most indebted to Dr. Monte Shepler, Staff Specialist of the Maryland Council for Higher Education, who directed the staff work of the Committee. Through his dedication and extensive professional knowlege, this study was originated and carried to its fruition.

Significant assistance was given the Committee by the Maryland Council for Higher Education, the official body of the State, charged with the overall coordination of higher education in the State of Maryland. In particular, the cooperation of Dr. Wesley N. Dorn, Executive Director, Dr. Sheldon H. Knorr, Assistant Director, and Mr. K. G. Robinson, Staff Specialist, should be cited, who lent the Committee their full cooperation and expertise.

The Committee engaged the professional services of Dr. W. Max Wise, Professor of Higher Education, Teachers College, Columbia University and Touche Ross and Company, Certified Public Accountants, for their assistance and cooperation, we are most appreciative.

The funding of this project was made possible by a grant from the Department of Health, Education and Welfare and also by the contributed services of the staff of the Maryland Council for Higher Education.

The Chairman would be remiss were he not to acknowledge the faithful and tireless efforts of his Committee. Many long hours of questioning and analysis were devoted to this project in an unselfish manner by the Committee members. The State of Maryland is fortunate to have public spirited citizens who have responded to a call for public service without consideration of the sacrifice of time and their personal interests.

FOREWORD

Origin of the Study

In 1970 the Governor of Maryland agreed to introduce legislation to financially assist the private colleges and universities in Maryland. The private college presidents had convinced the Governor, relying in part on a Maryland Council for Higher Education Master Plan statement, that a severe financial crisis was imminent for many of the colleges and that a subvention was needed until the Council had the opportunity to study the matter in detail. The resulting Maryland law awarded $200 per Associate of Arts Degree and $500 per Bachelor of Arts Degree granted yearly by eligible private institutions of higher education.

Since 1970, the financial problems of private institutions have continued to grow. The Baltimore College of Commerce. Mt. Providence Junior College, Mt. St. Agnes College and St. Joseph's College discontinued operation. The University of Baltimore wrote to the Council stating that their projected financial situation was insecure and they suggested public takeover of their institution was necessary if they were to survive. The private colleges and universities formed their own association, the Maryland Independent College and University Association, in order to see if group action would be beneficial to each institution. The American Civil Liberties Union sued to challenge the right of five institutions to receive aid from the State under the program enacted in 1971

The deteriorating financial conditions which affected most private colleges and universities in Maryland were part of a national trend which threatened a significant number of private institutions of higher education. Several studies completed in the past five years have examined the future of private colleges and universities: in summary, these studies conclude that unless substantial additional public funds are made available to the institutions, between half and three-quarters of them will be unable to continue functioning past the end of the 1970's.

These developments, among others, prompted the Council to suggest that a committee to study private higher education, chaired by a Council member and staffed by the Council, be formed to study the problems of the private colleges and universities and to examine ways in which the State could assist these institutions. Mr. Philip Pear, a Maryland Council for Higher Education member, in the summer of 1972, was asked to select a committee which he would chair and which would prepare its recommendations for consideration by the Council as a whole for transmittal to the Governor in June of 1973.

After meeting with the Lt. Governor, Mr. Pear asked the following panel of distinguished citizens to serve on the Committee: Dr. Parlett Moore, former President of Coppin State College; Dr. C. Joseph Nuesse, Executive Vice President and Provost of the Catholic University of America; Dr. Ann Pannell (Mrs. George A. Taylor), former President of Sweetbriar College; Mr. Austin Penn, Chairman of the Executive Committee of the Baltimore Gas and Electric Company, and Dr. G. Russell Tatum, former Chairman of the Maryland Council for Higher Education. Dr. Monte P. Shepler, a member of the Council's staff, was appointed study coordinator. With the support of a federal grant, the Committee engaged two consultants; Touche Ross and Company, a management-accounting firm with previous experience with studies of this type, to analyze the financial data at the institutions to be studied, and Dr. W. Max Wise, Professor of Higher Education at Teachers College, Columbia University to act as its general educational consultant.

Community Procedures

During a series of meetings in the summer of 1972, the Committee agreed on the procedures to be followed as well as a time schedule for completion of the study. The Committee requested and received letters from each private college and university president confirming the need for the study and stating their willingness to cooperate fully and to provide all the data needed to complete the study. It was decided that the study would be limited to those institutions who received aid in 1972 under the present Maryland aid program. This meant initially that eighteen institutions were to be included, but with the announced closing of the Baltimore College of Commerce and St. Joseph's College, the number was narrowed to the following sixteen institutions:

1. Bay College of Maryland
2. Capital Institute of Technology
3. College of Notre Dame
4. Goucher College
5. Hood College
6. The Johns Hopkins University
7. Loyola College
8. Maryland Institute of Art
9. Mount St. Mary's College
10. Ocean City College
11. Peabody Institute
12. St. John's College
13. University of Baltimore*
14. Villa Julie College
15. Washington College
16. Western Maryland College

*Legislation passed in 1973 to make the University part of State College System effective January 1975.

The Committee concluded that it needed to know the current financial condition of these institutions but, equally important, it needed to know how these institutions had managed their financial and educational affairs over the past few years and, finally, what the prospects were for the near future. It was therefore decided to collect data from each college and university for three periods: 1967-68, 1971-72, and projections for 1976-77.

The Committee requested that Touche Ross and Company, using audited financial statements from the institutions, prepare a report for each institution which would analyze their financial status in the academic years 1967-68, and 1971-72, and to project their financial condition for the year 1976-77. Touche Ross and Company was instructed to pay particular attention to the finances as they applied to the following categories:

1. Current Fund (Income and Expenditures)
2. Auxiliary Enterprises (Income and Expenditures)
3. External Indebtedness
4. Endowments (Restricted and Unrestricted)
5. Plant Fund (Receipts and Expenditures)

Since Committee action on additional assistance to these colleges was dependent upon the findings of Touche Ross, the company was instructed to have their individual institutional reports, together with a summary which would speak to their findings for the institutions, completed by February, 1973.

The Committee also asked that data relating to enrollments, faculty, facilities, and other characteristics be collected from the institutions so that their institutional profiles both individually, and as a group, would be available for consideration. A questionnaire for this purpose was prepared by the Council which requested data for 1967-68, 1971-72 and projections for 1976-77, from the colleges and universities being studied which included, but was not limited to, the following items:

1. Enrollment
   a. Headcount, full-time equivalents, in-state/out-of-state, etc.
2. Dormitory Capacity and Occupancy
3. Number of Credit Hours Generated
4. Number of Faculty
5. Percent Faculty Holding Tenure
6. Size of Library Collection
7. Size of Library Staff
8. All Other Institutional Employees by Occupational Activity
9. Number of Certificate and Degree Programs
10. Program Additions and Deletions Planned for 1976-77
11. Amount of Space by Category
12. The Contributions the Institution Makes to the State and Its Unique Qualities

In order to obtain more insight into the problems each individual president faced on his or her campus, the Committee asked each president to discuss the situation on his campus with the Committee in a personal interview. Each president appeared before the Committee and made a written and verbal presentation. Each president was asked to include in his or her presentation, a discussion of their college's financial problems, and the contribution that the institution makes to the overall system of higher education in Maryland.

In summary, the three principal sources of information used by the Committee to prepare this document were: the survey of educational characteristics and plans, the survey of the financial history of each institution and its financial prospects, and the information provided orally and in writing by each president.

In order to assure the accuracy of the information provided, the Committee asked each institution to review the analytical data regarding its present financial condition and its prospects for financial viability prepared by Touche Ross and to offer corrections and comments. The Committee feels, therefore, that its deliberations and recommendations are based on accurate information about the financial needs of Maryland's private colleges and universities.

CHAPTER I

A PLURALISTIC SYSTEM OF HIGHER EDUCATION

Comparisons Between the Two Sectors - Public and Private

Enrollments

During the early history of higher education in this State, like so many other States across the nation, Maryland depended on the private institutions to provide higher education for its citizenry. From the founding of St. John's College as King William's School in 1696, the private sector has provided opportunities for higher education for the citizens of Maryland. With the recent growth of the public colleges and the University of Maryland, the percentage of students attending private institutions in Maryland, when compared with the total number attending, has decreased although there has been no significant decrease in the number of persons served. In 1955, these institutions enrolled 44% of all students attending colleges and universities in Maryland while in 1971-72, their proportion of total students enrolled in the State was 18%. Table 1 shows the shift in proportion of enrollment between the private and public sectors from 1955 through 1971.

As the percentages in Table 1 indicate, the growth of the public sector far exceeded that of the private sector. As the public sector in Maryland continues to improve its quality, and if the differences in cost to the student remain at their present levels or increase, the tendency of students to choose public higher education as opposed to private higher education will likely continue.

TABLE I

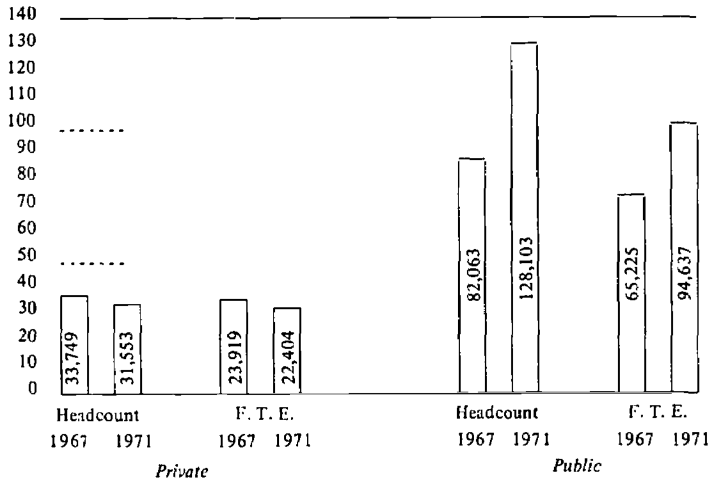
Total Enrollment in Maryland Institutions of Higher Education - - 1955-1971
By Percent of Total Enrolled In Each Segment

PUBLIC	1955	1957	1959	1961	1963	1965	1967	1969	1971
	% Of Total	% Of Total	% Of Total	% Of Total	% Of Total	% Of Total	% Of Total	% Of Total	% Of Total
Community Colleges	4%	3%	7%	9%	12%	15%	18%	26%	31%
State Colleges	13	11	12	13	13	13	14	15	18
University	40	41	38	41	39	39	39	36	33
PUBLIC TOTAL	56	55	57	52	64	67	71	77	82
PRIVATE TOTAL	44	45	43	38	36	33	29	23	18
TOTAL NO. ENROLLED	39,386	44,200	50,365	59,931	75,556	98,594	115,510	136,004	168,846

SOURCE: Reports on File
at the Maryland Council for Higher Education

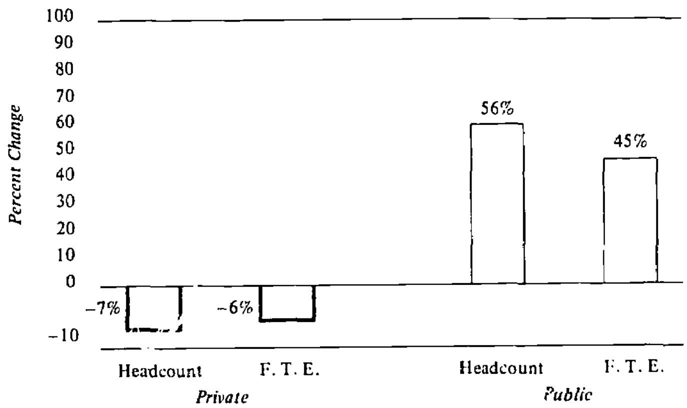
Tables II and III show the enrollment pattern at the private and public colleges and universities between 1967-68 and 1971-72, the period of the Committee's study. The figures reveal that the private institutions decreased in both headcount and F.T.E. enrollment while the public sector increased substantially. Over four years, the private institutions lost 6% in F.T.E. enrollment and 7% of headcount enrollment while the public institutions gained 45% in F.T.E. enrollment and 56% in headcount enrollment.

TABLE II
Headcount and Full-Time-Equivalent Enrollment
at
Maryland Public and Private Colleges and Universities
1967 and 1971



SOURCE: Reports on File

TABLE III
Percent Change in Headcount and Full-Time-Equivalent Enrollment
at Maryland Public and Private Colleges and Universities
Between 1967 and 1971

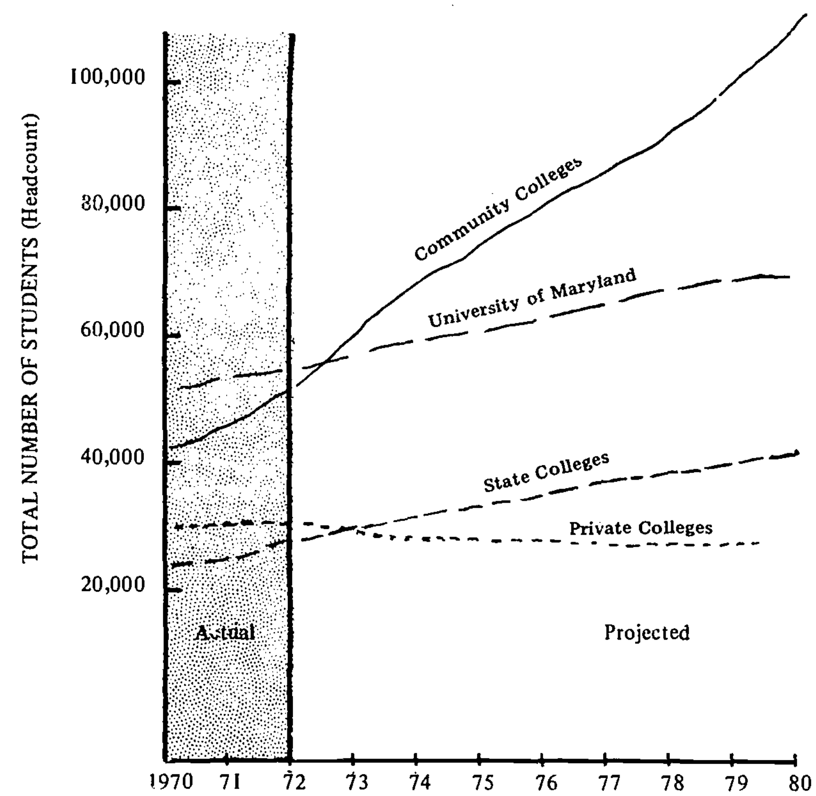


SOURCE: Reports on file at The Maryland Council for Higher Education

The public institutions of higher education are expected to enroll an ever larger proportion of the total student population attending institutions of higher education in Maryland through the 1970's (Table IV). The State Colleges, the University of Maryland, and particularly the Community Colleges will continue to increase their total enrollments while enrollments at the private institutions of higher education are expected to decrease or at best remain constant. This trend will further decrease the proportion of total students served by the private institutions.

TABLE IV

Projection of Total Enrollment
for Maryland Institutions of Higher Education
Through 1980



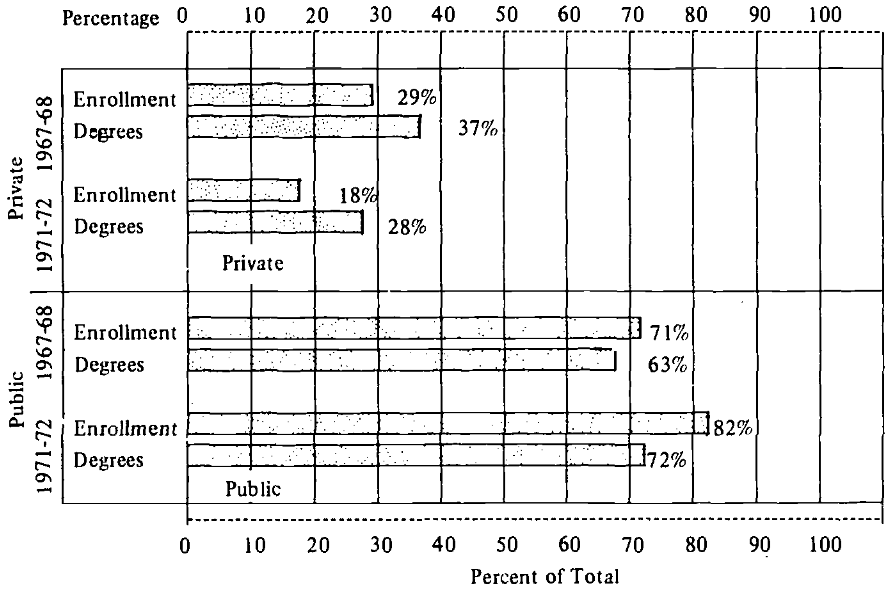
SOURCE: MCHE Enrollment Projection Model, 1972

Degrees Conferred

The relative proportion of degrees granted by the private colleges and universities has been substantially greater than their proportional share of enrollment. While the private segment enrolled 29% of all the students attending institutions of higher education in the State in 1967-68, they granted 37% of the degrees that same year and in 1971-72 while enrolling 18% of the total student population, they granted 28% of the degrees.

TABLE V

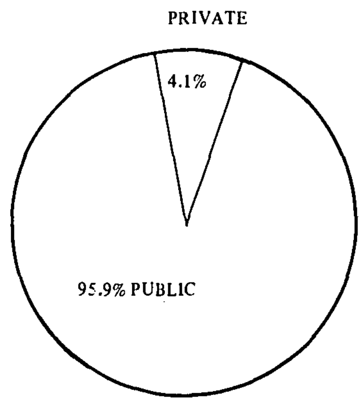
Percentage of Headcount Enrollment and Percentage of Degrees Granted at Maryland Public and Private Colleges and Universities - 1967-68 and 1971-72



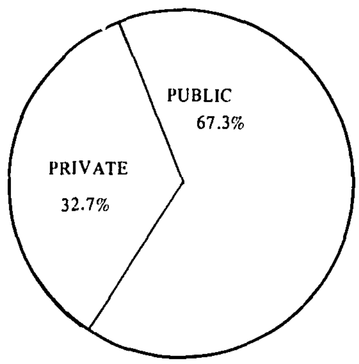
SOURCE: HEGIS, 1968 and 1972

The fact that the private institutions awarded a higher proportion of degrees than could have been expected on the basis of the percentage of students they enroll may be explained by two factors:.(1) several have recently developed masters and first professional degree programs which enroll college graduates who have already proved their ability to complete academic work and (2) many of the private institutions screen their applicants for admission and can, therefore, expect that a higher proportion will stay to graduation.

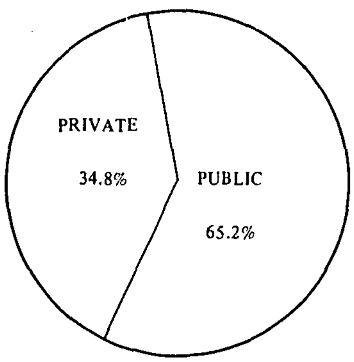
The charts below indicate the portion of the Associate, Bachelors, Masters, Doctors, and First Professional Degrees granted by both the private and public segments in 1971-72, and the portion of the total enrollment each segment enrolled that same year.



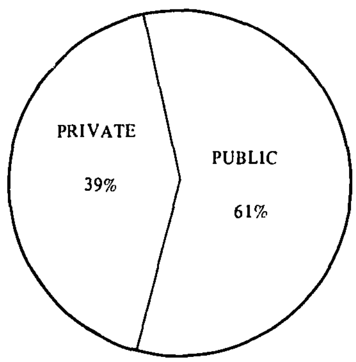
ASSOCIATE DEGREES TOTAL = 4312



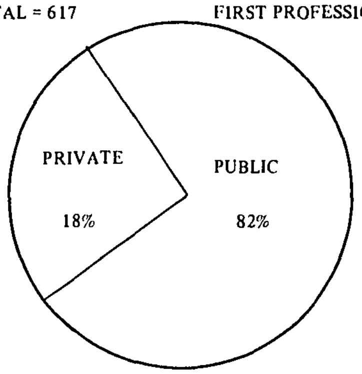
BACHELOR'S DEGREES TOTAL = 14,680



DOCTOR'S DEGREES TOTAL = 617



FIRST PROFESSIONAL DEGREES TOTAL = 643



ENROLLMENT TOTAL = 168,846

SOURCE: Reports on file at the Maryland Council for Higher Education

In summary, the data previously presented reveal that:

1. If present trends continue, the private institutions will not only enroll smaller proportions of all college students in the State, but many if not most, will probably experience actual reductions in the number of students they serve. This will jeopardize a principal source of funds on which they depend for operation - tuition charges to students - and will in most instances make further economies in operating costs difficult if not impossible (reductions in operating costs per student depends on full use of classrooms and faculty which will, of course, be impossible with declining enrollments).
2. The trends which have been identified in this Chapter are the result of two main factors:
   a. The substantial increases in charges to students which these institutions have been forced to levy in order to meet the escalating costs of supplies and services has widened the gap between costs to students at the private institutions and the public institutions resulting in the private institutions being at a distinct disadvantage in attracting cost-conscious students.

   b. The fluctuations in federal funds available to these institutions and the recent reductions in federally supported programs has adversely affected the private institutions. Fluctuations in federal funding made long range financial planning virtually impossible and economical use of resources difficult. For example, these institutions were urged to recruit students from families with limited or non-existent financial resources under several federal programs. Yet federal allocations to help support such students were often made after the students had been admitted for study and were usually less than had been anticipated. In addition, subsequent federal grants were often at a reduced level which required the institutions to either refuse aid to the students admitted, or use their own funds to fill the needs. Understandably, many institutions chose to use funds from their own inadequate resources to help these students. More recently, of course, there have been severe reductions in federal grants which have imposed heavy burdens on these institutions to find funds to continue worthwhile programs or to phase them out gradually since precipitate discontinuance would have resulted in undue hardship on students already embarked on programs of study.

The Private Sector

The Institutions Studied

While there are a total of twenty-two institutions of private higher education in Maryland, this study is concerned with sixteen. The remaining six institutions were not included in the study because they are ineligible to receive State assistance under the present program. Of the six institutions, five are ineligible because their academic programs are primarily sectarian in nature:

1. Baltimore Hebrew College
2. Columbia Union College
3. Ner Israel Rabbinical College
4. St. Mary's Seminary and University
5. Washington Bible College

The sixth, Hagerstown Business College, was ineligible for State aid because it was not State accredited at the time of the initiation of the study.

The academic programs of the sixteen institutions which are the subject of this report represent diversity ranging from introductory college work to highly advanced graduate and professional training. The degrees offered by these institutions range from the Associate of Arts - awarded for two years of college - to the Doctor of Philosophy - the most advanced degree offered for university study. A wide variety of persons benefit from these programs including recent high school graduates who study full time as well as older adults who combine study with jobs. Thus, these institutions complement the public institutions in providing Maryland students a wide variety of choice in higher education.

For example, in the group is St. John's College, one of the oldest and best known small liberal arts colleges in the nation, which offers a unique program based on the "Great Books" and the "Tutorial" concept. The Johns Hopkins University, on the other hand, in addition to its undergraduate programs, offers nationally recognized graduate work in the arts and sciences as well as high quality professional training in medicine. (In 1971-72, Johns Hopkins granted 42% of medical degrees awarded in Maryland). Another private university, the University of Baltimore, has one of the two law schools in the State and awarded more than 40% of the law degrees in Maryland in 1971-72. Within the remaining institutions there are two arts colleges, eight liberal arts institutions and three two-year colleges.

It would be impossible to detail all of the distinguished alumni and citizens in Maryland who have obtained their educational training at these sixteen colleges and universities. The fact is, however, that the State, and in many cases the nation, has been the recipient of many benefits resulting from the education and training that these persons received at the private higher education institutions in Maryland.

Types of Institutional Control

The private institutions have individual lay boards comprised of distinguished citizens serving as an overseeing agency for the institution. The primary concern of the boards is to approve the budget of the institution and assist the institution in finding the necessary resources to meet the revenue requirements of that budget.

Recently the need for communication and cooperation between institutions led to the establishment of the Maryland Independent College and University Association. This organization was formed in 1970 to promote the private sector as a unit and to encourage a common approach to the problems and issues facing private higher education in Maryland. The meetings permit mutual discussion and resolution of problems which they face as a group. The Maryland Independent College and University Association (MICUA) has its own Executive Director, a President elected from the Presidents of the institutions represented, and an Executive Committee also elected from the membership. Mr. Richard Francis, the Executive Director of MICUA, offered the following remarks about MICUA's founding, its purposes, and its plans for the future:

"By 1970 the financial crisis in private higher education led a number of presidents of Maryland's independent colleges and universities to consider banding together for cooperative efforts to find solutions to current fiscal and other problems. A number of other states already had associations of this nature and a national association also was in existence. In the early fall of 1970 a preliminary meeting was held at The Johns Hopkins University to discuss organizational matters and objectives for the association. These objectives centered around the initiation of a state sponsored commission to study private higher education to include solutions to the financial difficulties, examination of areas of common effort such as public relations, and petitioning the state for financial aid.

In November 1970 the first formal meeting of MICUA was held at Goucher College. President Perry of Goucher College was elected president for a two-year term. The title of the association was approved and the draft constitution was discussed, amended and adopted. An executive committee was elected and charged with selecting an executive director and developing a program of action. The four basic purposes of the association are to:

a. Interpret to the public the roles and contribution of Maryland's private colleges and universities.

b. Encourage consultation and cooperation among the members as to academic programs, research and community service.

c. Serve as an information source for the General Assembly and other public and private agencies.

d. Seek appropriate consideration by State and Federal authorities for private colleges and universities in Maryland.

MICUA is fast becoming the focal point for common efforts by the member institutions and is being recognized by public and private agencies and organizations as the spokesman for private higher education in this state. In addition, MICUA performs services for its members and the public such as dissemination of information and data as well as providing the means by which matters relating to independent higher education can be resolved. In conjunction with this study of private higher education MICUA is cooperating in the data gathering and analysis process and participating in the deliberations leading to the findings of this report. MICUA will have the prime responsibility for utilizing the report as a basis for future petitions for state assistance. Also, as cooperation within the entire arena of higher education becomes more widespread MICUA will be playing an increasingly significant role in all areas of higher education."

The Assets of the Private Sector

The sixteen private institutions of higher education included in this study represent in their faculties, library collections, other employees including non-professionals, physical facilities, endowments and other resources, assets which substantially contribute to the "gross product" in Maryland. In 1971-72 the sixteen private institutions of higher education in Maryland:

- Employed 1999 full-time-equivalent faculty
- Employed 3767 Executive/managerial, and non-professionals
- Held 3,011,598 library volumes with total resources, including government documents, microfilm and periodicals of 3,818,272
- Owned over 300 million dollars of plant fund assets, exclusive of land, libraries, fine arts collections, church and seminaries
- Owned $229,773,000 in market value endowments

Cultural and Economic Contributions

The institutions in this study conduct, usually at an expense to the institution, numerous cultural activities of benefit to the communities in which they are located and to the State generally. Among these activities are:

- Library Auditorium presentations and the archival center at at the University of Baltimore
- Monthly clinics concerning family planning at the Goucher College Health Center
- Annual art shows and the Ballet Under the Stars at Loyola College
- Public concerts and recitals at the Peabody Conservatory of Music
- Performing Arts Series at the College of Notre Dame

- Art shows and displays sponsored by the Maryland Institute of Art
- The Eisenhower lectures at The Johns Hopkins University
- Free educational programs offered to inmates at the Maryland Penitentiary by Bay College
- Concerts, courses, exhibitions, continuing education programs, meeting places, etc. that are free or have a nominal cost attached and which play a vital role in the cultural environment of the communities in which they are located, offered by all of the private institutions

The economic contributions these institutions make to the State are substantial:

- Annual salaries to employees of approximately 150 million dollars, the vast majority of which is spent on housing, food, clothing and other services in Maryland, as well as taxes paid to local and state governments.
- Approximately 12 million dollars annually spent in the communities by the 26,989 students who attend these institutions.
- Millions of dollars spent annually by the institutions for supplies, equipment and services which, for the most part, are purchased from businesses located within the State.

In summary, the local communities and the State of Maryland are greatly benefited both economically and culturally by the existence of the private institutions examined in this study.

CHAPTER II

PRESENT AND FUTURE FINANCIAL STATUS OF THE PRIVATE SECTOR

Introduction

In this chapter, the Committee will present: the findings of Touche Ross and Company; the Committee's view of the primary causes of the financial plight facing these sixteen private colleges and universities in 1976-77; and the institutional projections of level of operations in 1976-77. It should be noted at the outset that the Touche Ross summary and individual institutional reports which follow this introduction should be tempered with the knowledge that they are projections for the future based on a set of assumptions. Dr. W. Max Wise, the Committee's educational consultant, offered the following general cautions when reading and interpreting financial projections for the future:

> "The conclusions Touche Ross reaches with regard to these institutions rests on two major assumptions: (1) that enrollments will reach the projections of either the institutions or the Council *and* that (in most cases) tuition and fees can be advanced.
>
> The rationale for the two assumptions rest on conditions of demand for higher education which prevailed during the latter part of the 1960's. This was the end of a period of more than a decade of unprecedented demand for spaces in colleges and universities, both public and private. We now face a very different situation in which student admissions are likely to expand slowly during the remainder of the decade and drop at the close of the 1970's. The preliminary national data on admissions in 1972-73 and applications for admission for 1973-74 bear out these prospects.
>
> While I have not examined with care the data base for the Council's projections and have no insight into the enrollment projections of the individual institutions in the study, I believe that both *may* well be optimistic. In the case of individual institutions, the questionnaires returned in the survey for the Committee show that projected expansion of enrollment rests in most cases on expansion of part-time and adult students, many of whom are expected to enroll in special academic programs. The market for such would appear to me a diminishing one.
>
> In almost every instance, enrollment increases or even stability of enrollment appears to have been achieved in the past four years by substantial increases in student aid. While some outside funds for student aid have been available, the majority of institutions have

had to use operating funds to make up deficits in these accounts. Recent actions of the federal government and the decline of foundation grants for student aid indicate that these problems will grow more severe. Thus, much of the potential increase in revenue from rises in tuition will in fact not be available for college operations.

Many private colleges and universities recognized that the gap between their tuition charges and those of the public institutions had reached the point of seriously affecting enrollments in the 1971-72 year. Thus, national data show that private college charges to students for 1972-73 showed less increase than had been true for the preceding years.

There are, of course, factors which could affect the projections such as the need to substantially increase faculty compensation. The present salary scales in most of the private colleges is low - both in comparison with national norms and in the general compensation scales for professionals as a whole - and this may not be maintained. For example, the tendency for faculties to organize for collective bargaining is clear and this may affect some of these institutions within five years. Some factors *may* affect the colleges in positive ways: the federal government could increase its funding for higher education including the implementing of already enacted programs for institutional aid, the demand for higher education could confound the forecasters and turn upward, etc. But these possibilities appear to be slender reeds on which to rest the future of these colleges and universities.

I trust that it is clear that I have no argument with the data collected by Touche Ross. In fact, I have the highest regard for the procedures they have used and for the care they have taken to make their assumptions clear."

It is with these cautions that the Touche Ross summary statement is presented on the following pages. The individual institutional reports can be found in the appendices.

Touche Ross Summary

Scope

The problem of obtaining sufficient financial resources to support desired levels of education faces nearly every higher education institution in the nation today. However, the circumstances of the independent private institutions are clearly more precarious than that of State and locally supported colleges and universities. Deficit operations at the nation's largest and most prestigious private universities are becoming increasingly common.

In light of these general conditions and the publicly expressed concern about the future of Maryland's private higher education institutions, the Maryland Council for Higher Education engaged Touche Ross & Co. to analyze the present financial condition and project the financial capability of selected private higher educational institutions in the State to continue operations through FY 1977. Initially, the 18 private institutions eligible for State of Maryland funds under existing laws were included in the study. The results, however, are based on only 16 participants since one institution ceased operations as the study commenced and another subsequently declined to participate. Certain findings and conclusions are supported by the financial results and projections of only 14 institutions, since two additional participants did not have audited financial data upon which to base a projection.

General Approach

The analyses of the historical trends and present financial conditions of the individual institutions were based on information contained in the audited financial statements of each institution for fiscal years 1968 and 1972, augmented by data obtained through interviews with the institutions' Presidents and chief financial officers. Though the audited financial statements provided data in accordance with generally accepted accounting principles, certain adjustments to the basic financial information were made, where necessary, to assure consistency and comparability between institutions. For example, adjustments in FY 1968 data were made to reflect the effect of subsequent major accounting changes so that the information would be more comparable to FY 1972 results. In addition, we eliminated the effect of intra-institutional indebtedness. Conclusions regarding operating characteristics were primarily based on comparisons of individual institutions with statistics developed and compiled for all institutions in the study as well as with several other sources such as *The Sixty College Study* and previous studies conducted by our firm. Where appropriate, these norms are included in the text of this report.

Conclusions concerning the future financial capabilities of the institutions were based on projections for FY 1977 prepared within the framework of assumptions agreed upon with the Presidents of the institutions participating in the study and the Maryland Council for Higher Education. In general, these included projecting expenditures at annual increases of 6%; tuition and fees revenues based on forecasted FY 1977 enrollments determined by the Maryland Council for Higher Education and the institutions and two alternative levels of tuition and fees; and, other revenues at annual increases of 6%, all modified by institution plans.

Since these projections are based on assumptions about circumstances and events that have not yet taken place, they are subject to the variations that may arise as future operations actually occur. Accordingly, we cannot give assurance that the predicted results will actually be attained. However, they do indicate what can be anticipated should the assumptions upon which the forecasts are based actually occur in the manner assumed. As such, they are useful in evaluating the projected financial capability of an institution to continue operations through fiscal year 1977.

Summary of Findings and Conclusions

The financial analysis of 14 Maryland private higher education institutions revealed that all had adequate resources to finance current operations in FY 1972. However, this was accomplished by institutions with varying degrees of financial strength and resources. Seven institutions operated with excesses of revenues over expenditures in FY 1972. Of these seven, three institutions had operated with deficits in FY 1968 but were able to strengthen their financial position over the subsequent four-year period. Seven other institutions operated with deficits in FY 1972, although three had deficits which were minor in nature. Of these three, two had major deficits in FY 1968, but were able to improve their operations over the four-year period under study.

Based on the analysis of historical trends, current financial condition and projected revenues and expenditures, we believe that these fourteen institutions and the two institutions without audited financial statements can be classified into three general categories of financial strength:

(1) Institutions which are unlikely to incur deficits through FY 1977.

- Five institutions are in this category. These institutions served 6,000 Maryland students in FY 1972, which represented 33% of the total enrollment for the institutions studied.

(2) Institutions which may incur deficits through FY 1977.

- Three institutions are in this category. These institutions served 6,600 Maryland students in FY 1972, which represented an additional 36% of the total enrollment for the institutions studied.

(3) Institutions which are likely to incur significant deficits through FY 1977.

- Eight institutions, including the two without audited financial statements, are in this category. These institutions served 5,800 Maryland students in FY 1972 which represented 31% of the total enrollment for the institutions studied.

Financial Overview of Maryland Private Higher Education

The private colleges and universities in Maryland contribute significantly to both the State's system of education and to its economy. These institutions supplement the publicly-supported schools by providing higher education opportunities to over 18,000 citizens of the State. These opportunities offer not only necessary higher education programs for the citizens, but, because of the diverse characteristics of the institutions, they also provide a valuable element of choice. The resources required to provide these opportunities constitute a significant portion of the State's gross national product as illustrated by the total FY 1972 expenditures ($136 million) reported by the fourteen private higher education institutions studied.

Though there are relatively few private institutions in Maryland, most of the types of private higher education institutions found nationally are represented in the State. For example, within the State are:

- two nationally recognized liberal arts institutions
- two institutions which emphasize the fine arts
- one of the State's two law schools
- several women's colleges
- three two-year institutions
- one medical school
- several church related institutions

The financial characteristics of the institutions are equally diverse when viewed individually; however, as a composite they do exhibit the following seven distinct characteristics and patterns:

(1) *The private institutions of higher education in Maryland have an unusually high dependency on tuition and fees revenue.* This is illustrated by the fact that tuition and fees revenues typically represented 50% of total revenues (with a range from 15% to 78%) or 79% of education and general revenues for the private institutions studied. It is, of course, normal for private institutions to be dependent on this source of income. However, 37% of total revenues and 59% of education and general revenues are closer to national medians for these types of institutions. This heavy dependency implies that the private institutions of higher education in Maryland must increase tuition and fees revenues, through a combination of raises in the level of tuition and fees and enrollment, at the same rate that expenditures increase in order to maintain a balanced budget.

The ability of individual institutions to accomplish this in the future is dependent on various assumptions and conditions, of which the current level of the charges and the cost of educating the student are only two. The tuition and fees (exclusive of room and board) at the State's private institutions in FY 1972 (median of $2,150) was substantially above the tuition and fees charged students attending public colleges and universities in Maryland. The total education and general expenditures per full-time equivalent student in these institutions was a median of $2,250 (with a range from $1,100 to $13,200) which was slightly above the level of tuition and fees for that same period.

(2) *In the State of Maryland, private institutions have relatively little endowment income.* This, in part, is the reason for the high dependency on tuition and fees revenues. Most institutions, public and private can rely on investment income from endowed funds to defray a significant portion of general operating expenses. Typically, endowment income at private institutions represents 18% of education and general revenues, while in Maryland the median is a nominal 3%, with a range from 0% to 20%.

Several institutions have adopted the total return concept which has increased the funds available from endowment. Other colleges and universities are considering adopting a similar policy. Under this concept, a fixed percentage of the market value of the endowment fund is recognized as endowment income. To the extent that interest and dividend income do not provide the required amount, gains from endowment fund appreciation make up the balance.

(3) *Gifts and grants are not significant resources to the private institutions in the State of Maryland.* Usually, this source of revenue supplements endowment income, or in certain cases, functions in lieu of it. The study revealed that the median institution received only 8% of education and general revenues from gifts and grants while 16% is more representative nationally. Included in gifts and grants is the monetary value of services contributed by members of religious orders. In Maryland there are three private institutions which depend to some extent on these services.

(4) *Expenditures for student aid at the State's private institutions have increased.* This is illustrated by the fact that in FY 1968, $7.8 million was reported as student aid expenditures by the institutions. In FY 1972, the amount was $10.7 million, a 37% increase. This rise occurred during a time in which Federal and State student aid funds were declining for many institutions. The effect of this has been to create a deficit situation in the student aid funds. In FY 1972, the combined deficit for student aid funds for all schools studied amounted to $4 million, a 98% increase over FY 1968. Of equal importance is the relative relationship of the excess expenditures to tuition and fees revenues. This provides a measure of the tuition and fees revenues which is unavailable for education and general expenditures. In FY 1972, the deficit in the student aid fund represented 6% of tuition and fees revenues for the typical institution.

(5) *Auxiliary enterprises, such as dormitories, food services, book stores and intercollegiate athletics do not represent as large an activity as is typical nationally.* In FY 1972, auxiliary enterprise revenue represented 16% of total revenues for the median Maryland institution with a range from 3% to 38%, while nationally, 29% is more representative. Of the fourteen institutions with financial data, only six operated auxiliary enterprises with an excess of revenues.

Based on information available, four institutions had unused dormitory capacity; however, in total, the private institutions' dormitories were 93% occupied. Three of the institutions with unused capacity were still able to operate their auxiliary enterprises with excess revenues.

(6) *The plant fund assets of the institutions represents a significant investment.* Based on information provided by the institutions, the current value of the plant fund assets, exclusive of land, libraries, fine art collections, churches and seminaries, is over $300 million. The median investment per full-time equivalent student in FY 1972 was $13,000, with a range from $1,500 to $25,800. The indebtedness on the plant fund in FY 1972 was $27 million.

(7) *Financial management at the institutions is adequate though improvements are possible.* Formal detailed budgets are prepared annually by all institutions studied; however, only three of these time-phase the budgets by month. Five of the institutions also prepare a five-year financial plan. Actual financial results are reported monthly by all institutions, except one, which reports on a bi-monthly basis. The financial statements of fourteen institutions were audited by certified public accounting firms in 1971-72, and all sixteen institutions in the study plan to have audited statements in the future.

Formal cash flow forecasting is performed on a periodic basis by only six of the institutions. The other institutions forecast cash requirements on an informal basis, as required.

Financial Condition of the Institutions Studied

In order to arrive at conclusions regarding the financial capability of individual private institutions of higher education within the State to continue operations, current fund projections for FY 1977 were prepared. The projections were based on assumptions agreed upon by the Presidents of the institutions in the study and the Maryland Council for Higher Education. The following guidelines were normally employed.

(1) Revenues

(a) Tuition and Fees Revenues -- since this revenue source significantly affects the overall projection and a slight change in enrollment or tuition level results in major revenue variations, four alternative sets of assumptions were utilized. Two projections are based on the estimated FY 1977 enrollment as forecasted by the Maryland Council for Higher Education while the other two are based on the Presidents' forecasted enrollment for that same year. Each set of enrollment projections employs two different tuition and fees structures -- the anticipated FY 1974 level and the 1974 level with annual increases of 6% through FY 1977.

(b) State of Maryland Appropriations -- projected at the FY 1972 level, except for five institutions currently involved in litigation over this matter. In these cases, the appropriation is not included in the projection.

(c) Sponsored Research Revenues -- projected at the FY 1972 level or in accordance with institution plans. For one institution in the study this represented a significant portion of total revenues.

(d) Student Aid Revenues -- projected at annual increases similar to enrollment increases or in accordance with institution plans.

(e) Auxiliary Enterprise Revenues and Other Revenues -- projected at 6% annual increases over the FY 1972 level, or in accordance with institution's plans.

(2) Expenditures

(a) Education and General Expenditures -- projected at 6% annual increases over the FY 1972 level. This level of the increase was agreed upon by the Presidents of the participating institutions. It provides for salary increases in excess of 33% over the five-year period (e.g., a salary of $12,000 could be increased to $16,000). This appears appropriate in view of the present level of salaries.

(b) Student Aid Expenditures -- projected at annual increases similar to enrollment increases or in accordance with institutions' plans.

(c) Auxiliary Enterprise Expenditures -- projected at 6% annual increases with associated debt service and repair and replacement provisions projected at anticipated FY 1977 amounts.

(d) Other Debt Service -- new debt service was included only when institutions had approved plans involving additional indebtedness.

Analytical and interpretative reports of the individual institutions included in the study are contained in the Appendix. The reports concentrate on the following five areas: current fund, auxiliary enterprises, external indebtedness, endowments, and plant fund. To conceal the identity of the institutions, each report is coded with a letter. Where appropriate, the analysis below refers to specific institutions by letter to facilitate further analysis of the individual institutions by the reader.

Institutions Which Are Unlikely to Incur Deficits through Fiscal Year 1977.

Of the fourteen institutions with audited financial data to support the projections, only one institution (I) would realize an excess of revenues over expenditures in FY 1977 if any one of the assumptions involving enrollment and tuition and fees levels materialized. This institution has the financial capability to continue operations through 1977 without incurring deficits.

Another institution (G) would realize an excess of revenues over expenditures under three tuition and fees revenues assumptions. The deficit that would be experienced under the fourth situation is minor and could be eliminated with a $6 increase in tuition and fees over the anticipated FY 1974 level.

Another three institutions (D, J and M) are unlikely to incur deficits through FY 1977. The projections for these institutions indicate that substantial excess of revenues over expenditures is likely to materialize under the tuition and fees assumptions which provide for a 6% annual increase in tuition and fees levels, although a deficit would materialize if the tuition and fees level is maintained at the FY 1974 level. Our conclusion with regard to these three institutions is based on their ability to increase tuition and fees revenues (through a combination of raises in the level of tuition and fees and in enrollment) sufficiently to operate with a balanced budget, as supported by the recent four-year historical trend.

Institutions Which Are Likely to Incur Deficits through Year 1977.

Based on the FY 1977 projections, historical trends in such areas as tuition and fees increases, and the FY 1972 financial position, we believe three institutions (C, F and O) are likely to incur deficits in the near future. The deficits which may materialize would be relatively minor in relation to the overall school budget and could be financed from available unrestricted endowment without adversely affecting the institutions' financial positions.

Institutions Which Are Likely to Incur Significant Deficits through Fiscal Year 1977.

Eight institutions in Maryland are classified in this group. The projections for three institutions (A, B and E) show that significant deficits would be realized under all four tuition and fees revenues assumptions. To offset these deficits, the institutions will have to seek substantial revenues from sources not currently in the institutions' plans, or hold expenditure increases far below the projected 6% annual rate; or increase tuition at a rate greater than 6%; or utilize a substantial portion of the unrestricted endowment fund; or a combination of these alternatives.

Current fund projections for two additional institutions (H and N) indicate deficit operations utilizing the Maryland Council for Higher Education's enrollment forecasts. To realize the 1977 tuition and fees revenues based on the President's forecasts would require annual increases over twice that which has been experienced in the recent four years. These two institutions are likely to incur significant deficits in relation to the overall budget.

Another institution (K) shows deficits for those projections which utilize the anticipated FY 1974 tuition and fees level and excess revenues utilizing the FY 1974 rates increased by 6% per year. However, since the institutions' tuition and fees revenues have declined in recent years, and the President believes tuition and fees cannot be increased in the near future without an accompanying decline in enrollment, significant deficits will probably be incurred. This institution also does not have adequate reserves to absorb projected deficits through FY 1977.

The two institutions without audited financial data are also classified in this group because of the nature of their financial capability as conveyed to us during our interviews. One institution (P) is almost totally dependent on financial assistance from government sources. Should the current level of Federal funding be curtailed, the President believes the college would face financial insolvency, since sufficient alternative sources are believed unobtainable. The other institution (L) has prepared a five-year plan which indicates that expenditures will exceed revenues from 1973 through 1977. To the extent that the institution is unable to obtain external financing for these deficits, the college would probably be faced with financial insolvency or the need to drastically modify the instructional programs.

CAUSES OF THE FINANCIAL CRISIS AT PRIVATE COLLEGES AND UNIVERSITIES -- THE COMMITTEE'S VIEW

The private institutions face two realities which contribute to their financial problems and which are significantly interrelated - substantially higher tuition and fees charged at private institutions of higher education when compared to the public charges, and increasing enrollments in the public sector as compared to the private sector. Touche Ross made the following comments about the dependence of private institutions on tuition and fees for operating revenues:

> "The private institutions of higher education in Maryland have an unusually high dependency on tuition and fee revenue. This is illustrated by the fact that the typical private institution studied receives 48% of its total revenues from tuition and fees or 78% of its education and general revenues. It is, of course, normal for private institutions to be dependent on this source of income. However, 38% of the total revenues and 59% of education and general revenues are closer to national averages for these types of institutions. This heavy dependency implies that in order to maintain a balanced budget, the private institutions of higher education in Maryland must increase tuition and fee revenues, through a combination of raises in the level of tuition and fees and enrollment, at the same rate that expenditures increase."

Because the private institutions in Maryland are so heavily dependent on tuition and fees as their primary source of income, and because tuition is directly related to enrollment, this section of the report is primarily devoted to analyzing these two items.

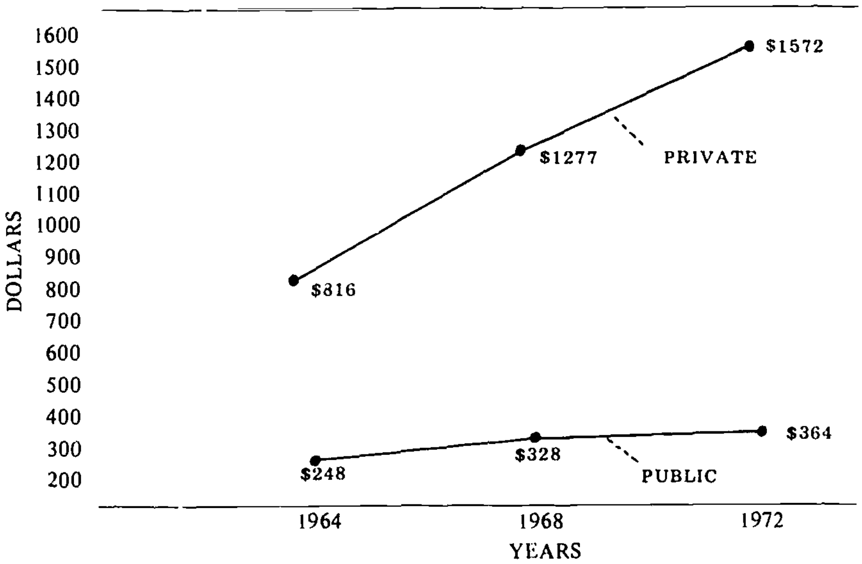
Tuition and Fees

Tuition and fees are a very important part of the total revenues of the private institutions in Maryland. These institutions have had to raise tuition and fees rapidly over the years in an attempt to balance the budget, to the point of widening the disparity in such charges between the public and private institutions. Table VI indicates the rate of growth in tuition and fees of the two sectors between 1964 and 1972. It should be noted that until recently, many of the students attending the public four-year State Colleges paid no tuition because of Maryland's tuition waiver program for students enrolled in the field of teacher education.

The Table reveals some very significant statistics in regard to the tuition and fees problems at private institutions. As the disparity grew between public and private institutions between 1964 - $568 and 1972 - $1208, the number of students who could pay the difference, without substantial additional financial assistance, lessened. This, coupled with the change in program emphasis - less teacher education and more liberal arts - and the growing academic excellence of the public institutions, has created a situation where the student finds that one can receive the type of education one wants at a public college or university for almost 1/5 the cost to the student at a comparable private institution. This cost differential which is primarily paid by the taxpayers, has had the effect of drawing students, who may normally have chosen private colleges in previous years, into public institutions, creating a loss in enrollment at the private institutions. As enrollments declined, the private colleges had to further increase tuition and fees to help balance the budgets, and thus, the cycle continued.

The private institutions have recognized the effect of continually increasing tuition and fees on their enrollment and consequently feel that the increases planned for the future will have to be smaller than they were in the past. An indication of this trend is evident from Table VI, which shows that the slope of the curve of tuition and fees in private institutions decreased between 1968-72 even though the financial plight of these institutions grew more severe during this period.

TABLE VI
Weighted Average Tuition and Fees Charged
at Maryland Public and Private Institutions of Higher Education
1964, 1968, and 1972



SOURCE: STATE BUDGET SUMMARIES

It is the Committee's belief that, except for a very few of these colleges and universities, further tuition and fee increases of the magnitude of the past are impractical. Increasing tuition and fees results in:

1. A loss of enrollment, and
2. A requirement to place additional money in student aid which further adds to the financial problems of the institutions.

Because continued excessive tuition and fee increases can only serve to heighten the financial problems of most of these institutions, the Committee has based its primary analysis of the financial needs of these institutions, reported in Chapter III, on the 1973-74 tuition and fees level.

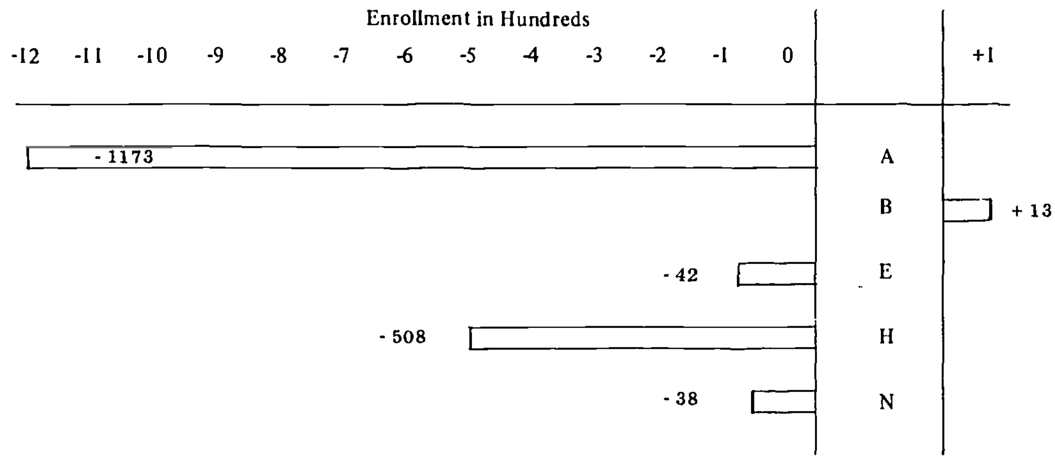
Enrollment

As was stated earlier, the revenues of the private colleges in Maryland depend heavily on tuition and fees as a primary source of income and are directly affected by enrollments since each student represents a source of operating revenue for the institution. A look at specific institutions points up the possible relationship between enrollment and institutional financial difficulties.

Analysis of the enrollments at six of the eight institutions Touche Ross predicts will face severe financial problems in 1976-77 shows the relationship between declining enrollments and financial problems. (Two institutions were excluded from this analysis because they had no students in 1968). Four of the colleges lost enrollment while one gained only 13 students (Table VII). The percentage losses were −20%, −9%, −41%, and −15%, all of them much higher than the average 7% loss suffered by the sixteen institutions when taken as a group. In addition, one institution that Touche Ross states *may* have financial difficulties, F, lost 96 students over that same period, a 13% loss of enrollment.

TABLE VII

Changes in Headcount Enrollment at Five Private Colleges
Facing Financial Difficulty, 1968-72

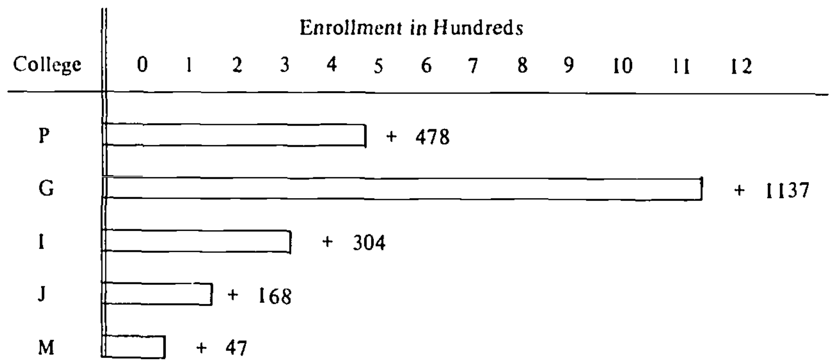


SOURCE: Reports on file at the Maryland Council for Higher Education

If we examine the changes in enrollment at the five institutions Touche Ross projects will not face financial problems in 1976-77, we observe just the opposite pattern. The changes in enrollments at these institutions between 1968 and 1972 are given in Table VIII. All of the colleges listed in Table VIII gained enrollment over the period. The percentage enrollment increase ranged from 14% to 96%.

TABLE VIII

Changes in Headcount Enrollment at Five Private Colleges
Not Facing Financial Difficulty, 1968-72



SOURCE: Reports on file at the Maryland Council for Higher Education

It would appear, that at least in part, and especially since the colleges in Maryland are to a very large degree dependent on tuition increases to balance their budgets, *that a loss in enrollment directly affects the financial stability of the institution.*

Fixed and Unpredicted Costs

Logic would suggest that if an institution has a declining enrollment the solution would be to cut costs to meet those losses, but cutting costs at institutions of higher education is not an easy task because of inflation, fixed costs, and other unpredicted cost related factors that affect the budget.

Inflation alone has had a significant affect on the operating budgets of the private colleges and universities. Where the public colleges depend in large measure on the State to pay for such increases, the private colleges and universities must depend on tuition and fees, gifts/grants, and endowment income to equalize the cost of inflation. Inflation has grown between 4 and 10% a year at these colleges depending on the item which is examined. One very costly item which inflation has affected is faculty salaries. In order to attract and keep qualified faculty, salary increases have had to be increased more rapidly than national inflation statistics. In most institutions participating in the study, average faculty salaries have had to be substantially increased over the four year period from 1968 to 1972 to keep pace with inflation.

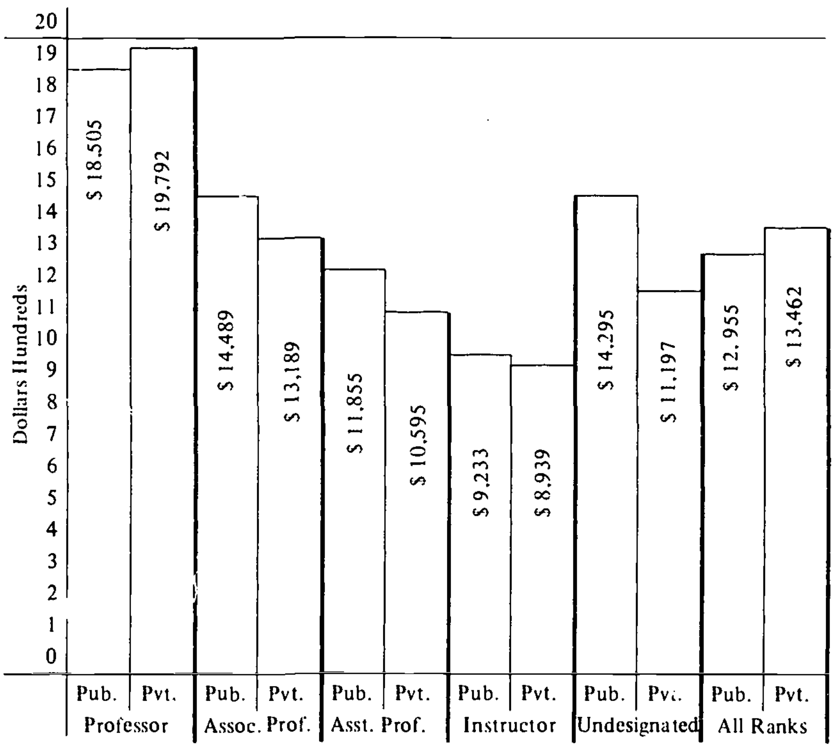
Because the faculty salary data for 1967-68 are not available in comparable form to 1971-72, we can only make generalizations about the increase in salaries over the four year period. Regional data available from the National Education Association gave the following breakdown of median faculty salaries in 1968 at public and private institutions in this region of the country.

Professor	$ 15,529
Associate Professor	11,567
Assistant Professor	9,508
Instructor	7,495
All Ranks	10,419

For 1971-72, the data on average public and private college and university faculty salaries is available for Maryland. Table IX shows that the public institutions paid an average of $951 more than the private colleges and universities at the lower three ranks. The $1287 higher salary paid Professors in the private sector can, for the most part, be attributed to higher salaries for professors at two private institutions. Although the data from N.E.A. for 1968 and the data in Table IX from 1972 cannot readily be compared, they do indicate that the faculties of both the public and private institutions of higher education have received substantial increases in salary over the past four years. The public increases result in a demand for increased tax dollars, while the private colleges and universities must fund the increases by increasing revenues - generally tuition and fees charged to students. The private institutions on the low side of the averages and who have not been able to give increases, report that their faculty are leaving to take positions in institutions which offer a higher pay scale.

TABLE IX

Average Faculty Salaries
By Rank in 1971-72
At Maryland Public and Private Colleges and Universities



SOURCE: HEGIS, 1971-72

In addition to inflation and increasing fixed costs such as maintenance, heat, light, etc., there are many other factors which are placing increased financial burdens on private colleges and universities.

Federal cutbacks in aid to higher education, both in student assistance accounts and research and other grants, are just beginning to influence the finances at colleges and universities. It has been estimated that losses in revenues from such cutbacks could average between 10-20% of the total budget of the institutions over the next several years.

The cost of security to reduce thefts, etc. on college campuses has also grown as an expenditure item over the past several years. Most of the presidents, in their presentations before the Committee, stated that the cost of campus security has doubled over the past four years. For example, The Johns Hopkins University had an increase of over $200,000 in their expenditures for security during the last year.

The reductions in State scholarship funds available to private colleges due to students electing to go to public institutions with their State scholarships has also had a negative effect on the private college and university budgets. The financial data provided by Touche Ross revealed that most of the institutions in the study were receiving almost twice as much State scholarship aid in 1968 as they received in 1972. As was mentioned earlier, losses in outside sources of scholarships almost always has meant that private institutions have had to take more money from their own sources of revenues, mainly tuition income, to fill the gap left by reductions in outside scholarship funds.

An additional unforeseen cost which has already placed a burden on the budgets of several institutions, and may affect others in the near future, is unionization of both the professional and non-professional staff. Several institutions have already experienced unionization of their non-professional employees and there are predictions that as money becomes tighter, increased unionization may occur among both non-professional and professional employees. One institution having collective bargaining among their non-professional employees had to increase its fringe benefits to the faculty and administration because the package of fringe benefits won by the unionized employees exceeded that held by the professional employees.

We have cited here inflation, faculty salaries, reductions in federal aid to institutions of higher education, the increasing cost of campus security, reductions in State scholarship assistance, and unionization as factors which adversely affect the operations of private colleges and universities. One might state that these costs apply equally to public institutions and this may well be true, but the difference is that the increased costs may be funded from tax sources at the public institutions, but for the majority of the private institutions, the increased costs must be funded from tuition and fee revenue which means either increasing enrollment and/or tuition and fees.

A LOOK AT WHAT'S AHEAD
-- INSTITUTIONAL VIEW

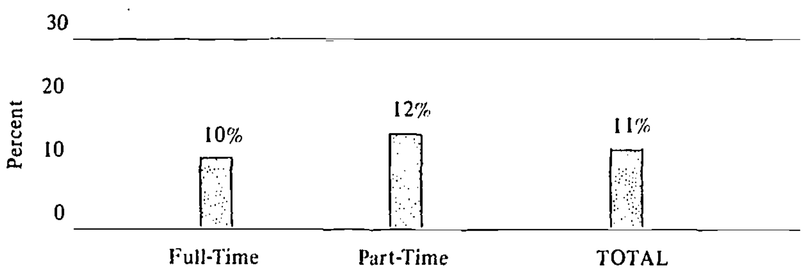
In order to obtain an impression of what the institutions felt their future would be, the Committee asked that the colleges and universities make projections to the academic year 1976-77, concerning their future educational operations. It was interesting to note that in most categories the institutions predicted increases in their educational operations even if they had experienced declines in those operations from 1968 to 1972.

Enrollments

Almost all of the colleges predicted increases in enrollment from 1972 to 1976. Only one of the sixteen institutions projected a decline in enrollment between 1972-76. Table X shows the percent increase projected by the institutions in headcount enrollment and Table XI the percent increases in full-time-equivalent by division between 1972-1976.

TABLE X

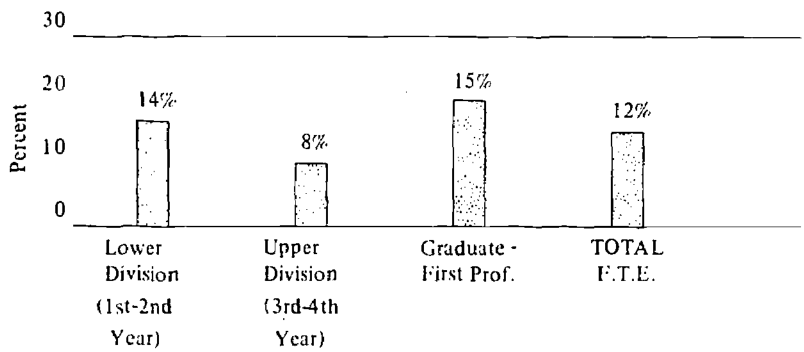
Percent Increase
In Projected Total, Full-Time and Part-Time Enrollment
Between 1972-76
In Maryland Private Institutions of Higher Education



SOURCE: Reports on file at the Maryland Council for Higher Education

TABLE XI

Percent Increases
In Projected F.T.E. Enrollment
By Division Between 1972-76 in
In Maryland Private Institutions of Higher Education



SOURCE: Reports on file at the Maryland Council for Higher Education

As was stated in Chapter 1, and in the earlier sections of this Chapter, the likelihood of such increases at most of these institutions is questionable. What is imperative is that if these increases in enrollment are not realized, the financial condition of these institutions will continue to weaken.

One of the most important factors regarding enrollment, present and planned for the future, is the percentage of Maryland residents enrolled in these private institutions. The percentage of Maryland residents remained at approximately 70% in these institutions between 1968 and 1972, and is projected at that same level for 1976-77. In 1971-72, the 70% represented 22,135 Maryland students attending private institutions who otherwise may have attended public institutions.

If the State had been required to educate these 22,135 students, the cost in tax funds, based on the current level of State funding of education at four year public colleges and universities ($1620) weighted average budgeted for 1973-74) would have been $35,858,700 annually. If only 20% of these students were to leave the private sector and enroll in public colleges, the *cost to the State would be at least $7,171,740 annually. It is, therefore, evident that the educational services provided to the citizens of the State by private colleges and universities represent a substantial savings to the taxpayer of the State.*

These cost figures exclude any capital appropriations which would be needed to provide the facilities for the additional students attending public colleges and universities.

The Maryland Council for Higher Education projects a growth in enrollment in public higher education of approximately 40,000 full-time equivalent students during the period 1971-72 to 1976-77. To accommodate this growth and upgrading of facilities, the public institutions have projected capital construction costs aggregating approximately $351,646,759. During this same period, it is anticipated that the private institutions may decrease in enrollment unless some relief is granted. Based upon studies of the facilities available at these private institutions, it has been estimated that they now have excess space which could be used to accommodate as many as 5,000 students now, and with modest additions, more of this enrollment growth in the future. The potential savings to the taxpayer in terms of capital costs would be approximately $40,000,000 to say nothing of the annual savings in operating costs previously discussed.

TABLE XII

Projected Capital Expenditures
At Public Institutions of Higher Education
Through 1976

Community Colleges	$ 77,924,559
State Colleges	$ 99,972,400
University of Maryland	$ 173,749,800
TOTAL	$ 351,646,759

Sources: Draft - Master Plan for Community Colleges and Department of State Planning, Capital Budget, FY 1974 -- Chapter IV

Faculty

Although these colleges projected enrollment increases by 1976 of between 8 and 15%, depending on the measure one uses, they projected only a 6% increase in faculty for that same year. It would appear from these two numbers that faculty workloads for the period 1976-77 will be heavier than in 1972. This increase in faculty workload was supported by the average credit hours generated per F.T.E. faculty figures for 1972 and projected for

1976. The average credit hours generated/F.T.E. faculty for the sixteen colleges and universities was 210 in 1968 and is projected to be 240 in 1976, a 14% increase.

Space

It is difficult to make generalizations about space and its availability at these institutions as a group because the problems on one campus may be completely different from those on another. Whereas one institution may have an excess of space for their student population, another institution may be overcrowded. One generalization which can be made is that very little projected expansion in net assignable square feet, excluding dormitories, is projected for these institutions as a group to 1976. Whereas between 1968 and 1972 the average increase in net assignable square feet was 20%, it is projected at only 14% between 1972 and 1976, with the vast majority of the expansion being planned in classroom and laboratory type facilities. The same holds true for dormitories. The colleges as a group are only planning to expand dormitory capacity by 755 beds or an 11% increase between 1972 and 1976, while between 1968 and 1972 dormitory capacity increased by 1542 or 28%. It should be noted that the 11% increase in dormitory capacity planned by these sixteen institutions will actually take place at only four colleges. Of the other twelve colleges in the study, two plan to reduce dormitory capacity, four plan to keep it at its 1972 level, and six institutions had no dormitories in 1972 and do not plan to build any by 1976.

Academic Programs

One of the very important cost related factors at these institutions is the academic programs they offer. Programs vary from those which are relatively inexpensive to operate such as History and English, with fairly large faculty/student ratios and low equipment costs, to those that are very costly such as Physics with a necessary low faculty/student ratio and very expensive equipment. Since programs play such an important role in relation to the total expenditures of these colleges and universities, the institutions were asked to identify additions and deletions in academic programs planned for 1976-77 versus what they offered in 1971-72.

The private institutions plan thirty-six additions to their academic programs and only nine deletions. Some of these programs duplicate the offerings of other institutions, both public and private, and seven of the ten institutions plan to add new programs without deleting any existing ones, therefore adding to the expenditures of the institution. The advisability of the initiation of some of these programs, without comparable deletions to balance cost, may be questioned. It is imperative that objective evaluation of the efficacy of beginning these programs take place so that duplication of efforts does not occur between the public and private sector and within the private sector. This type of effort is already being accomplished with regard to program requests from the public institutions. The Committee will offer recommendation concerning program approval procedures for the private sector in Chapter III.

Presidents' Comments

The Presidents of each of the private colleges and universities in the study were asked to make a formal presentation before the Committee. Part of their presentation was to be dedicated to a discussion of what they, as Presidents, felt were the major problems facing their institutions as well as their view of the contributing factors to their institutions' financial plight now and in the future. Many of the problems the Committee identified earlier in this Chapter as contributing to the financial strain of the private institutions correspond to the statements of the college and university presidents.

The following extracts from the presentations of the presidents of the private institutions are representative of the problems and factors that they view as significant in the coming years:

"Fixed costs and debt service claim a considerable amount of operating funds. Increasing tuition and fees to meet current expenses presents a danger of pricing ourselves out of the market."

"Necessary expenses continue to rise more rapidly than income from traditional sources. Increasing competition from public, tax-supported institutions with their much lower fees for the student."

"I fear that an ever-increasing tuition commensurate with ever-increasing costs will render this institution less and less capable of performing its prime mission -- the education of qualified men and women, whatever their economic background, to serve and to lead in this community and elsewhere. The wealthy will always be able to afford it. Current programs of aid are directed toward assisting the lower-income groups to pay the bill. That is well and good, but the middle and upper-middle income youngsters are being squeezed out in larger and larger numbers. They constitute an enormous human resource in our national life; they are often the group from which our leaders are drawn. We neglect them at our peril, and to deny them a system of "free choice" in the higher educational system in the country is to do violence to our own ideals of equal opportunity and to destroy one of the most fundamental purposes for maintaining any form of private higher education -- the *freedom of choice* and of action on the part of young men and women seeking to study and to learn."

"The primary difficulty faced by the College at this time is the decline in enrollment and the resultant financial problems.

a. We feel that the primary cause of the decline in enrollment is the difference in cost of attending a private versus a public institution.

b. Although it is possible to reduce expenses somewhat with a decline in enrollment, it is not possible to cut to the extent necessary to balance the budget without weakening the quality of the academic program. As the academic program is cut, it becomes more difficult to attract potential students."

"The massive increases in costs of goods and services. Education is a labor intensive enterprise. It cannot be automated; the work cannot be done by machines; and it is in labor where inflation is worse."

"I have mentioned our need for capital improvements. I must also mention our need to achieve a higher level of maintenance throughout our campus. This problem is financial, but not exclusively so. We recognize as one of our primary concerns the need to preserve a quality of life which we feel is essential to our conception of superior liberal arts education. Finances apart, this is an extraordinarily difficult thing to do in these changing and troubled times."

"The institution has no product to sell. Consequently, we must pass on the impact of these increased costs to our students who are our primary consumers. Tuition at the institution has increased substantially in the past 10 years, yet the return on each tuition dollar is smaller and smaller since as tuition rises we must increase our student financial aid proportionately. In this respect we *cannot compete* in pricing with the public institutions."

"A very real problem is insufficient endowment. Each year the return on our endowment brings in approximately $140,000. As you can see, this is only about 6% of our total operating budget. Therefore, any increase in expenditures must be made up for by an increase in student fees."

"Now there is no more fat to cut, our costs continue to increase steadily and because of our austerity budget success we have difficulty luring government funds as a developing institution, the theory being, I suppose, that if you're not in the red you're not struggling. This will continue to cause us problems in the future."

"The increased amount of State and Federal welfare legislation -- this legislation has been enacted in a pursuit of objectives which we applaud, but the burden of funding it falls heavily on our institution. Our social security contribution keeps going up. Wage and hour laws elevate our wage scale. Unemployment compensation, workmen's compensation, cost accounting to the federal government and affirmative action require the hiring of specially trained personnel, expanded record keeping, the prompt filing of complex forms and reports."

"The increased cost of security."

"Competition from community colleges and public colleges which not only offer lower tuition fees but such copious student aid generally funded from State or federal sources that costs fall far below the already low catalogue figures. It would seem from the Maryland Council for Higher Education's recent Admissions and Financial Aid Information that these colleges have only nominal fees and many students must attend free. It appears that if federal and State funds are going to go mainly to public institutions, pluralism in American education which has been a great national asset is in danger of extinction."

"This is perhaps the most important area of all of the problem areas -- Student Aid. If we could have scholarship monies delegated for use by children of Maryland residents, it would enable us to perform an educational service of real and lasting value. Most of our student aid today comes from operating expenses. This is necessary at present because we do have some very bright students who can benefit from the liberal arts education, but whose economic background is very limited."

"Increasing commitment of our own funds to student aid, thus impairing our ability to shore up other areas."

"*Office costs* have greatly increased. What a couple of bookkeepers could do twenty-five years ago now requires a large complex of staff and machinery. Accounting machines, computer tie-ins, Xerox, Flexowriters are relatively new. Operation of these in many instances requires special skills for which higher pay is indicated. The preparation of reports and response to questionnaires has now become almost a department in itself. Paperwork of this kind seems to have tripled just in the last few years."

"Through the years, the College has been able to attract and hold a faculty of excellent teachers and able scholars. In order to continue to hold this very able and excellent faculty, we are going to have to promote assistant professors to associates and associates to full, and we are going to have to have monies for salary increases. If not, the better ones will undoubtedly look elsewhere and we will replace these with less competent newcomers. Stability on a faculty is all important to the academic program."

"Like all other institutions, we are now heavily involved in *fringe benefits* for faculty and staff -- TIAA-CREF, major medical, etc. It is to be anticipated that faculty and staff will request additional benefits in the future."

"Expenses for *maintenance* of buildings and equipment, as well as *insurance*, have also increased enormously in the past five years."

CHAPTER III

RECOMMENDATIONS

Introduction

In this Chapter, the Committee presents its recommendations concerning increased State financial support of private higher education in Maryland. These recommendations are based on the findings of Touche Ross and Company, the staff of the MCHE, and the analysis by the Committee members. The projected relationship of revenues and expenditures in 1976-77 indicates that most of the institutions studied will incur deficits in that year unless additional sources of revenues are made available. If no action is taken now to counter the projected deficits in 1976-77, the Committee believes that these institutions will find it increasingly difficult to maintain their current enrollment levels and academic excellence; both of which are vital concerns to the total system of higher education in Maryland. The committee feels strongly that declines in quality of programs or quantity of students enrolled will not be in the best interest of the State of Maryland. It is with this in mind that the Committee respectfully submits its recommendations.

Basic Premises for Supporting Private Higher Education

In the Committee's view, four basic premises underlie the general philosophy of public support of private higher education in Maryland.

> First, it is imperative that the State preserve and strengthen the dual system of higher education which includes the private and public sectors. Strength is required in both sectors in order to provide adequate higher education opportunities to meet the varying needs of the citizens of Maryland.
>
> Second, the private institutions of higher education must retain the autonomy which has been traditional in the past. Autonomy permits flexibility in meeting problems which is vital if we are to meet the needs of the future satisfactorily.
>
> Third, the variety of educational opportunities available to the citizenry of Maryland should be preserved and enhanced together with the freedom of each citizen to choose the institution he or she wishes to attend. Diversity in objectives, environment, size, programs and sponsorship of institutions are major elements in assuring that students have freedom of choice.
>
> Fourth, continued and increased participation by the private institutions of higher education in Maryland is essen-

tial for the optimum use of public funds for the support of higher education in the State. The savings to the State in tax dollars due to the existence of these institutions has contributed substantially to the welfare and well-being of all of the citizens in Maryland. These savings can be continued by assuring through modest State assistance of these institutions, their existence as private colleges and universities.

Basic Premises of the Aid Formula

The Committee has also developed the following premises which relate to the specific formula of aid presented later in this Chapter.

First, that all institutions eligible under law should be permitted to participate in the program. (The question of the eligibility of those four institutions presently involved in the litigation, Roemer vs. Board of Public Works, will be settled by the courts.)

Second, that the awards should be based on the students enrolled rather than degrees produced. This is to include *all* students registered for credit courses whether residents or non-residents. The Committee believes that to base the awards on only Maryland residents is not justified since (1) Maryland is presently a "debtor" State, sending more students from Maryland out-of-State than we take in from other States; (2) many students who come to Maryland to receive their education remain after receiving their education and make their permanent homes here; and (3) the Committee feels that the plan should not foster provincialism which may weaken those institutions which are national in reputation and attractiveness to students.

Third, that the program should be directly related to the tax dollars spent for support of public higher education. This will have the result of linking aid to private higher education directly to the State's commitment to public higher education in relationship to the service and savings the private institutions provide to the State.

Fourth, specific requirements such as size, faculty-student ratios, etc. should not be requirements for an institution to be eligible for aid.

Fifth, the institutions receiving State aid must continue to be accountable to the State for the expenditures of the aid received. This accountability should remain at least as the level presently in force in the State.

> Sixth, the aid proposed should be substantial enough to assure the continued operation of most, if not all, of these private institutions.

It is with these premises in mind that the Committee developed its recommendations concerning a program of increased aid for private higher education institutions in Maryland. It should be noted that the Committee believes strongly that the aid program which follows is in the best interest of the State, the taxpayers of the State, and the eligible private institutions of higher education.

AID PROGRAM

The recommended program of aid contains two basic elements: one, yearly direct grants based on fall semester computed full-time-equivalent enrollment: and two, a provision for a standard system of providing capital assistance if needed.

Direct Aid

Based upon all the evidence presented to the Committee, the Committee concludes that a substantial increase and basic change in the direct aid program is necessary if the quality, vitality, and even the survival of some of these institutions are to be maintained.

The evidence clearly indicates that most of these institutions will experience increasing gaps between operating revenues and expenditures in the future. Financial pressures will increase as the institutions face rising costs. At the same time, these institutions will be confronted with what seems to be an insoluble problem of increasing tuition charges and other revenues rapidly enough to meet these ever increasing costs.

In view of this evidence, the Committee recommends an increase in direct assistance to the private institutions to enable them, in conjunction with substantial efforts of their own, to assure their continued vitality. These institutions of higher education have taken many steps to preserve their continued operations such as: some have merged with other institutions, consolidated dining hall and dormitory operations, reduced faculty, hired efficiency minded business officers, and sold prime land in efforts to balance their budgets. It is only with reluctance that they turned to the State for increased assistance. It is the firm belief of the Committee that State assistance can be given without weakening the financial support and educational development of the public sector of higher education which has experienced substantial qualitative and quantitative growth in recent years.

The Committee is recommending the discontinuance of aid based on degrees granted for the following reasons: first, it is not adequate to meet the financial needs of these institutions; and second, a formula based on degrees granted does not take into account the work of these institutions with non-degree candidates such as adult students seeking to expand their knowledge by taking one or two courses and the efforts of these institutions in providing education for students who transfer before reaching a terminal degree.

The Committee recommends that Article 77A - Sections 65-69 of the Annotated Code of Maryland, providing direct aid to private higher education be amended to include the following:

(1) That the awards be based on computed full-time-equivalent enrollment for the fall semester of the academic year previous to the fiscal year in which the award is made. (Full-time-equivalent enrollment for the purpose to be computed by dividing the total number of fall semester credit hours generated by 15.)

(2) That the first year award be $243 per FTE student [15% of the State's general fund contribution at the four year public colleges for the fiscal year 1973-74 ($1620)].

(3) That the awards for subsequent years be increased by the Consumers Price Index computation applied to the State of Maryland Retirement Systems yearly.

This means that the base award of $243 will be multiplied by the computed FTE enrollment at a particular institution and that amount will be the 1973-74 award for the institution. Each subsequent year, the base factor of $243 will be changed by the Consumer Price Index computation applied to the State of Maryland Retirement Systems and then multiplied by that year's FTE enrollment at the institution.

Table XIII shows the calculation of the awards as *projected* for the first year of the program 1973-74, and for 1976-77. For the purposes of these projections, the Committee has inflated the base award at 6% per year to 1976-77. *For the majority of these institutions, the proposed aid does not enable them to meet their projected deficits in 1976-77, but the Committee firmly believes that the recommended funding formula is reasonable and that the institutions will need to concentrate their efforts on obtaining additional revenues or further reductions of expenditures to meet any deficits in their operations*

It should be pointed out that the excess over expenditure shown for four institutions in Table XIII results from uniform application of a 6% increase in expenditures which may not be reasonable for these institutions due to deferred maintenance, and other problems which have been ignored during the period of financial crisis.

TABLE XIII
PROPOSED STATE AID FORMULA

COLLEGE	I 1972-73 FTE Enrollment	II Projected 1973-74 Aid (1972-73 Enrollment x 243*)	III MCHE Projected 1976-77 FTE Enrollment	IV Projected Aid 1976-77 (1976-77 Enroll. x 289**)	V Projected Aid Under Present Formula Based on 1972-73 Degrees	VI Differ. Between Present Aid & Pear Committee Formula in First Year (Col. II - Col. V)	VII Projected Deficit 1976-77 (No Tuition Increases)	VIII Difference Between 1976-77 Projected Aid & Deficit (Col. IV-Col. VII)
1. B	990	$ 240,570	1000	$ 289,000	$ 139,000	$ 101,570	-$1,199,500	-$ 910,500
2. F	605	147,015	600	173,400	58,500	88,515	- 372,500	- 199,100
3. O	5973	1,451,439	6700	1,936,300	963,800	487,639	- 6,334,800	- 4,398,500
4. D	2366	574,938	2500	722,500	303,000	271,938	- 329,000	+ 393,500
5. J	1002	243,486	1000	289,000	124,000	119,486	- 311,000	- 22,000
6. A	2929	711,747	3000***	867,000***	409,000	302,747	- 1,229,500	- 362,500
7. N	254	61,722	240	69,360	16,200	45,522	- 131,200	- 64,840
8. I	1240	301,320	1300	375,700	129,000	172,320	-0-	+ 375,700
9. H	590	143,370	600	173,400	95,500	47,870	- 379,000	- 205,600
10. E	338	82,134	325	93,925	35,500	46,634	- 595,000	- 501,075
11. K	194	47,142	200	57,800	32,300	14,842	- 101,300	- 43,500
12. M	370	89,910	375	108,375	23,000	66,910	- 93,500	+ 14,875
13. C	801	194,643	750	216,750	65,500	129,143	- 463,500	- 246,750
14. G	1519	369,117	1600	462,400	169,000	200,117	- 10,000	+ 452,400
15. L	134	32,562	150	43,350	5,400	27,162	-0-	-0-
16. P	328	79,704	350	101,150	6,400	73,304	-0-	-0-
	19,633	$4,770,819	20,690	$5,979,410	$2,575,100	$2,195,719	-$11,549,800	-$5,717,890
			(17,690)***	($5,112,410)***				

* 15% of State's Contribution to General Funds at Four Year Public Colleges (1620)
** 289 Obtained by Inflating 243 at 6% per year for three years.
*** University of Baltimore out.

Source: Reports on file at The Maryland Council for Higher Education and Touche Ross & Co. reports.

The Committee believes that the program is: (1) straightforward, (2) easily administered, and (3) provides State support to the institutions on a more equitable basis which takes into consideration future changes so that continual amendments to the law may not be necessary.

Capital Assistance

For many years, the State of Maryland has provided aid for capital construction to private colleges in Maryland. This has been done by means of separate legislation sponsored and introduced as a result of an appeal by the institution concerned to the Governor and/or members of the General Assembly. There is presently no continuing program of capital assistance for private colleges.

Federal aid to higher education for capital construction included direct grants in the past, but in recent years has been limited to interest subsidies. Under the latter system, the Federal Government subsidizes 85% of the interest costs above the rate of 3%. The amount of Federal aid for capital projects has not met current needs, and indications are that reductions in the aid may occur in the future.

The provision of State aid for capital construction at private colleges has been handled on an ad hoc basis. This not only makes it dependent upon support for special appeals to the State, but precludes a systematic and regular provision for funding of any such grants. Furthermore, there is no regular procedure whereby these requests are required to be scrutinized and evaluated by cognizant State agencies including the Departments of State Planning, Budget and Fiscal Planning, and the Maryland Council for Higher Education.

The State funds available for assistance to private colleges for capital projects have on occasion been insufficient to permit outright grants. In the past, these grants have been generally limited to 50% of the project cost. It would be more appropriate, when funds are limited, that available State funds be used to subsidize interest on construction projects than for direct construction grants. This interest subsidy system would also enable assistance to more than one institution in any one year at a lesser cost to the State.

Recommendations

Based on the discussion previously presented, the Committee offers the following recommendations concerning the availability of capital project assistance to private colleges and universities.

(1) Private higher education institutions desiring State support for capital projects should submit their requests to the Maryland Council for Higher Education for such recommendations as may be appropriate. The requests should be

in the same format and with the same justifications and supporting information as is required of the State Colleges and the University of Maryland.

(2) State support should be limited to types of facilities and costs eligible for State funding at public institutions of higher education.

(3) The State should provide interest subsidies for eligible projects if budgetary limitations preclude direct construction grants for the projects. The interest subsidy is recommended at 50% of the interest charges over 3%.

(4) Priority consideration should be given to capital projects in accordance with the following criteria, listed in order of preference:

(a) Urgent repairs, renovations, or projects necessary to enable the institution to continue at present level of operations .

(b) Projects required to enable the institution to meet documented impending increases in enrollment.

(c) Projects required to enable the institution to introduce new or revised programs approved by the Maryland Council for Higher Education.

(d) Projects, including major renovations, which will enable the institution to reduce operating costs or improve and update the quality of education.

Coordination and Cooperation

The Committee believes that present efforts of coordination and cooperation among the private colleges and universities and between the public and private sectors should be continued and expanded. The committee feels that the logical focal points of these activities are the Maryland Council for Higher Education and the Maryland Independent College and University Association. *The Committee deplores unnecessary duplication of efforts in both the public and private sectors and realizes that only through full cooperation and coordination of the efforts of both the public and private institutions of higher education can these duplications be avoided.* Of particular concern to the Committee has been the unnecessary duplication of high cost programs without regard to the savings which could be developed through cooperative activities. Because unnecessary program duplication depletes the State's resources, the Committee is recommending that *the private colleges and universities in Maryland, as a requirement for being eligible for State assistance, submit their proposed new programs or major alterations* *of programs to the Maryland Council for Higher Education for a recommendation regarding their initiation.* The program proposals from the private colleges and universities should be submitted according to the procedures already in existence for programs developed by the public institutions in Maryland. By requiring the private institutions of higher education in Maryland to submit programs through the Maryland Council for Higher Education, evidence of duplication either by the public or private institutions can be developed early enough to resolve in the State's best interests these unnecessary duplications of efforts.

The Committee would like to applaud the efforts which the private institutions have initiated on their own to enhance coordination and cooperation within their own sector. The development of the Maryland Independent College and University Association as the focal point of activities of the private institutions, the cooperation of MICUA, through its Executive Director, with the Maryland Council for Higher Education, the construction of a joint library with the combined resources of Notre Dame and Loyola College, joint efforts of sharing course and program offerings between The Johns Hopkins University and Goucher, the Maryland Independent College and University Association sponsored meetings of the Deans and Development Officers to discuss problems relating to the private sector and the similar proposed meeting of the Business and Admission Officers all represent actions which the Committee endorses.

The Committee also urges the extension of the cooperation between the private colleges and universities and the Maryland Council for Higher Education. Such efforts as the cooperation of the MICUA Executive Director in the planning processes for higher education, the voluntary program development discussions between several institutions and the Maryland Council for Higher Education staff, the participation of private college representatives on the various committees of the Council and the inclusion of MCHE staff members in MICUA activities have all been steps in the proper direction.

These initial efforts should be continued in the future to guarantee the inputs of all interested parties in future statewide planning for higher education. *The Committee firmly believes that cooperation and coordination of the activities among the public and private institutions of higher education and between the public and private sectors are important to rational planning for the future of higher education in the State.*

Proposed Amendments to Article 77A

The Committee believes the following amendments to Article 77A Sections 65-69 of the Annotated Code of Maryland will be needed to accomplish the recommendations set forth earlier in this Chapter.

-- PRESENT LAW --

Aid to Nonpublic Institutions of Higher Education

§ 65. Board of Public Works authorized to make payments

The Board of Public Works is authorized to apportion for each fiscal year, commencing with July 1, 1971, and to pay to any private institution of higher education within the State of Maryland which meets the requirements set forth in § 66 of this subtitle, upon application by the institution, such amounts of State aid as are authorized to be paid by § 67 of this subtitle. (1971, ch. 626.)

Editor's note.—Chapter 626, Acts 1971, designated the sections constituting this subtitle as § § 64 to 68, but since a § 64 had previously been added by chs. 60 and 555, Acts 1971, the sections added by ch. 626 have been designated as § § 65 to 69 herein.

Section 2, ch. 626, Acts 1971, provides that the act shall take effect July 1, 1971.

§ 66. Qualifications for aid.

In order to qualify for State aid apportionments pursuant to this subtitle, any institution of higher education must meet each of the following requirements:

(a) The institution must be a nonprofit private college or university which has been accredited by the State Department of Education;

(b) The institution must have been established in this State prior to July 1, 1970;

(c) The institution must maintain one or more earned degree programs, culminating in an associate of arts or baccalaureate degree;

(d) The institution cannot be one awarding only seminarian or theological degrees. (1971, ch. 626; 1972, ch. 483.)

Effect of amendment. – The 1972 amendment, effective July 1, 1972, eliminated "and which are members of or in recognized candidacy with the Middle States Association of Colleges and Secondary Schools" at the end of paragraph (a).

§ 67. Computation of amount.

The amount of the annual apportionment to each institution meeting the requirements of § 66 of this subtitle shall be computed by multiplying by two hundred dollars the number of earned associate of arts degrees, and by five hundred dollars (1) the number of earned bachelor's AND (2), to the extent that sufficient funds are provided in the annual State budget, the number of advanced degrees beyond baccalaureate, including first professional degrees, conferred in this State by such institution during the fiscal year next preceding the fiscal year for which such apportionment is made. To the extent that sufficient funds are not provided in the State budget for the full cost of (2) above, the amount per degree thereof shall be reduced on a pro rata basis. There shall be excluded from any such computation the number of seminarian or theological degrees conferred by the institution or any degree which is awarded in substitution of a previously earned degree.

§ 68 Administration of program.

The Board of Public Works assisted by the Maryland Council for Higher Education shall adopt criteria and procedures, not inconsistent with this subtitle, for the implementation and administration of the aid program provided for by this subtitle, including but not limited to criteria and procedures for the submission of applications for aid under this subtitle, for the verification of degrees conferred by the applicant private institutions of higher education, for the submission of reports or data concerning the utilization of these moneys by such institutions, and for the method and times during the fiscal year for paying the aid provided for by this subtitle. (1971, ch. 626; 1972, ch. 534.)

Effect of amendment. – The 1972 amendment, effective July 1, 1972, substituted "assisted by the Maryland Council for Higher Education shall" for "is authorized to" near the beginning of section, added "concerning the utilization of these moneys" and substituted "for" for "of" preceding "paying" near the end of the section.

§ 68A Money not to be used for sectarian purposes.

None of the moneys payable under this subtitle shall be utilized by the institutions for sectarian purposes. (1972, ch. 534.)

Editor's note.–Section 2, ch. 534, Acts 1972, provides that the act shall take effect July 1, 1972.

§ 69. Severability.

If any parts of this subtitle, or any particular payments or payments to any particular types of institutions pursuant to this subtitle, shall be held to be unconstitutional or invalid for any reason, such unconstitutionality or invalidity shall not affect the remaining parts of this subtitle, and shall not affect any other payments or payments to any other types of institutions pursuant to this subtitle, the General Assembly hereby declaring that it would have enacted the remaining parts of this subtitle or would have authorized the remaining payments or payments to the remaining types of institutions, if such unconstitutionality or invalidity had been known; and to this end, all parts, sections, and parts of sections of this subtitle, and all administrative actions pursuant to this subtitle, are declared to be severable. (1971, ch. 626.)

PROPOSED BILL TO ACCOMPLISH COMMITTEE'S RECOMMENDATIONS

A BILL ENTITLED

An Act To add new Section 66(e) to Article 77A of the Annotated Code of Maryland (1969 Replacement Volume and 1973 Supplement), title "Higher Education", subtitle "Aid to Nonpublic Institutions of Higher Education", to follow immediately after Section 66(d) thereof and to repeal Section 67 of the same Article, title and subtitle and to enact new Section 67 in lieu thereof, to stand in the place of the Section so repealed, to provide for an additional qualification which certain nonpublic institutions of higher education must meet in order to receive State aid apportionments and to alter the formula by which that State aid is computed.

SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND, That Section 66(e) of Article 77A of the Annotated Code of Maryland (1969 Replacement Volume and 1973 Supplement), title "Higher Education", subtitle "Aid to Nonpublic Institutions of Higher Education", be and it is hereby added to Article 77A, and that Section 67 of the same Article, title and subtitle, be and it is hereby repealed and that new Section 67 be inserted in lieu thereof, to stand in the place of the Section so repealed, all to read as follows:

66 (E).

THE INSTITUTION MUST SUBMIT ALL NEW PROGRAMS OR MAJOR ALTERATIONS OF PROGRAMS TO THE MARYLAND COUNCIL FOR HIGHER EDUCATION FOR A RECOMMENDATION REGARDING THE INITIATION OF THE PROGRAM

67

[The amount of the annual apportionment to each institution meeting the requirements of Section 66 of this subtitle shall be computed by multiplying by two hundred dollars the number of earned associate of arts degrees, and by five hundred dollars (1) the number of earned bachelor's, and (2), to the extent that sufficient funds are provided in the annual State budget, the number of advanced degrees beyond baccalaureate, including first professional degrees, conferred in this State by such institution during the fiscal year next preceding the fiscal year for which such apportionment is made. To the extent that sufficient funds are not provided in the State budget for the full cost of (2) above, the amount per degree thereof shall be reduced on a pro rata basis. There shall be excluded from any such computation the number of seminarian or theological degrees conferred by the institution or any degree which is awarded in substitution of a previously earned degree.]

THE AMOUNT OF THE ANNUAL APPORTIONMENT TO EACH INSTITUTION MEETING THE REQUIREMENTS OF SECTION 66 OF THIS SUBTITLE SHALL BE COMPUTED BY MULTIPLYING BY TWO HUNDRED AND FORTY-THREE DOLLARS THE NUMBER OF FULL-TIME EQUIVALENT STUDENTS, AS COMPUTED BY THE MARYLAND COUNCIL FOR HIGHER EDUCATION, ENROLLED BY SUCH INSTITUTION DURING THE FALL SEMESTER OF THE FISCAL YEAR NEXT PRECEDING THE FISCAL YEAR FOR WHICH SUCH APPORTIONMENT IS MADE. THE TWO HUNDRED AND FORTY-THREE BASE FACTOR IS TO BE ACCUMULATIVELY ADJUSTED YEARLY AFTER FISCAL 1973-74 BY MULTIPLYING THE BASE FACTOR BY THE CONSUMERS PRICE INDEX COMPUTATION APPLIED YEARLY TO THE STATE OF MARYLAND RETIREMENT SYSTEMS. THERE SHALL BE EXCLUDED FROM ANY SUCH COMPUTATION THE NUMBER OF FULL-TIME EQUIVALENT STUDENTS ENROLLED IN SEMINARIAN OR THEOLOGICAL ACADEMIC PROGRAMS.

SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect July 1, 1974.

MINORITY REPORT

This minority report is submitted in order to provide the rationale for dissent on certain aspects of the Committee's majority report.

It should be noted that the minority member of the committee concurred fully with the findings in the committee's study and with a number of premises, conclusions and recommendations of the majority members of the committee. There was, however, on recommendation and three premises upon which it was based, which, in the opinion of the minority, were indefensible and deserve a dissenting vote with an explanation.

The first, third and fourth basic premises for supporting higher education in the majority report are, in the opinion of the committee's minority member, untenable.

The first and third premise statements imply a responsibility on the part of the State to underwrite the continuous operation of the private institutions in order to preserve a dual system of higher education (one which embraces both public and private institutions) and in order to provide the citizenry with a variety of educational opportunities which is not presently afforded by the public institutions.

When public funds are used to support private institutions, State regulation and eventual control can be expected; and the private institutions then become *semi* or *quasi* public institutions. It is, therefore, the candid opinion of the minority that, assurance of continued public support of all private institutions of higher education to preserve the dual system or to provide service for a class of citizens that desires an atmosphere of exclusiveness and can afford a higher tuition rate than the public institutions require, is a dangerous course of action which will eventually eliminate the present dualism in higher education and lead to a new dual system of *public* higher education with one category of public institution for the affluent (private institutions supported by tax dollars) with unlimited freedom in the pursuit of excellence; and one category for the less affluent and the poor, with diminished emphasis on adequate financial support for quality performance.

The fourth premise in the majority report conveys an impression which the minority considers erroneous- that increased investments of public funds in private institutions is necessary to insure the optimum return on the State's investment in higher education. This impression emanates from the contention that the private institutions can deliver an educational product of equal or superior quality to the product of the public institutions at a lower per capita cost to the State. The proponents of this concept, however, seem to ignore such significant questions as: (1) Will this lower per capita cost to the State continue in view of pending financial crises at the private institutions?

(2) How will the per capita cost to the State at the private institutions compare with those at the public institutions after sufficient State aid is provided to keep the private institutions solvent? (3) As the private institutions become competitive with the public institutions for tax dollars, what limitations will be placed on their per capita expenditures? (4) What distinction will be made between public and private institutions as the latter receive comparable shares of the tax dollars to insure their continued operation? (5) Will the necessity for a dual system of higher education continue to persist as the private institutions become public in character?

The above argument against three of the committee's majority premise statements for supporting private higher education is not intended to disclaim the responsibility of the State to encourage private institutions to continue their operation and services with private support and earned income. It is the opinion of the minority that the State should lighten the tax burden on each private institution where it is feasible to do so; and should reimburse each of them for its investments in vital services or essential and unique programs which do not unnecessarily duplicate the offerings of the public institutions; and for all programs provided in localities which are not adequately served by the public institutions.

In view of the above reasons for the minority's dissent on three of the postulations in the majority report, the following premises are substituted as a basis for the minority recommendations:

1. The private institutions of higher education have the capacity-facilities resources and personnel- and the will to provide a number of essential educational services for the State with relatively little increase in financial outlay and without unnecessary duplication of the offerings of neighboring public institutions of higher education.

2. Each of the private institutions of higher education included in the committee's study makes a significant contribution to the cultural, economic, social and educational development of the locality in which the institution is located.

3. Freedom from rigid State Controls and restraints (complete local autonomy) has enabled the private institutions to adapt readily to changing needs and to experiment freely with innovative procedures for improving the efficiency of their performance and the quality of their product. Conversely, complete autonomy has deprived them of some of the controls and safeguards against financial disaster which are imposed by the State upon the public colleges.

4. Encouragement should be given to the private institutions of higher education to continue their services to the community; and they should be compensated with commensurate State grants for their cultural and general contributions and substantially re-imbursed for

any essential or unique programs provided to meet vital educational needs of the citizens of the State which are not afforded by the public institutions. To be eligible for substantial grants for re-imbursement of investments in essential (unique) programs, the institution must comply with State regulations relative to the duplication of offerings of other institutions, admissions without discrimination because of race or religion, etc.

In consideration of the State's avowed responsibility for providing the citizenry with adequate quality programs through its officially established facilities for higher education - the six State Colleges, the State University and it's branches and in conjunction with the Community Colleges; and because of the observation over a period of years of the inability or failure on the part of the State to provide in its annual budgets sufficient funds to operate some of the public institutions at the minimum level recommended by their accrediting associations, especially the smaller institutions; the dissenter cannot, in good conscience, concur with the recommendation to divert limited tax dollars needed to attain excellence at the public institutions to the institutions in the private sector *beyond the point of fair and reasonable compensation for the essential and desired services they are rendering;* since several of the private institutions, small ones included, already have the financial resources to maintain a considerable degree of excellence.

Based upon the above premises for supporting Private higher education (A revision of the majority's stated premises), the following Aid Program is recommended.

It is recommended that Article 77A, Sections 64-69 of the Annotated Code of Maryland, providing direct aid to private higher education, be amended to make the following provisions:

1. That all awards be based on full-time- equivalent enrollment for the fall semester of each academic year- in concurrence with the majority recommendation.

2. That an annual restricted award be made to each private institution, for its *cultural, social, economic* and *general service contributions* to the community in an amount equivalent to at least \$81.00 and no more than \$243.00 per full-time- equivalent stu- (at least 5% but no greater than 15%) of the States general fund contribution at the four-year public colleges for fiscal 1974 (\$1620); and 5% of the States G.F.* contribution to the four year public colleges subsequent to fiscal 1974.

3. Beginning with fiscal 1975, each private institution of higher education that provides a unique or essential program approved

* - General Fund Contribution

in advance by the Maryland Council for Higher Education which does not unnecessarily duplicate a program provided by by a public institution or each private institution that provides a program in a locality which is not, in the opinion of Maryland Council for Higher Education adequately served by a public institution shall be awarded annually a *substantial grant*, to compensate for its investment in the essential service, in an amount equivalent to 85% of the State's per capital general fund contribution at the State Colleges during the previous year for the total fulltime equivalent student enrollment in each approved program.

The above recommendations will obviously require a revision in the proposed change in the wording of the Bill to implement the recommendations.

With the exception of the items covered in the above minority report, the minority member of the Committee concurs with the majority report.

Respectfully submitted,

Parlett L. Moore
Minority Committee Member

APPENDICES

APPENDIX A

INSTITUTIONS WHICH ARE UNLIKELY TO INCUR DEFICITS THROUGH FISCAL YEAR 1977

Institution D
Institution G
Institution I
Institution J
Institution M

INSTITUTION – O

In 1972, this institution had adequate resources available to finance its current operations. It is unlikely that through 1976-1977 operating deficits will occur and thus we believe the institutions will maintain the financial capability to continue operations provided the following major assumptions are realized:

(1) Expenditures will increase at a rate of 6% per year.

(2) The school will continue to utilize the total return concept which provides for recognizing as endowment income realized gains from the sale of fund investments.

(3) Tuition and fees revenues will increase at 6% a year through a combination of increases in enrollment and the tuition and fees level.

(4) Student aid expenditures will increase at a rate sufficient to maintain a constant deficit of $150,000 relative to associated student aid revenues.

1. General Procedure

Representatives of Touche Ross & Co. visited the college in company with Dr. Shepler, MCHE staff, on December 19, 1972 and January 25, 1973. Discussions concerning the college's historical financial results and plans for the near future were conducted with the President and Treasurer. Analysis of major historical trends and current conditions, and projections of the college's financial position in 1976-1977 based on various assumptions are provided on the following pages.

2. Financial Management

A formal detailed budget is prepared annually with final approval by the Finance Committee of Trustees. Monthly fiscal reports comparing budget to actual are prepared for status assessment and decision-making. Cash flow forecasting is done. The institution's financial statements are audited by a certified public accounting firm and presented to the Board for review. We believe the financial management processes of this college to be adequate.

3. Current Operating Fund

The current fund operated with excess revenues in 1971-1972 and the recent trend is highly favorable. The 1971-1972 excess in revenues was enhanced by the use of the total yield concept in which realized gains from the sale of endowment securities may be used in current operations. The trend is shown below. Total expenditures per full time equivalent student in 1971-1972 was $2,000.

	1967 - 1968	1971 - 1972	% Increase
Total Revenues	$2,436,000	$4,396,000	80%
Total Expenditures)	2,479,000	4,221,000	70%
Excess Revenues (Expenditures before Endowment Growth Used in Current Operations	(43,000)	175,000	
Endowment Growth Used in Current Operations	-	30,000	
Excess Revenues (Expenditures)	$ (43,000)	$ 205,000	

Important factors contributing to these results are:

(a) Education and general revenues increased faster than expenditures as shown below:

	1967 - 1968	1971 - 1972	% Increase
Education and General Revenues	$2,111,000	$3,573,000	69%
Education and General Expenditures	2,037,000	3,243,000	59%
Excess Revenues (Expenditures)	$ 74,000	$ 330,000	

The education and general expenditures per full time equivalent student in 1971-1972 was $1,500.

(b) Tuition and fees revenues increased faster than education and general revenues as shown below:

	1967 - 1968	1971 - 1972	% Increase
Tuition and Fees	$1,806,000	$3,150,000	74%

This increase in revenues of $1,244,000 more than offset the $1,206,000 rise in education and general expenditures; thereby contributing to the successful current fund operation trend.

In 1971-1972, tuition and fees revenues represented 72% of total revenues and 68% of education and general revenues which is, in our opinion, high.

(c) Adoption of the total return concept in 1971 further enhanced the college's 1971-1972 position. The college utilizes a 4% rate of return on the three-year average market value of the endowment fund in determining endowment income. A portion of the income is obtained from the realized gain on the sale of investments.

(d) Student aid revenues has risen 66% since 1968 to $384,000 in 1972, of which $70,000 was endowment income. Student aid expenditures, however, rose 74% resulting in a student aid deficit of $152,000 in 1971-1972 as shown here:

	1967 - 1968	1971 - 1972	% Increase
Student Aid Revenues	$ 231,000	$ 384,000	66%
Student Aid Expenditures	309,000	536,000	74%
Excess Revenues (Expenditures)	$ (78,000)	$ (152,000)	

Student aid revenues represented 8.6% of total revenues in 1971-1972 which is somewhat high. The proportion of excess student aid expenditures to tuition and fees revenues has remained relatively constant at 4.5% over the four-year period.

4. Auxiliary Enterprises

The auxiliary enterprise budget has increased significantly from 1968 to 1972. This has contributed, in part, to the large overall budgetary increase for the institution. The operating margin has improved from a -42% in 1967-1968 to a nearly breakeven position in 1971-1972. This is primarily a result of increased enrollment and improved management.

	1967 - 1968	1971 - 1972	% Increase
Auxiliary Enterprise Revenues	$ 95,000	$ 439,000	362%
Auxiliary Enterprise Expenditures (including maintenance)	$ 108,000	$ 382,000	254%
Excess Revenues (Expenditures) before debt Service	(13,000)	57,000	
Debt Service	25,000	61,000	
Excess Revenues (Expenditures)	$ (38,000)	$ (4,000)	

The increase in the auxiliary enterprise budget is primarily a result of the completion of two residence halls and the addition of an apartment complex for student housing since 1968.

The dormitory capacity in the Fall term of 1971-1972 was 347, and the facilities were 100% occupied.

5. External Indebtedness

With the expansion of the campus facilities described above, there has been a corresponding rise in external debt as shown below:

	1967 - 1968	1971 - 1972
Accounts Payable and Accrued Expenses	$ 122,000	$ 64,000
Student Deposits and Deferred Income	167,000	375,000
Student Union Bonds	395,000	337,000
Dormitory Bonds	-	920,000
Total	$ 684,000	$1,696,000

This amount of indebtedness is normal for an institution with an operating budget of this size.

No significant additional external indebtedness is planned for the near future. The school has shared constructing a joint library with a neighboring institution which will operate under a separate corporation. A fund campaign is currently in process to raise the necessary capital. If adequate funds are not received, the institution will jointly share in the debt service required for the balance of the $3.2 million indebtedness.

6. Endowment

The endowment fund has increased 72% in the past four years and had an estimated market value of $3.7 million in 1971-1972. The investment income yield has remained relatively constant over the same period, but is low for the institutions studied.

	1967 - 1968	1971 - 1972	% Increase
Book Value	$1,911,000	$2,648,000	38%
Market Value	2,137,000	3,681,000	72%
Income Yield	2.1%	2.2%	
Fund Growth in Current Operation	-	1.0%	
Total Yield	2.1%	3.2%	

Investment income available for general operations represented less than 1% of education and general revenues which, in our opinion, is low.

As cited above, the college in 1971 adopted the total yield concept utilizing 4% rate of return on a three-year average endowment market value for use in general operations, resulting in the use of $30,000 in 1972.

7. Plant Fund and Investments

In 1972, the college had $10,061,000 invested in plant fund assets. Full time equivalent student enrollment in 1972 was 2,149 resulting in an average investment of about $4,700 per FTE student which, in our opinion, is a low investment relative to other similar institutions.

Current appraised value of plant assets is $13,040,000. This figure includes a $592,000 investment in the joint library but excludes the value of land which is carried by the institution at a cost of $486,000.

8. Projections - - 1976 - 1977

Current fund projections for the year 1976-1977 utilizing alternative assumptions, indicate a range of operating results, as shown below. The assumptions utilized in each projection are the same except for those involved in projecting tuition and fees revenues. Two of the tuition and fees revenues projections are based on the MCHE forecasted enrollment for 1976-1977 (2,500 FTE), while the other two are based on the President's forecasted enrollment for the same period (2,550 FTE). Each set of enrollment projections employ two different tuition and fees structures – the anticipated 1973-1974 rate ($1,730) and the 1973-1974 rate increased by 6% per year ($2,060).

	Based on MCHE FTE Enrollment Forecast (2,500)		Based on President's FTE Enrollment Forecast (2,550)	
	1973-1974 Tuition and Fees ($1,730)	6% Inflated Tuition and Fees ($2,060)	1973-1974 Tuition and Fees ($1,730)	6% Inflated Tuition and Fees ($2,060)
Revenues:				
Tuition and Fees	$ 3,875,000	$ 4,426,000	$ 3,945,000	$ 4,510,000
Other Revenues	1,226,000	1,226,000	1,226,000	1,226,000
Total	5,101,000	5,652,000	5,171,000	5,736,000
Expenditures	5,503,000	5,503,000	5,503,000	5,503,000
	(402,000)	149,000	(332,000)	233,000
Endowment Growth in Current Operations	73,000	73,000	73,000	73,000
Excess Revenues (Expenditures)	$ (329,000)	$ 222,000	$ (259,000)	$ 306,000

In summary, this institution will probably operate with an excess of revenues over expenditures by increasing tuition and fees revenues at least 6% a year through a combination of increases in enrollment and the tuition and fees structure.

INSTITUTION – G

In 1972, this institution had adequate resources available to finance its current operations. It is unlikely that through 1976-1977 operating deficits will occur and thus we believe the institution will maintain the financial capability to continue operations provided the following major assumptions are realized:

(1) Expenditures will increase at a rate of 6% per year.

(2) Tuition and fees revenues will be increased at least 4¼% per year.

(3) Other revenues will increase at 6% per year except endowment income which will be maintained at the 1971-1972 level.

(4) Excess student aid expenditures will remain at the 1971-1972 level.

1. General Procedure

Representatives of Touche Ross & Co. visited the college in company with Dr. Shepler, MCHE staff, on November 28, 1972 and January 22, 1973. Discussions concerning the college's historical financial results and plans for the near future were conducted with the President and Treasurer. Analysis of major historical trends and current conditions, and projections of the college's financial position in 1976-1977 based on various assumptions are provided on the following pages.

2. Financial Management

The College prepares a five-year plan and a detailed fiscal year budget annually. The yearly budget is not time phased by month. Actual year-to-date results are reported monthly with a current year-end estimate compared to the yearly budget figures for control purposes. The accounting system is maintained on a computer which facilitates the preparation of timely monthly reports. In our opinion, the financial management at this institution is adequate.

3. Current Operating Fund

The current fund operated with an excess of revenues. The trend over the four-year period was favorable as shown below.

Total expenditures per full time equivalent student in 1971-1972 was $3,300.

	1967 - 1968	1971 - 1972	% Increase
Total Revenues	$2,775,000	$5,340,000	92%
Total Expenditures	2,774,000	5,080,000	83
Excess Revenues (Expenditures)	$ 1,000	$ 260,000	

Important factors contributing to these results are:

(a) Education and general revenues increased faster than associated expenditures as shown below:

	1967 - 1968	1971 - 1972	% Increase
Education and General Revenues	$1,616,000	$3,521,000	118%
Education and General Expenditures	1,673,000	3,101,000	85
Excess Revenues (Expenditures)	$ (57,000)	$ 420,000	

In part, this is due to additional sources of revenues totaling $219,000 including sponsored research, a computer center, and a State of Maryland appropriation of $91,000. Education and general expenditures per full time equivalent student in 1971-1972 was $2,000.

(b) Tuition and fees revenues increased 112% over the past four years. This is a result of an enrollment increase of 82% and a tuition and fee increase of 3½% per year.

	1967 - 1968	1971 - 1972	% Increase
Tuition and Fees Revenues	$1,308,000	$2,778,000	112%

Tuition and fees revenues represented 52% of total revenues and 79% of education and general revenue in 1971-1972, which is high.

(c) Student aid revenues has increased 75% from 1967-1968 to 1971-1972. The 1971-1972 student aid revenues totaled $488,000 and represented 9% of total revenues which is, in our opinion, high.

The excess student aid expenditures has increased over the four-year period; however, this excess, in proportion to tuition and fees revenues, has remained relatively constant at 6%.

4. Auxiliary Enterprises

The college generates auxiliary enterprise revenues from four major activities: residence halls, food service, book store, and golf course. The auxiliary enterprises have operated with an excess of revenues after an appropriate allocation of maintenance and debt services, as shown below:

	1967 - 1968	1971 - 1972
Revenues	$ 881,000	$1,331,000
Expenditures (including maintenance)	707,000	1,200,000
Excess of Revenues before Debt Service & Repair Reserve	174,000	131,000
Repair and Replacement Reserve	-	19,000
Debt Service	35,000	103,000
Excess Revenues (Expenditures)	$ 139,000	$ 9,000

The college's accounting system provides for an allocation of maintenance to auxiliary enterprises.

The dormitory capacity in the Fall term of 1971-1972 was 973 and was 100% occupied.

5. External Indebtedness

The external indebtedness of the college as of June 30, 1968 and 1972 was as follows:

	1967 - 1968	1971 - 1972	% Increase
Student Aid Revenues	$ 279,000	$ 488,000	75%
Student Aid Expenditures	359,000	657,000	83
Excess Revenues (Expenditures)	$ (80,000)	$ (169,000)	

	1968	1972
Accrued Expenses and Accounts Payable	$ 53,000	$ 286,000
Notes Payable	948,000	-
Student Deposits and Deferred Income	355,000	200,000
Residence Hall Bonds	1,250,000	2,430,000
Other	411,000	14,000
Total	$3,017,000	$2,930,000

The $2,430,000 of residence hall bonds are issued to the Department of Housing and Urban Development at a 3% interest rate. The anticipated debt service in 1976-1977 will be $102,000.

In our opinion, this indebtedness is not disproportionate to a college with a $5 million budget.

6. Endowment

The college's endowment fund had a market value of $4,397,000 on June 30, 1972. This is $723,000 over cost. During the recent four-year period, the average income yield of the fund has increased to 3.8% which is high for the institutions studied.

	1967 - 1968	1971 - 1972	% Increase
Cost	$3,248,000	$3,882,000	20%
Market Value	3,674,000	4,397,000	18
Income Yield	3.0%	3.8%	

Endowment income available for general operations represented 4.4% of education and general revenues which is low.

7. Plant Fund and Investment

The college has $9,880,000 invested in plant fund assets, an average of $6,500 per full time equivalent student. In our opinion, this is slightly low for an institution of this nature. The college estimates the current replacement value of the plant assets to be in excess of $21,800,000 exclusive of land. No current appraisal of the land value exists. It is carried by the college at a cost of $480,700.

Future plans include addition of numerous plant facilities although construction has not yet commenced. Included in the plans are dormitories ($1.5 million), athletic center ($1.5 million), fine arts center ($2 million). The effect of these new facilities is not considered in the financial projection since plans are not yet sufficiently final. However, the projected operating surplus is probably adequate to cover the required debt service.

8. Projections - - 1976-1977

Current fund projections for the year 1976-1977 utilizing alternative assumptions, indicate a range of operating results, as shown below. The assumptions utilized in each projection are the same except for those involved in projecting tuition and fees revenues. Two of the tuition and fees revenues projections are based on the MCHE forecasted enrollment for 1976-1977 (1,600 FTE), while the other two are based on the President's forecasted enrollment for the same period (1,715 FTE). Each set of enrollment projections employ two different tuition and fees structures – the anticipated 1973-1974 rate ($2,150) and the 1973-1974 rate increased by 6% per year ($2,561).

	Based on MCHE FTE Enrollment Forecast (1,600)		Based on President's FTE Enrollment Forecast (1,715)	
	1973-1974 Tuition and Fees ($2,150)	6% Inflated Tuition and Fees ($2,561)	1973-1974 Tuition and Fees ($2,150)	6% Inflated Tuition and Fees ($2,561)
Revenues:				
Tuition and Fees	$ 3,440,000	$ 4,097,000	$ 3,687,000	$ 4,392,000
Other Revenues	3,232,000	3,232,000	3,232,000	3,232,000
Total	6,672,000	7,329,000	6,919,000	7,624,000
Expenditures	6,682,000	6,682,000	6,682,000	6,682,000
Excess Revenues (Expenditures)	$ (10,000)	$ 647,000	$ 237,000	$ 942,000

If the college accomplishes the anticipated plant expansion and incurs additional external debt of $4 to $5 million, the increased debt service and provisions for repair and replacement reserves still would not result in deficient operations under the last three sets of assumptions.

In summary, alternate current fund projections illustrate that this institution is capable of operating with a surplus or balance budget in 1976-1977.

INSTITUTION – I

In 1972, this institution had adequate resources available to finance its current operations. The institution increased its $115,000 operating revenue excess in 1967-1968 to one of $523,000 in 1971-1972 primarily due to a change in policy that permitted off-campus residents, now one-third of the student body, while still maintaining dormitory occupancy rates at near capacity. It is unlikely that through 1976-1977 operating deficits will occur and thus we believe the institution will maintain the financial capability to continue operations provided the following major assumptions are realized:

(1) Expenditures will increase at a rate of 6% per year.

(2) Current student financial aid programs funded by states, such as Pennsylvania and Maryland, and the Federal government are continued as at present.

(3) Student aid expenditures will continue to increase at the rate maintained between 1968 and 1972.

(4) Other revenues will remain relatively constant from 1972 except for Auxiliary Enterprise revenues which will increase at 6% annually.

1. General Procedure

Representatives of Touche Ross & Co. visited the college in company with Dr. Shepler, MCHE staff, on December 7, 1972 and January 23, 1973. Discussions concerning the college's historical financial results and plans for the near future were conducted with the President and Comptroller. Analysis of major historical trends and current financial conditions, and projections of the college's financial position in 1976-1977 based on various assumptions are provided on the following pages.

2. Financial Management

A formal detailed budget is prepared annually and approved by the Finance Committee. Year end projections are made monthly and compared to yearly budget figures for control purposes. Records are maintained by an automated bookkeeping system. The ledger has a built-in percentage cumulative expenditure for monthly comparison to budget figures. The institution's financial statements are audited by a certified public accounting firm and presented to the Board for review. We believe the fiscal year budgeting process of this college to be adequate.

3. Current Operating Fund

The current fund has increased the excess of operating revenues over expenditures during the four-year period from 1967-1968 to 1971-1972. The trend is shown below. Total expenditures per full time equivalent student in 1971-1972 was $2,700.

	1967 - 1968	1971 - 1972	% Increase
Total Revenues	$2,285,000	$3,734,000	63%
Total Expenditures	2,170,000	3,211,000	48%
Excess Revenues (Expenditures)	$ 115,000	$ 523,000	

Important factors contributing to these results are:

(a) Education and general revenues have increased faster than associated expenditures as shown below:

	1967 - 1968	1971 - 1972	% Increase
Education and General Revenues	$1,146,000	$2,266,000	98%
Education and General Expenditures	1,069,000	1,773,000	66%
Excess Revenues (Expenditures)	$ 77,000	$ 493,000	

This was due to three main factors plus the change in institutional policy previously discussed: (1) a large increase in tuition and fees; (2) a $117,500, State of Maryland appropriation in 1972; (3) a 126% rise in other sources of revenues (e.g., interest income, parking). Secular priest members of the faculty and administration performed services below the normal faculty scale; equalizing $37,000 in 1967-1968 and $61,000 in 1971-1972. No significant changes in these services are anticipated in the future.

Education and general expenditures per full time equivalent student in 1971-1972 was $1,500.

(b) Tuition and fees revenues increased faster than education and general revenues:

	1967 - 1968	1971 - 1972	% Increase
Tuition and Fees	$ 942,000	$1,788,000	90%

This significant increase in revenues coupled with a slower rise in educational expenditures, has contributed to the college's current situation in which it is operating with an excess of revenues over expenditures.

Tuition and fees revenues represented 48% of total revenues and 79% of education and general revenues in 1971-1972. In our opinion, this is slightly high for an institution of this size.

(c) Student aid revenue has risen 34% over the four-year period to $47,000 in 1972, while student aid expenditures rose only 14%. The excess student aid expenditures have, nevertheless, remained relatively constant. In 1971-1972, the excess represented 2% of tuition and fees.

	1967 - 1968	1971 - 1972	% Increase
Student Aid Revenues	$ 35,000	$ 47,000	34%
Student Aid Expenditures	78,000	89,000	14%
Excess Revenues (Expenditures)	$ (43,000)	$ 42,000)	

Student aid revenues represented 1% of total revenues for the institution in 1971-1972, which is, in our opinion, low.

4. Auxiliary Enterprises

The Auxiliary Enterprise budget has increased from 1968 to 1972 by 6% per year. The college's auxiliary enterprises have consistently operated at an excess of revenues over expenditures.

	1967 - 1968	1971 - 1972	% Increase
Auxiliary Enterprise Revenues	$1,104,000	$1,421,000	29%
Auxiliary Enterprise Expenditures	952,000	1,284,000	35%
Excess Revenues (Expenditures) before Debt Service	152,000	137,000	
Replacement Reserve	15,000	-	
Debt Service	56,000	53,000	
Excess Revenues (Expenditures)	$ 81,000	$ 84,000	

The dormitory capacity in the Fall term of 1971-1972 was 838 and the facilities were 97% occupied.

5. External Indebtedness

The external indebtedness of the college as of June 30, in 1968 and 1972, was as follows:

	1968	1972
Accounts Payable and Accrued Expenses	$ 32,000	$ 66,000
Student Deposits and Deferred Income	104,000	139,000
Dormitory Dining Hall Bonds	1,009,000	929,000
Total	$1,145,000	$1,134,000

In our opinion, the above indebtedness is not disproportionate to a college with a $3.6 million budget.

The college is planning additional classroom facilities to be ready by 1975-1976, with a cost for building and equipment of $2 million. Financing plans include a capital fund drive to raise $500,000, leaving a debt of $1.5 million for the venture. The institution does not plan to start construction until the $500,000 is raised which may delay the start date.

6. Endowment

The institution's endowment fund has grown 11% from 1968 to 1972 to an estimated market value of $665,000. The book value of the fund increased slightly faster than the market value during this same period, as shown below:

	1967 - 1968	1971 - 1972	% Increase
Book Value	$ 546,000	$ 614,000	13%
Market Value	599,000	665,000	11%
Yield	4.3%	4.9%	

In our opinion, the yield is significantly above average for the institutions studied. Endowment income available for general operations represented less than 1% of education and general revenues in 1971-1972, which in our opinion, is low.

7. Plant Fund and Investments

In 1972, the college had $8,244,000 invested in plant, which excludes Church and Seminary investments of $723,000. The institution had a 1972 full time equivalent enrollment of 1,191 resulting in an average investment of $6,900 per student, which is a typical investment relative to other similar institutions.

The institution also has over $1 million of unexpended plant fund assets. Approximately one-half is available for future repairs and replacements while the balance is designated for sewer, water, heating and pollution controls.

The current appraised value of physical plant assets, excluding the Church and Seminary, is $13,040,000.

8. Projections - - 1976-1977

Current fund projections for the year 1976-1977 utilizing alternative assumptions, indicate a range of operating results, as shown below. The assumptions utilized in each projection are the same except for those involved in projecting tuition and fees revenues. Two of the tuition and fees revenues projections are based on the MCHE forecasted enrollment for 1976-1977 (1,300 FTE - 1,182 undergraduates and 118 graduates), while the other two are based on the President's forecasted enrollment for the same period (1,320 FTE - 1,200 undergraduates and 120 graduates). Each set of enrollment projections employs two different tuition and fees structures - the anticipated 1973-1974 rate ($1,644 per undergraduate and $1,070 per graduate) and the 1973-1974 rate increased by 6% per year ($1,958 per undergraduate and $1,274 per graduate.)

	Based on MCHE FTE Enrollment Forecast (1,300)		Based on President's FTE Enrollment Forecast (1,320)	
	1973-1974 Tuition and Fees	6% Inflated Tuition and Fees	1973-1974 Tuition and Fees	6% Inflated Tuition and Fees
Revenue:				
Tuition and Fees	$ 2,069,000	$ 2,465,000	$ 2,101,000	$2,503,000
Other Revenues	2,264,000	2,264,000	2,264,000	2,264,000
Total	4,333,000	4,729,000	4,365,000	4,767,000
Expenditures	4,273,000	4,273,000	4,273,000	4,273,000
Excess Revenues (Expenditures)	$ 60,000	$ 456,000	$ 92,000	$ 494,000

The above projections do not include a provision for a State of Maryland appropriation, which was $117,500 in 1971-1972. To the extent necessary, the institution plans to utilize their excesses to supplement the projected normal maintenance and repair allowances, for improvements and renovation of facilities such as the administration building.

In summary, the college will operate with an excess of revenues over expenditures in the current fund in 1976-1977.

INSTITUTION – J

In 1972, this institution had adequate resources available to finance its current operations. It is unlikely that through 1976-1977 operating deficits will occur and thus we believe the institution will maintain the financial capability to continue operations provided the following major assumptions are realized:

(1) Expenditures will increase at a rate of 6% per year.

(2) Tuition and fees revenues will be increased by 4½% per year, assuming constant student enrollment, by annual tuition increases of $90.

(3) Other revenues will increase at 6% per year.

1. General Procedure

Representatives of Touche Ross & Co. visited the college in company with Dr. Shepler, MCHE staff, on November 17, 1972 and January 29, 1973. Discussions concerning the college's historical financial results and plans for the near future were conducted with the President and Vice President for Business Affairs. Analysis of major historical trends and current conditions, and projections of the college's financial position in 1976-1977 based on various assumptions are provided on the following pages.

2. Financial Management

A detailed budget is prepared annually. The annual budget is not time phased by month. Actual year-to-date results are reported bi-monthly. Cash flow forecasting is performed on an informal basis. The college's financial statements are audited by a certified public accounting firm and presented to the Board for review. We believe the financial management at this institution is adequate, but improvements are possible in such areas as long range planning, cash flow forecasting, and time phasing the annual budget by month.

3. Current Operating Fund

The current fund operated with an excess of revenue in 1971-1972. The trend over the past four years was generally favorable as shown below. Total expenditure per full time equivalent student in 1971-1972 was $2,800.

	1967 - 1968	1971 - 1972	% Increase
Total Revenues	$1,560,000	$2,874,000	84%
Total Expenditures	1,568,000	2,762,000	76%
Excess Revenues (Expenditures)	$ (8,000)	$ 112,000	

Important factors contributing to these results are:

(a) Education and general revenues increased faster than associated expenditures as shown below:

	1967 - 1968	1971 - 1972	% Increase
Education and General Revenues	$1,334,000	$2,474,000	85%
Education and General Expenditures	1,211,000	2,161,000	78%
Excess Revenues (Expenditures)	$ 123,000	$ 313,000	

In part, this was due to a $124,000 increase in government appropriations, including $90,000 from the State of Maryland. In addition, private gifts increased $60,000.

Education and general expenditures per full time equivalent student in 1971-1972 was $2,200.

(b) Tuition and fees revenues increased 73% over a four-year period, or 15% per year.

	1967 - 1968	1971 - 1972	% Increase
Tuition and Fees	$1,272,000	$2,204,000	73%

During the same period, the tuition and fees level was raised from $1,700 to $2,000, only an 18% increase or 4¼% per year.

This source of revenue represented 77% of total revenues and 89% of education and general revenues for 1971-1972, which is, in our opinion, high for an institution of this nature.

(c) Student aid expenditures have historically exceeded student aid revenues as shown below:

	1967 - 1968	1971 - 1972	% Increase
Student Aid Revenues	$ 193,000	$ 263,000	36%
Student Aid Expenditures	276,000	397,000	44%
Excess Revenues (Expenditures)	$ (83,000)	$ (134,000)	

Student aid revenues represented 9.1% of total revenues in 1971-1972, which is, in our opinion, high. The proportion of excess student aid expenditures to tuition and fees revenues has remained relatively constant at 6-7% over the four-year period.

4. Auxiliary Enterprises

The college's auxiliary enterprises, (book store and rental units) have consistently operated with an excess of revenues after an appropriate allocation of maintenance. There is no debt service associated with these activities.

	1967 - 1968	1971 - 1972
Revenues	$ 33,000	$ 137,000
Expenditures	26,000	129,000
Excess Revenues before Maintenance and Debt Service	7,000	8,000
Maintenance	1,000	2,000
Debt Service	-	-
Excess Revenue (Expenditures)	$ 6,000	$ 6,000

The rental units house 9 students.

5. External Indebtedness

The external indebtedness of the college as of June 30 in 1968 and 1972 was as follows:

	1968	1972
Accrued Expenses and Accounts Payable	$ 79,000	$ 100,000
Student Deposits and Deferred Income	67,000	148,000
Notes Payable	-	10,000
Mortgage Payable	496,000	376,000
Total	$ 642,000	$ 634,000

The $376,000 mortgage payable consists of the following:

6% First Mortgage on an academic building (due in 1982)	$ 319,000
5½% First Mortgage on an academic building (due in 1973)	$ 24,000
5¼% Second Mortgage on an academic building (due in 1977)	$ 33,000

Debt service in 1971-1972 was $64,000. In our judgment, the above indebtedness is not disproportionate to a college with a $2.9 million budget.

No significant additional debt is anticipated in the near future. Projected debt service in 1976-1977 is $55,400.

6. Endowment

The college has an endowment fund with an estimated market value of $1,379,000 ($1,255,000 at cost). The major factor contributing to the growth of the fund from 1968 to 1972 was receipt of one large trust amounting to $795,000 in 1971-1972. The income yield based on market value has increased over the four year period ending in 1971-1972 as shown below and is typical for the institutions studied.

	1967 - 1968	1971 - 1972	% Increase
Cost	$ 306,000	$1,255,000	310%
Market	339,000	1,379,000	306
Income Yield	3.13%	3.66%	

Without considering the receipt of the large trust, the market value of the fund increased $91,000 more than contributions to the fund during the four-year period, which represents 5½% per year growth. Endowment income is 1% of total revenues, which, in our opinion, is low.

7. Plant Fund and Investments

The college has $2,527,000 invested in plant fund assets, an average of approximately $2,600 per full time equivalent student. This low investment results from the fact that the school is located in a metropolitan area with primarily only academic buildings. This investment includes an Art Collection carried at a cost of $500,000 by the institution. The college estimates the current replacement value of the plant assets to be in excess of $5,889,000, exclusive of the Art Collection. No appraisal of the collection exists.

8. Projections - - 1976-1977

Current fund projections for the year 1976-1977 utilizing alternative assumptions, indicate a range of operating results, as shown below. The assumptions utilized in each projection are the same except for those involved in projecting tuition and fees revenues. Two of the tuition and fees revenues projections are based on the MCHE forecasted enrollment for 1976-1977 (1,000 FTE), while the other two are based on the President's forecasted enrollment for the same period (971 FTE). Each set of enrollment projections employs two different tuition and fees structures - the anticipated 1973-1974 rate ($2,150) and the 1973-1974 rate increased by 6% per year ($2,560).

	Based on MCHE FTE Enrollment Forecast (1,000)		Based on President's FTE Enrollment Forecast (971)	
	1973-1974 Tuition and Fees ($2,150)	6% Inflated Tuition and Fees ($2,560)	1973-1974 Tuition and Fees ($2,150)	6% Inflated Tuition and Fees ($2,560)
Revenues:				
Tuition and Fees	$ 2,150,000	$ 2,560,000	$ 2,087,000	$ 2,486,000
Other Revenues	1,188,000	1,188,000	1,188,000	1,188,000
Total	3,338,000	3,748,000	3,275,000	3,674,000
Expenditures	3,545,000	3,545,000	3,545,000	3,545,000
Excess Revenues (Expenditures)	$ (207,000)	$ 203,000	$ (270,000)	$ 129,000

In summary, the institution will require a 4½% per year increase in tuition and fees revenues over the next five years to avoid incurring a projected deficit in 1976-1977. As previously discussed, the school's ability to accomplish this through combinations of enrollment and tuition increases is supported by the recent four-year trend for these revenues. However, in view of the school's desire to hold enrollment constant, future increases in this revenue must be accomplished through tuition and fees increases. To break even, this would require tuition and fees of $2,420 in 1976-1977, a $270 increase over the anticipated 1973-1974 tuition. The school believes this is possible.

INSTITUTION – M

In 1972, this institution had adequate resources available to finance its current operations even though a minor deficit occurred. It is unlikely that through 1976-1977 further operating deficits will occur and thus we believe the institution will maintain the financial capability to continue operations provided the following major assumptions are realized:

(1) Expenditures will increase at a rate of 6% per year.

(2) The school will continue to utilize the total return concept which provides for recognizing as endowment income a portion of the gains from the appreciation of endowment fund investments.

(3) Tuition and fees revenues will be increased 6% per year, through tuition increases of about $62 per year over the anticipated 1973-1974 level.

If the college discontinues the use of the total yield concept, annual tuition increases required to cover expenditures would not appear realistic based on past history and the school would have to seek revenues from sources not currently in the school plans.

1. General Procedure

A representative of Touche Ross & Co. visited the college in company with Dr. Shepler, MCHE staff, on December 20, 1972 and January 25, 1973. Discussions concerning the college's historical financial results and the plans for the near future were conducted with the Provost and Treasurer. Analysis of major historical trends and current conditions, and projections of the college's financial position in 1976-1977 based on various assumptions are provided on the following pages.

2. Financial Management

A detailed budget is prepared annually. The annual budget is not time phased by month. However, actual year-to-date results are reported monthly with quarterly reports provided to the Financial Management Committee. Cash forecasting is performed on an informal basis, as required. The college's financial statements are audited by a certified public accounting firm and presented to the Board for review. We believe the financial management is adequate for this institution, but improvements are possible in such areas as cash flow forecasting and by time phasing the annual budget by month for comparisons with actual results.

3. Current Operating Fund

The current fund operated at a deficit in 1971-1972. The effect of utilizing the total return concept by which part of the deficit is offset through gains on the appreciation of endowment fund securities as shown below. Total expenditures per full time equivalent student in 1971-1972 was $5,800.

	1967 - 1968	1971 - 1972	% Increase
Total Revenues	$1,417,000	$1,898,000	34%
Total Expenditures	1,505,000	2,034,000	35%
Excess Revenues (Expenditures	(88,000)	(136,000)	
Endowment Growth Used in Current Operations	42,000	125,000	198%
Excess Revenues (Expenditures)	$ (46,000)	$ (11,000)	

Important facts contributing to these results are:

(a) Education and general revenues increased faster than associated expenditures, as shown below, although there continued to be a deficit.

	1967 - 1968	1971 - 1972	% Increase
Education and General Revenues	$ 951,000	$1,441,000	51%
Education and General Expenditures	1,046,000	1,490,000	
Excess Revenues (Expenditures)	$ (95,000)	$ (49,000)	

Education and general expenditures per full time equivalent student in 1971-1972 was $4,200.

In part, this was due to an increase in gifts of $136,000 and a State of Maryland appropriation of $24,000 while instructional and general administrative expenditures were increasing at approximately 50%.

	1967 - 1968	1971 - 1972	% Increase
Instructional	$ 555,000	$ 820,000	48%
Plant Maintenance and Operations	156,000	200,000	28
General Administration	223,000	339,000	52
Other	112,000	131,000	17
Total	$1,046,000	$1,490,000	

(b) Tuition and fees revenues increased 61% from 1967-1968 to 1971-1972, or slightly over 12% per year, as shown below.

	1967 - 1968	1971 - 1972	% Increase
Tuition and Fees	$ 562,000	$ 902,000	61%

During this same four year period, tuition increased from $1,950 to $2,450. Tuition and fees revenues represents 45% of total revenues and 63% of education and general revenues which is slightly high for a school of this nature.

(c) Student aid expenditures, historically, have exceeded revenues. In 1971-1972, the excess was in college scholarships and grants, and student jobs. The proportion of excess student aid expenditures to tuition and fees revenues increased from 4% to 12% over the four year period.

	1967 - 1968	1971 - 1972	% Increase
Student Aid Revenues	$ 170,000	$ 89,000	(48%)
Student Aid Expenditures	193,000	197,000	2
Excess Revenues (Expenditures)	$ (23,000)	$ (108,000)	

The decline in student aid revenues was primarily a result of a $85,000 decline in State scholarships.

Student aid revenues represented 4.4% of total revenue, which is typical for the institutions studied.

4. Auxiliary Enterprises

The college's auxiliary enterprises consist of residence halls, food service and book store. The activities operated with excess revenues in 1967-1968 and a deficit in 1971-1972, after an appropriate allocation as shown below. There is no debt service associated with the auxiliary enterprises.

	1967 - 1968	1971 - 1972
Revenues	$ 295,000	$ 343,000
Expenditures	149,000	199 000
Excess Revenues before Maintenance and Debt Service	146,000	144,000
Maintenance	117,000	149,000
Debt Service	-	-
Excess Revenues (Expenditures)	29,000	(5,000)

The dormitory capacity in the fall term of 1971-1972 was 265 and was 100% occupied.

5. External Indebtedness

The external indebtedness of the college as of June 30, 1968 and 1972 was as follows:

	1968	1972
Accounts Payable and Accured Expenses	$ 29,000	$ 24,000
Student Deposits and Deferred Income	28,000	88,000
Notes Payable	60,000	-
Total	$ 117,000	$ 112,000

In our opinion, this is extremely low for a school of this nature.

No additional external indebtedness is planned for the near future.

6. Endowment

The college's endowment fund had an estimated market value of $9.7 million at June 30, 1972, while the value at cost was $8.7 million. The college is using the total yield concept in determining endowment income from its investment portfolio. The performance of the fund is illustrated below:

	1967 - 1968	1971 - 1972	% Increase
Cost	$8,675,000	$8,703,000	-%
Market Value	8,589,000	9,677,000	13%
Income Yield	3.72%	3.61%	
Fund Growth in Current Operations	.49%	1.37%	
Total Yield	4.21%	4.98%	

In our opinion, the income yield is typical for the institutions studied. Investment income available for general operations represented 14% of total revenue and 20% of education and general revenues in 1971-1972, which in our opinion is high.

7. Plant Fund and Investments

The college has $6,143,000 invested in plant fund assets, an average of approximately $17,400 per full time equivalent student. This is an unusually high investment. The college estimates the current replacement value of the plant assets to be in excess of $9,200,000 including land valued at $1,650,000.

8. Projections - - 1976-1977

Current fund projections for the year 1976-1977 utilizing alternative assumptions, indicate a range of operating results, as shown below. The assumptions utilized in each projection are the same except for those involved in projecting tuition and fees revenues. Two of the tuition and fees revenues projections are based on the MCHE forecasted enrollment for 1976-1977 (375 FTE), while the other two are based on the President's forecasted enrollment for the same period (389 FTE). Each set of enrollment projections employ two different tuition and fees structures - the anticipated 1973-1974 rate ($2,900) and the 1973-1974 rate increased by 6% per year ($3,454).

	Based on MCHE FTE Enrollment Forecast (375)		Based on President's FTE Enrollment Forecast (389)	
	1973-1974 Tuition and Fees ($2,900)	6% Inflated Tuition and Fees ($3,454)	1973-1974 Tuition and Fees ($2,900)	6% Inflated Tuition and Fees ($3,454)
Revenues:				
Tuition and Fees	$ 1,126,000	$ 1,334,000	$ 1,167,000	$ 1,382,000
Other Revenues	1,350,000	1,350,000	1,350,000	1,350,000
Total	2,476,000	2,684,000	2,517,000	2,732,000
Expenditures	2,731,000	2,731,000	2,731,000	2,731,000
	(255,000)	(47,000)	(214,000)	1,000
Endowment Growth in Current Operations	184,000	184,000	184,000	184,000
Excess Revenues (Expenditures)	$ (71,000)	$ 137,000	$ (30,000)	$ 185,000

In summary, to avoid a deficit in 1976-1977, the school must increase tuition and fees revenues 33% over the 1971-1972 level, or 6% per year. Annual increases in tuition and fees of $62 per year over the 1973-1974 rate for fiscal years 1974-75, 1975-76, and 1976-77 would provide the required increase in tuition and fees revenues under the MCHE enrollment forecast. The school's ability to accomplish this is supported by recent trends in tuition increases.

As mentioned before, the institution utilizes the total return concept in determining endowment income available for general operations. As indicated above, the portion obtained from growth is projected to be $184,000. However, if the college discontinues the use of the total return concept (e.g., to avoid reducing the endowment fund), a 53% increase, or 9% per year, in tuition and fees revenues would be necessary. This would involve annual tuition increases of $226 per year over the 1973-1974 rate, which does not appear to be realistic based on past historical trends.

APPENDIX B

INSTITUTIONS WHICH ARE LIKELY TO INCUR DEFICITS THROUGH FISCAL YEAR 1977

Institution C
Institution F
Institution O

INSTITUTION – C

In 1972, this institution had adequate resources available to finance its current operations even though a minor deficit occurred. Although future operating deficits may materialize through 1976-1977, we believe the institution will maintain the financial capability to continue operations provided the following major assumptions are realized:

(1) Expenditures will increase at a rate of 6% per year.

(2) A combination of tuition increases and enrollment will fall just short of providing the necessary tuition and fees revenues required to break even.

(3) Endowment income will increase $103,000 as a result of endowment fund campaign currently in process.

(4) Excess student aid expenditures over revenues will remain at the 1971-1972 level of $103,000.

(5) Other revenues will be maintained at the 1971-1972 level, except auxiliary enterprise revenues which will increase 6% per year.

1. General Procedure

A representative of Touche Ross & Co. in company with Dr. Shepler, MCHE staff, visited the college on January 4 and January 25, 1973. Discussions concerning the college's historical financial results and plans for the near future were conducted with the acting President and Treasurer. Analysis of major historical trends and current conditions, and projections of the college's financial position in 1976-1977 based on the various assumptions are provided on the following pages.

2. Financial Management

The college does not prepare a long-range budget or plan. Annually, a detailed budget is prepared for the forthcoming academic year. The budget is not time phased by month. Actual year-to-date results are reported monthly and financial statements are prepared quarterly. Cash flow forecasting is performed on an informal basis, as required, to plan short-term financial needs. The investment portfolio is managed by outside professionals. The college's financial statements are audited by a certified public accounting firm and presented to the Board for review. We believe the financial management is adequate for this institution, though improvements are possible in the area of cash flow forecasting, by time phasing the annual budget by month for comparison with actual results, and long-range planning.

3. Current Operating Fund

The current fund operated at a slight deficit in 1971-1972. The trend over the past four years is generally favorable, as shown below. Total expenditures per full time equivalent student in 1971-1972 was $3,900.

	1967 - 1968	1971 - 1972	% Increase
Total Revenues	$1,996,000	$3,079,000	54%
Total Expenditures	2,063,000	3,090,000	50%
Excess Revenues (Expenditures)	$ (67,000)	$ (11,000)	

Important factors contributing to the results are:

(a) Education and general revenues increased faster than associated expenditures as shown below:

	1967 - 1968	1971 - 1972	% Increase
Education and General Revenues	$1,227,000	$2,088,000	70%
Education and General Expenditures	1,220,000	2,026,000	66%
Excess Revenues (Expenditures)	$ 7,000	$ 62,000	

Education and general expenditures per full time equivalent student in 1971-1972 was $2,500.

In the main, this is due to an increase in tuition and fee revenue of $771,000 over the four-year period as shown below:

(b) Tuition and fees revenues increased 85% from 1967-1968 to 1971-1972.

	1967 - 1968	1971 - 1972	% Increase
Tuition and Fees	$ 911,000	$1,682,000	85%

This is attributable to both an increase in enrollment (34%) and in the tuition and fees structure (38%). Tuition and fees revenues represented 54% of total revenues and 83% of education and general revenues in 1971-1972. This is, in our opinion, high.

(c) Student aid expenditures exceeded revenues by $103,000 in 1971-1972 as shown below. This excess represented 6% of tuition and fees revenues.

	1967-1968	1971-1972	% Increase
Student Aid Revenues	$ 161,000	$ 138,000	(17%)
Student Aid Expenditures	193,000	241,000	25%
Excess Revenues (Expenditures)	$ (32,000)	$ (103,000)	

The decline in student aid revenues is primarily due to a decline in state scholarships.

Student aid revenues represents 4.5% of total revenues which is typical for the institutions studied.

(d) Private gifts and grants have declined in recent years. This is partially offset by the large contributions to the endowment fund which has resulted in an increase in the general ednowment income as shown below:

	1967-1968	1971-1972	% Increase
Private Gifts and Grants	$ 202,000	$ 180,000	(11%)
Endowment Income	87,000	166,000	90%

Private gifts and grants comprise 5.8% of total revenues which, in our opinion, is typical.

4. Auxiliary Enterprises

The college's major revenue producing auxiliary enterprises are residence halls, food services, and book stores. These entities have been operating at a deficit or break even point after an appropriate allocation of maintenance and debt services as shown below:

	1967-1968	1971-1972
Revenues	$ 608,000	$ 823,000
Expenditures (including maintenance)	492,000	692,000
Excess Revenues before Repair Reserve and Debt Service	116,000	131,000
Repair and Replacement Reserves	25,000	25,000
Debt Service	104,000	107,000
Excess Revenues (Expenditures)	$ (13,000)	$ (1,000)

The school is presently expanding residence hall facilities with the construction of a three-building dormitory complex. This will increase the dormitory capacity from 667 to 742. The dormitory capacity in the Fall term of 1971-1972 was 667 and was 100% occupied.

5. External Indebtedness

The external indebtedness of the college as of June 30, 1968 and 1972 was as follows:

	1968	1972
Accounts Payable and Accrued Expenses	$ 252,000	$ 286,000
Notes Payable	65,000	14,000
Student Deposit and Deferred Income	53,000	105,000
Residence and Dining Hall Bonds	2,325,000	2,186,000
Other	465,000	-
Total	$3,160,000	$2,591,000

The $2,186,000 obligation on the dormitory consists of mortgage bonds sold to the Department of Housing and Urban Development, Housing and Home Finance Agency of the United States. Interest rates vary between 2-3/4% to 3-3/8% with the maturity varying in amount through May 1, 2015. The annual debt service on these obligations is currently $107,000. The projected amount for 1976-1977 is $104,000.

The college anticipates incurring an additional obligation of $360,000 prior to 1976-1977 for the expansion of the residence hall facilities. The annual debt service on this loan is estimated at $22,000. The total debt service for 1976-1977 will amount to $126,000 or 3% of total projected expenditures. In our opinion, the total projected debt service is high but not unreasonable for an institution of this size.

6. Endowment

The college's endowment fund has grown significantly over the past four years, as shown below. The average income yield, based on market value, has declined slightly during recent years but is above average for the institutions studied.

	1967-1968	1971-1972	% Increase
Cost	$1,716,000	$3,384,000	97%
Market Value	2,574,000	4,291,000	66%
Income Yield	4.28%	3.88%	

Endowment income, though increasingly significantly in recent years, still is only 5% of total revenues, which is low.

The college anticipates undertaking an endowment fund campaign in the future designed to increase the fund by $4 million by 1976-1977. To realize this goal will require doubling the four year historical rate of new contributions to the endowment fund. The unrestricted endowment has a market value in excess of $900,000.

7. Plant Fund and Investment

The college has $10,929,000 invested in plant fund assets, an average of approximately $13,700 per full time equivalent student which is typical for an institution of this nature. The college estimates the current replacement value of the plant assets to be in excess of $20 million exclusive of land. No current appraisal of land value exists. However, it is carried at a cost of $335,000.

8. Projections - - 1976-1977

Current fund projections for the year 1976-1977 utilizing alternative assumptions, indicate a range of operating results, as shown below. The assumptions utilized in each projection are the same except for those involved in projecting tuition and fees revenues. Both projections are based on a forecasted enrollment for 1976-1977 of 750 FTE. However, one projection employs the anticipated 1973-1974 tuition and fees ($2,471), while the other uses the 1973-1974 rate increased by 6% per year ($2,943).

	Based on FTE Enrollment Forecast (750)	
	1973-1974 Tuition and Fees ($2,471)	6% Inflated Tuition and Fees ($2,943)
Revenues:		
Tuition and Fees	$1,853,000	$2,207,000
Other Revenues	1,859,000	1,859,000
Total	3,712,000	4,066,000
Expenditures	4,110,000	4,110,000
Excess Revenues (Expenditures)	$ (398,000)	$ (44,000)

To break even in 1976-1977, the school must increase tuition and fees revenues 5¾% per year over the next five years. As previously discussed, the college's ability to accomplish this is supported by the four-year historical trend for these revenues. However, to obtain this increase with the forecasted decline in enrollment would require tuition and fee increases of 6¾% per year. The acting president of the institution does not believe tuition and fees can be increased this amount without additional loss of students beyond the forecasted 1976-1977 enrollment.

INSTITUTION – F

In 1972, this institution had adequate resources available to finance its current operations. Although future operating deficits may materialize through 1976-1977, we believe the institution will maintain the financial capability to continue operations provided the following major assumptions are

(1) Expenditures will increase at a rate of 6% per year.

(2) One major recurring grant and the State of Maryland appropriation, totalling 13% of total revenue, will continue to be available but will remain at the 1971-1972 level.

(3) Endowment income will continue at the 1971-1972 level.

(4) A combination of increases in enrollment and tuition will fall just short of providing the 37% or 6½% per year increase in tuition and fees revenues required to break even.

(5) Other revenues will increase at 6% per year except student aid revenues which will increase 10%.

To offset the projected deficit, the institution will have to seek revenues from sources not currently in the school plans, or utilize unrestricted endowment principal. This principal appears adequate to absorb such deficits through 1976-1977.

1. General Procedure

Representatives of Touche Ross & Co. visited the college in company with Dr. Shepler, MCHE staff, on November 17, 1972 and January 22, 1973. Discussions concerning the college's historical financial results and plans for the near future were conducted with the President and Treasurer. Analysis of major historical trends and current conditions, and projections of the college's financial position in 1976-1977 based on various assumptions are provided on the following pages.

2. Financial Management

The college prepares a five-year budget. A detailed budget is prepared annually. The annual budget is not currently time phased by month though the institution plans to in the future. Actual year-to-date results are reported monthly with a current year-end estimate compared to the yearly budget figures for control purposes. Cash flow forecasting is performed on an informal basis, as required, to plan short-term expenditures and receipts. The college's financial statements are audited by a firm of certified public accountants and presented to the Board for review. We believe the financial management at this institution is adequate, but improvements are possible in such areas as long-range planning, cash flow forecasting, and time phasing the annual budget by month for comparison with actual results. The President anticipates installing a PPBS budgeting system in the near future.

3. Current Operating Fund

The current fund operated with an excess of revenues in 1971-1972. The trend over the past four years was generally favorable, as shown below. Total expenditures in 1971-1972 per full time equivalent student was $5,100.

	1967-1968	1971-1972	% Increase
Total Revenues	$2,775,000	$3,172,000	15%
Total Expenditures	2,765,000	2,992,000	8
Excess Revenues (Expenditures)	$ (10,000)	$ 180,000	

Important factors contributing to these results are:

(a) Education and general revenues increased faster than associated expenditures as shown below:

	1967-1968	1971-1972	% Increase
Education and General Revenues	$1,614,000	$2,264,000	40%
Education and General Expenditures	1,647,000	1,953,000	19
Excess Revenues (Expenditures)	$ (33,000)	$ 311,000	

In part, this was due to two large grants - - one of $345,000 from a trust fund, and another of $78,000 from the State of Maryland - - totalling over $423,000 or 19% of education and general revenue. In addition, a 1971-1972 change in policy allowed the current fund to be subsidized with unrestricted investment income earned in restricted and plant funds. This change provided an additional $120,000 of revenues in the current fund in 1971-1972. Without these grants and the change in policy, the college would have operated with a deficit. The education and general expenditures per full time equivalent student was in 1971-1972 3,300.

(b) Tuition and fees revenues increased only 3% over the past four years or slightly over ½% per year, as shown below:

	1967-1968	1971-1972	% Increase
Tuition and Fees	$1,198,000	$1,233,000	3%

This increase did not keep pace with the rise in total education and general expenditures (as shown above) nor the increase in expenditures directly related to education (i.e., a 17% increase from 1968 to 1972). However, since the institution operated with an excess of revenues, there was not the requirement to increase the tuition and fees revenue at any faster rate. The institution believes that greater increases would have been possible were they required. Tuition and fees revenues represents 39% of total revenues and 54% of education and general revenues which is typical for an institution of this nature.

(c) Student aid expenditures exceeded revenues by $155,000 of which just under $142,000 was a result of the college's scholarships. The unfavorable trend was primarily due to the increase in the college's scholarship program, as shown below:

	1967-1968	1971-1972	% Decrease
Student Aid Revenue	$ 159,000	$ 88,000	45%
Student Aid Expenditure	249,000	243,000	2
Excess Revenues (Expenditures)	$ (90,000)	$ (155,000)	
College Scholarships	$ 91,000	$ 142,000	

Student aid revenues represented 2.8% of total revenues, which in our opinion, is typical. The proportion of excess student aid expenditures to tuition and fees has increased from 8% to 13% over the four-year period.

4. Auxiliary Enterprises

The college's auxiliary enterprises (e.g., residence halls, food service, book store) have consistently operated with an excess of revenues after an appropriate allocation of employee fringe benefits, maintenance and debt service, as shown below:

	1967-1968	1971-1972
Revenues	$ 932,000	$ 747,000
Expenditures	520,000	523,000
Excess Revenues before Maintenance and Debt Service	412,000	224,000
Maintenance	119,000	135,000
Debt Service	87,000	46,000
Excess Revenues (Expenditures)	$ 206,000	$ 43,000

A marked decrease in the number of resident students was a major factor influencing the declining revenue trend. The college currently believes that this trend has been eliminated.

The dormitory capacity in the Fall term of 1971-1972 was 683 students but was only 72% occupied.

5. External Indebtedness

The external indebtedness of the College as of June 30 in 1968 and 1972 was as follows:

	1968	1972
Accrued Expenses and Accounts Payable	$ 117,000	$ 241,000
Student Deposits and Deferred Income	161,000	185,000
Residence Halls	975,000	913,000
Total	$1,253,000	$1,339,000

The $913,000 obligation on residence halls consists of two mortgage loans from the Department of Housing and Urban Development, Housing and Home Finance Agency. The amounts due are:

First mortgage, 2-3/4%, 40 years, dated November 1, 1955, $500,000	$ 363,000
First mortgage, 3-5/8%, 50 years, dated November 1, 1964, $585,000	550,000
	$ 913,000

Current annual debt service including principal and interest is approximately $46,000. In our judgement, the above indebtedness is not disproportionate to a college with a $3.2 million budget.

No significant additional external indebtedness is planned for the near future.

6. Endowment

The college had an endowment fund with an estimated market value of $4,567,000 on June 30, 1972. The average income yield for the fund has declined slightly over the recent four-year period but is typical of the institutions studied. The market value of the fund has appreciated at a slightly greater rate than the cost, as the table below illustrates:

	1967-1968	1971-1972	% Growth
Cost	$2,900,000	$3,700,000	5%
Market Value	4,200,000	5,600,000	6
Income Yield	4.2%	3.8%	

Endowment income available for general operations represented 9.8% of education and general revenues which is, in our opinion, slightly low.

7. Plant Fund and Investments

The college has $8,607,000 invested in plant fund assets, an average of approximately $15,400 per full time equivalent student. In our opinion, this is a high investment. The college estimates the current replacement value of the plant assets to be in excess of $15,700,000, exclusive of land. No current appraisal of the land value exists, however, it is carried by the college at a cost of $44,000.

8. Projections - - 1976-1977

Current fund projections for the year 1976-1977 utilizing alternative assumptions, indicate a range of operating results, as shown below. The assumptions utilized in each projection are the same except for those involved in projecting tuition and fees revenues. Two of the tuition and fees revenues projections are based on the MCHE forecasted enrollment for 1976-1977 (600 FTE), while the other two are based on the President's forecasted enrollment for the same period (714 FTE). Each set of enrollment projections employ two different tuition and fees structures - the anticipated 1973-1974 rate ($2,270) and the 1973-1974 rate increased by 6% per year ($2,704).

The projections include a major recurring grant at the 1971-1972 level of $345,000.

	Based on MCHE FTE Enrollment Forecast (600)		Based on President's FTE Enrollment Forecast (714)	
	1973-1974 Tuition and Fees ($2,270)	6% Inflated Tuition and Fees ($2,704)	1973-1974 Tuition and Fees ($2,270)	6% Inflated Tuition and Fees ($2,704)
Revenues:				
Tuition and Fees	$ 1,362,000	$ 1,662,000	$ 1,621,000	$ 1,931,000
Other Revenues	2,253,000	2,253,000	2,253,000	2,253,000
Total	3,615,000	3,875,000	3,874,000	4,184,000
Expenditures	3.929,000	3,929,000	3,929,000	3,929,000
Excess Revenues (Expenditures)	$ (314,000)	$ (54,000)	$ (55,000)	$ 255,000

In summary, to avoid incurring a projected deficit in 1976-1977, annual increases in tuition and fees revenues of 6½% over the next five years are necessary. As previously discussed, the school's ability to accomplish this is not supported by the four-year historical trends for these revenues and the recent decreases in enrollment.

However, adequate unrestricted endowment principal appears available to cover the deficits produced by any of the projections.

INSTITUTION – O

In 1972, this institution had adequate resources available to finance its current operations even though an operating deficit occurred. Although further operating deficits may materialize through 1976-1977, we believe the institution will maintain the financial capability to continue operations provided the following major assumptions are realized:

(1) Expenditures will increase at a rate of 6% per year.

(2) Tuition and fees will have annual increases of $200 or 6% per year.

(3) Federally funded sponsored research and training programs which accounts for 53% of total revenues will be maintained at 1971-1972 levels.

To offset the projected deficit, the institution will have to increase tuition and fees revenues at a rate greater than the historical trend, seek revenues from sources not currently in the institution's plans, hold expenditure increases to less than the 6% projected annual rate, or utilize unrestricted endowment principal. This principal appears adequate to absorb such deficits through 1976-1977.

1. General Procedure

Representatives of Touche Ross & Co. visited the institution in company with Dr. Shepler, MCHE staff, on December 20, 1972, and January 5 and 25, 1973. Discussions concerning historical financial results and plans for the near future were conducted with the Controller. Analysis of major historical trends and current conditions, and projections of the institution's financial position in 1976-1977 based on various assumptions are provided on the following pages.

2. Financial Management

Historically, the institution has not prepared a five-year budget; however, it is now in the process of developing one for the future. A detailed budget is prepared annually. Actual year-to-date results are reported monthly with a current year-end estimate compared to the yearly budget figures for control purposes. Cash flow forecasting is performed as required. The institution's financial statements are audited by a certified public accounting firm and presented to the Board for review. We believe the financial management of this institution is adequate.

3. Current Operating Fund

The current fund analysis presented herein excludes an associated research laboratory revenues and expenditures.[1] The institution went from a position of operating with an excess of $988,000 in revenues in 1967-1968 to a deficit of $1,788,000 in 1971-1972 as shown below. Total expenditures per full time equivalent student in 1971-1972 was $15,000.

	1967-1968	1971-1972	% Increase
Total Revenues	$67,145,000	$96,273,000	43%
Total Expenditures	66,157,000	98,061,000	48
Excess Revenues (Expenditures)	$ 988,000	$ (1,788,000)	

During the intervening period, the institution showed operating deficits of $529,000, 1968-1969; $2,900,000, 1969-1970; and $4,200,000 in 1970-1971. In 1971-1972, the institution exerted significant effort to reduce the deficit to the 1971-1972 amount shown above. It is anticipated that this institution will incur a $750,000 deficit in 1972-1973 and is planning to break even in 1973-1974.

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1 The associated research laboratory revenues and expenditures for the same period were as follows:

	1967-1968	1971-1972	% Increase
Revenues	$52,766,000	$74,041,000	40%
Expenditures	51,816,000	72,705,000	40
Excess Revenues (Expenditures)	$ 950,000	$1,336,000	

This excess of revenues over expenditures is not available for general operations of this institution.

Important factors contributing to the results are:

(a) Education and general expenditures increased more rapidly than corresponding revenues:

	1967-1968	1971-1972	% Increase
Education and General Revenues	$59,246,000	$87,451,000	48%
Education and General Expenditures	56,531,000	86,132,000	52
Excess Revenues (Expenditures)	$ 2,715,000	$ 1,319,000	

The education and general expenditures per full time equivalent student in 1971-1972 was $13,200.

Of the $29.6 million increase in expenditures, $16.8 million was associated with sponsored programs and research. and was offset by an equal increase in revenue.

The remaining increase in expenditures ($12.8 million) was primarily attributable to rises in organized activities ($2.3 million), general administration ($5.4 million) and instructional ($4.2 million). This was not matched in all cases by a comparable increase in revenues.

(b) Tuition and fees revenues increased 38% over the past four years, or just under 8½% per year, as shown below:

	1967-1968	1971-1972	% Increase
Tuition and Fees	$10,130,000	$14,024,000	38%

During this period, tuition rose 35% to $2,700, which is an average increase of $175. per year. In part, the increase in these revenues ($3.7 million) was necessitated by the increase in non-funded student aid expenditures ($1.5 million).

Tuition and fees revenues represented 15% of total revenues and 16% of education and general revenues in 1971-1972.

(c) Student aid expenditures currently exceeded revenues by $2,972,000, as shown below:

	1967-1968	1971-1972	% Increase
Student Aid Revenues	$3,926,000	$4,450,000	13%
Student Aid Expenditures	5,457,000	7,422,000	36%
Excess Revenues (Expenditures)	$(1,531,000	$(2,972,000)	

Excess student aid expenditures represented 15% of tuition and fees revenues in 1967-1968 and 21% in 1971-1972.

(d) Sponsored research and other sponsored programs is an important source of revenue and represented 53% of total revenues. The institution's programs have been structured to reflect this emphasis. Although the trend in Federal funding has been favorable for the institution, if in the future, such funds were unavailable or the sources declined, additional revenues would have to be sought elsewhere, or the orientation and substance of the university program and financing would require restructuring.

4. Auxiliary Enterprises

The college's auxiliary enterprises (e.g., residence halls, food service, newspaper, book store) operations have decreased slightly over the past five years:

	1967-1963	1971-1972	% Decrease
Auxiliary Enterprises Revenues	$3,974,000	$3,946,000	1%
Auxiliary Enterprises Expenditures	4,169,000	4,080,000	2
Excess Revenues (Expenditures)	$ (195,000)	$ (134,000)	

Expenditures include allocations for maintenance, general administration, and debt service.

The college expects to maintain auxiliary enterprise operations at the current level.

5. External Indebtedness

The external indebtedness of the institution as of June 30 in 1968 and 1972 was as follows:

	1967-1968	1971-1972
Accounts Payable and Accrued Expenses	$5,191,000	$9,349,000
Notes Payable - Associated Research Laboratory	905,000	2,427,000
Other	130,000	190,000
Bonds and Mortgage Payable - Auxiliary Enterprises	6,381,000	7,156,000
Total Indebtedness	$12,607,000	$19,122,000

The large rise in accounts payable and accrued expenditures is the result of an accounting change at the associated research laboratory per a 1972 government contract, requiring that all accrued payroll, annual leave, vacation, etc. be entered on the books. This accounting change increased accounts payable and accrued expenses by about $3 million in 1971-1972.

The above indebtedness is not disproportionate to the combined associated research laboratory operating budget of $170.7 million.

Additional debt is anticipated for a Student Union, which will consist of a loan subsidized by HUD in the amount of $1,500,000 with an annual debt service of $60,000 - $75,000. Debt on auxiliary enterprises in 1976-1977 is expected to amount to $6,517,000.

G. Endowment

The institution's endowment fund had an estimated market value of $180 million at June 30, 1972, while the cost was $173 million. The average income yield for the fund has grown over the recent four-year period and is typical of the institutions studied. The market value of the fund has increased at a much lower rate than the cost, as the table below illustrates:

	1967-1968	1971-1972	% Growth
Cost	$128,000,000	$173,000,000	35%
Market Value	167,000,000	180,000,000	8%
Income Yield	3.08%	3.36%	

Endowment income represented 6% of education and general revenues in 1971-1972 which, in our opinion, is low.

During this period, $7.5 million was withdrawn to cover incurred operating deficits.

The fund does not utilize a "total yield" concept, but recognizes endowment income as an operating revenue as it is utilized in current operations. The institution does employ a total return investment philosophy; however, it does not budget the utilization of capital gains to finance current operations.

7. Plant Fund and Investments

The college has $146,277,000 invested in plant fund assets, of which about 7% is associated research laboratory, and 50-60% of which is research-oriented. Therefore, the average investment per full time equivalent student is unusually high - $22,500.

The institution estimates current replacement value of the plant assets to be $110 million, exclusive of land, library, and movable equipment which is carried by the institution at a total cost of $56.7 million.

8. Projections - - 1976-1977

Current fund projections for the year 1976-1977 utilizing alternative assumptions, indicate a range of operating results, as shown below. The assumptions utilized in each projection are the same except for those involved in projecting tuition and fees revenues. Both projections are based on a forecasted enrollment for 1976-1977 of 6,700 FTE. However, one projection employs the anticipated 1973-1974 tuition and fees ($3,000) while the other uses the 1973-1974 rate increased by 6% per year ($3,573).

	Based on FTE Enrollment Forecast (6,700)	
	1973-1974 Tuition and Fees ($3,000)	6% Inflated Tuition and Fees ($3,573)
Revenues:		
Tuition and Fees	$ 13,495,000	$ 17,605,000
Other Revenues	89,525,000	89,525,000
Total	$103,020,000	$107,130,000
Expenditures	108,964,000	108,964,000
Excess Revenues (Expenditures)	$ (5,944,000)	$ (1,834,000)

As mentioned before, the projections include Federally funded sponsored research and training programs at the 1971-1972 levels. This source of revenues represented 53% of total revenues in 1971-1972; therefore, the projections are very sensitive to this assumption.

To increase the tuition and fees revenues alone to absorb the deficit would require a 54% rise over the five year period, or more than 8½% per year. The school's ability to accomplish this is not supported by the four-year historical trend for these revenues. Hence, alternatives or supplements must be considered.

In summary, to avoid incurring a deficit in 1976-1977, the institution must obtain revenues from sources not presently in the school's plans, increase tuition and fees revenues, hold expenditure increases to less than 6% annually, or utilize unrestricted endowment principal.

APPENDIX C

INSTITUTIONS WHICH ARE LIKELY TO INCUR SIGNIFICANT DEFICITS THROUGH FISCAL YEAR 1977

Institution A
Institution B
Institution E
Institution H
Institution K
Institution L
Institution N
Institution P

INSTITUTION – A

In 1972, this institution had adequate resources available to finance its current operations. The institution is likely to incur significant deficits through 1976-1977 which we believe could impair the financial capability to continue operations provided the following major assumptions are realized:

(1) Expenditures projected to increase at a rate of 6% per year.

(2) Continued enrollment decline in the undergraduate school and low tuition and fees structures will prohibit increasing tuition and fees revenue by 53%, or 9% per year, required to break even.

(3) Inadequate endowments and gifts.

To offset the projected deficit, the institution will have to increase tuition and fees at an annual rate of 9% or about $490 over the next five years. In view of the low current tuition ($1,000 for undergraduate and $1,200 for law students), this would normally appear to be a possible alternative. However, because of the institution being surrounded by low cost public education, the President believes this is unrealistic. If tuition cannot be increased by this amount, the institution will have to seek revenues from other sources not currently in the schools plans, increase expenditures at less than the 6% rate, or face financial insolvency.

1. General Procedures

Representatives of Touche Ross & Co. visited the college in company with Dr. Shepler, MCHE staff, on November 16, 1972 and January 25, 1973. Discussions concerning the college's historical financial results and plans for the near future were conducted with the President and Treasurer. Analysis of major historical trends and current conditions and projections of the college's financial position in 1976-1977 based on various assumptions are provided on the following pages.

2. Financial Management

The college periodically prepares a five-year budget. A detailed budget is prepared annually. The annual budget is not time phased by month. However, actual year-to-date results are reported monthly with a current year-end estimate compared to the yearly budget figures for control purposes. Cash flow forecasting is performed on a formal basis, as required, to plan expenditures and receipts over the next three years. The college's financial statements are audited by a certified public accounting firm and presented to the Board for review. We believe the financial management at this institution is adequate, but improvements may be possible in the area of time phasing the annual budget by month for comparison with actual results.

3. Current Operating Fund

The current fund has been historically operated with excess revenues over expenditures. The trend has been toward less of an excess in recent years, as shown below. 1971-1972 total expenditures per full time equivalent student was $1,300.

	1967-1968	1971-1972	% Increase
Total Revenues	$2,778,000	$3,980,000	43%
Total Expenditures	2,084,000	3,924,000	88%
Excess Revenues (Expenditures)	$ 694,000	$ 56,000	

Important facts contributing to these results are:

(a) Education and general expenditures have increased faster than associated revenues, as shown below:

	1967-1968	1971-1972	% Increase
Education and General Revenues	$2,496,000	$3.611,000	45%
Education and General Expenditures	$1,811,000	3,312,000	83%
Excess Revenues (Expenditures)	$ 685,000	$ 299,000	

The major cause for the rapid rise in expenditures is due to significant increases in general administration, and plant maintenance and operation expenses, as shown below. The rise in administrative expenses has been primarily due to the increase in staffing required for regional accreditation in both the undergraduate and law school programs, and the growth in library operations. The abnormally high increase in maintenance expense has been primarily due to the new staff required to maintain the new academic center and the expanded library.

	1967-1968	1971-1972	% Increase
Instruction	$ 984,000	$1,465,000	57%
Maintenance and Operation	253,000	626,000	147%
General Administration	437,000	941,000	115%
Other	187,000	280,000	50%
Total	$1,811,000	$3,312,000	

The education and general expenditures, per full time equivalent student in 1971-1972, was $1,000.

(b) Tuition and fees revenues have increased 28% over the past four years or 6½% per year, as shown below:

	1967-1968	1971-1972	% Increase
Tuition and Fees	$2,365,000	$3,017,000	28%

This increase has not kept pace with the rise in total education and general expenditures, nor with that portion of expenditures directly related to instruction (as shown above in (a)). In part, this is due to an 18% decrease in FTE enrollment. The tuition and fees structure has increased 50%, or 11% per year, over the same period to the present rate of $1,000 for undergraduate and $1200 for law school students. Tuition and fees revenues represented 76% of total revenues and 84% of education and general revenues in 1971-1972. In our opinion, this is high.

(c) The school has insignificant endowment income for either student aid or other purposes. In addition, it receives no grants of any consequence for research.

4. Auxiliary Enterprises

The college's auxiliary enterprises consist of intercollegiate athletics and a book store. These enterprises operated at a deficit in 1971-1972 after an appropriate allocation of plant maintenance expense.

	1967-1968	1971-1972
Revenues	$ 275,000	$ 339,000
Expenditures	263,000	387,000
Excess Revenues before Maintenance and Debt Service	12,000	(48,000)
Maintenance	8,000	20,000
Debt Service	-	-
Excess Revenues (Expenditures)	$ 4,000	$ (68,000)

The unfavorable four-year trend was due to both a larger inter collegiate athletic deficit and a new book store deficit in 1971-1972.

5. External Indebtedness

The external indebtedness of the college as of June 30, 1968 and 1972 was as follows:

	1968	1972
Accrued Expenses and Accounts Payable	$ 56,000	$ 128,000
Deferred Income	29,000	225,000
Mortgage	-	2,353,000
Other	39,000	45,000
Total	$ 124,000	$2,751,000

The mortgage indebtedness is associated with a new academic complex completed in fiscal 1971-1972. In our opinion, the above indebtedness is not disproportionate to a college with a $3.9 million budget.

6. Endowment

The institution's development program has been in operation for only three years. As of June 30, 1972, this institution had approximately $100,000 in funds of this type. Efforts are being made to obtain additional gifts.

7. Plant Fund and Investments

The college has $10.1 million invested in plant fund assets, an average of approximately $3,300 per full time equivalent student. This is a result of the fact that the institution is a metropolitan liberal arts school with primarily academic buildings as assets. In our judgment, this is an unusually low investment. The college estimates the current replacement value of the plant assets to be in excess of $13 million. The institution anticipates acquiring additional land for a parking lot. The potential cost of this acquisition is $360,000 to $400,000.

8. Projections - - 1976-1977

Current fund projections for the year 1976-1977 utilizing alternative assumptions, indicate a range of operating results, as shown below. The assumptions utilized in each projection are the same except for those involved in projecting tuition and fees revenues. Two of the tuition and fees revenues projections are based on the MCHE forecasted enrollment for 1976-1977 (3,000 FTE), while the other two are based on the President's forecasted enrollment for the same period (2,760 FTE). Each set of enrollment projections employ two different tuition and fees structures – the anticipated 1973-1974 rate ($1,000 per undergraduate and $1,400 per law student), and the 1973-1974 rate increased by 6% per year ($1,191 per undergraduate and $1,671 per law student).

	Based on MCHE FTE Enrollment Forecast (3,000)		Based on President's FTE Enrollment Forecast (2,760)	
	1973-1974 Tuition and Fees	6% Inflated Tuition and Fees	1973-1974 Tuition and Fees	6% Inflated Tuition and Fees
Revenues:				
Tuition and Fees	$ 3,288,000	$ 3,916,000	$ 3,025,000	$ 3,603,000
Other Revenues	940,000	940,000	940,000	940,000
Total	4,228,000	4,856,000	3,965,000	4,543,000
Expenditures	5,180,000	5,180,000	5,180,000	5,180,000
Excess Revenues (Expenditures)	$ (952,000)	$ (324,000)	$(1,215,000)	$ (637,000)

In summary, it will require 5½% annual increase in total revenues over the next five years to avoid incurring a projected deficit in 1976-1977. Based on the MCHE projected enrollment of 3,000 FTE (2,280 FTE undergraduate and 720 law students) this would require a $490 increase in tuition over the next five years, or $100 a year. In view of the low current tuition ($1,000 for undergraduates and $1,200 for law students) this does not normally seem unreasonable. However, because of the institution being surrounded by low cost public education, the President believes this is unrealistic. If tuition cannot be increased by the required amount, the institution will have to seek revenues from other sources, not currently in the school plans, increase expenditures at less than the 6% rate, or face financial insolvency.

The school does not have adequate fund balances to cover deficits of the forecasted magnitude over the period covered by the projection

INSTITUTION – B

In 1972, this institution had adequate resources available to finance its current operations even though a sizeable operating deficit occurred. The institution is likely to incur significant further deficits through 1976-1977 which we believe could impair the financial capability to continue operations provided the following major assumptions are realized:

(1) Expenditures will increase at a rate of 6% per year.

(2) The school will continue to utilize the total return concept which provides for recognizing as endowment income gains from endowment fund investments.

(3) A combination of increases in tuition and enrollment will fall short of providing the 60%, or 10% per year, increase in tuition and fees revenues required to break even.

(4) Gift and grants, and student aid revenues will decrease $89,000 and the State of Maryland appropriation will be available at the 1971-1972 amount ($113,000).

To avoid the projected deficit, the school will have to seek revenues from other sources not currently in the school plans, increase tuition at greater than the projected 6% annual rate, hold expenditures increases below the 6% rate or utilize additional unrestricted endowment fund principal. The projected endowment principal appears adequate to absorb such deficits through 1976-1977.

1. General Procedure

Representatives of Touche Ross & Co. visited the college in company with Dr. Shepler, MCHE staff, on December 19, 1972 and January 23, 1973. Discussions concerning the college's historical financial results and plans for the near future were conducted with the President and Vice President for Business Affairs. Analysis of major historical trends and current conditions, and projections of the college's financial position in 1976-1977 based on various assumptions are provided on the following pages.

2. Financial Management

The college periodically prepares a five-year budget. A detailed budget is prepared annually. The annual budget is time phased by month. Actual year-to-date results are reported monthly with a current year-end estimate compared to the budget figures for control purposes. Cash flow forecasting is performed on an informal basis, as required, to plan short-term expenditures and receipts. The college's financial statements are audited by a certified public accounting firm and presented to the Board for review. We believe the financial management at this institution is adequate, but improvement is possible in formal cash flow forecasting.

3. Current Operating Fund

The current fund operated with an excess of expenditures over revenues in 1971-1972 and the recent four year trend was unfavorable. The effect of utilizing the total yield concept by which part of the deficit is offset through realized gains on the sale of endowment fund securities is shown below. 1971-1972 total expenditures per full time equivalent student was $5,200.

	1967-1968	1971-1972	% Increase
Total Revenues	$3,883,000	$5,054,000	30%
Total Expenditures	3,835,000	5,377,000	40%
Excess Revenues (Expenditures) before Endowment Growth used in Current Operations	48,000	(323,000)	
Endowment Growth used in Current Operations	-	161,000	
Excess Revenues (Expenditures)	$ 48,000	$ (162,000)	

Important factors contributing to these results are:

(a) Education and general expenditures increased faster than revenues as shown below:

	1967-1968	1971-1972	% Increase
Education and General Revenues	$2,187,000	$3,057,000	40%
Education and General Expenditures	2,380,000	3,431,000	44%
Excess Revenues (Expenditures)	$ (193,000)	$ (374,000)	

In part, the increase in revenue was due to a State of Maryland appropriation of $113,000 and a $251,000 increase in private gifts and grants. The education and general expenditures per full time equivalent student in 1971-1972 was $3,300.

(b) Tuition and fees revenues increased 30% from 1967-1968 to 1971-1972, or 6¾% per year, as follows:

	1967-1968	1971-1972	% Increase
Tuition and Fees	$1,677,000	$2,181,000	30%

During the same four year period, tuition increased from $1,600 to $2,000 while enrollment remained constant. Tuition and fees revenues (not including Room and board) represents 42% of total revenues and 71% of education and general revenues which is high for a school of this nature.

(c) Student aid expenditures, historically, are limited to the amount of revenue received that is designated for student aid, as the following table indicates:

	1967-1968	1971-1972	% Increase
Student Aid Revenues	$ 299,000	$ 433,000	45%
Student Aid Expenditures	299,000	433,000	45%
Excess Revenues (Expenditures)	$ -	$ -	

Student aid revenues represents 8.3% of total revenues which is high in comparison with similar institutions.

(d) Adoption of the total return concept in 1970-1971 minimized the college's deficit in 1971-1972. The college utilizes a 5% rate of return on the three-year average market value of the endowment fund in determining endowment income. A portion of the income is obtained from the gain on investments.

4. Auxiliary Enterprises

The college's auxiliary enterprises (e.g., residence halls, food service, book store and summer conference) have historically operated at a surplus after an appropriate allocation of maintenance and debt service, as shown below:

	1967-1968	1971-1972
Revenues	$1,383,000	$1,548,000
Expenditures	867,000	1,100,000
Excess Revenues before Maintenance and Debt Service	516,000	448,000
Maintenance	198,000	299,000
Repair and Replacement Reserves	-	32,000
Debt Service	82,000	82,000
Excess Revenues (Expenditures)	$ 236,000	$ 35,000

The decline of this excess of revenue over expenditures has contributed significantly to the overall unfavorable trend in the performance of the institution's current fund. The unionization of personnel associated with the operations and maintenance of these enterprises was the primary factor contributing to this decline, together with new fringe benefit programs.

The dormitory capacity in the Fall term of 1971-1972 was 830 students, and the facilities were 100% occupied.

5. External Indebtedness

The external indebtedness of the college as of June 30 in 1968 and 1972 was as follows:

	1967-1968	1971-1972
Accounts Payable and Accrued Expenses	$ 217,000	$ 261,000
Student Deposits and Deferred Income	60,000	148,000
Notes Payable	525,000	500,000
Bonds Payable	1,606,000	1,493,000
Total	$2,408,000	$2,402,000

The $1,493,000 bonds payable are obligations to the Department of Housing and Urban Development associated with the institution's dormitories and health center. Current annual debt service including principal and interest is approximately $82,000. This indebtedness does not seem disproportionate to an institution with a $5 million budget.

No significant additional external indebtedness is planned for the near future.

6. Endowment

The endowment fund has increased in the past four years to an estimated market value of $13.6 million in 1971-1972. The investment income yield, which is low for the institution studied, has remained relatively constant over the same period.

	1967-1968	1971-1972	% Increase
Book Value	$ 7,662,000	$ 9,189,000	20%
Market Value	10,493,000	13,581,000	29%
Income Yield	3.2%	2.9%	
Fund Growth in Current Operations	-	1.3%	
Total Yield	3.2%	4.2%	

In 1971-1972, investment income available for general operations represented 7.7% of education and general revenues, which is, in our opinion, low; while endowment growth used in current operations represents 3.1% of total revenues.

As cited above, in 1970-1971 the college adopted the total yield concept utilizing a 5% return on a three-year average endowment market value for use in general operations, resulting in the use of $161,000 in 1972.

7. Plant Fund and Investments

The college has $16,779,000 invested in plant fund assets, an average of approximately $16,300 per full time equivalent student. In our opinion, this is an unusually high investment. The college estimates the current replacement value of the plant assets to be in excess of $23,487,000, exclusive of fine arts and land. No current appraisal of the value of the fine arts and land is available; however, they are carried by the institution at a cost of $219,000 and $741,000, respectively.

8. Projections -- 1976-1977

Current fund projections for the year 1976-1977 utilizing alternative assumptions, indicate a range of operating results, as shown below. The assumptions utilized in each projection are the same except for those involved in projecting tuition and fees revenues. Two of the tuition and fees revenues projections are based on the MCHE forecasted enrollment for 1976-1977 (1,000 FTE), while the other two are based on the President's forecasted enrollment for the same period (1,029 FTE). Each set of enrollment projections employ two different tuition and fees structures -- the anticipated 1973-1974 rate ($2,300) and the 1973-1974 rate increased by 6% per year ($2,739).

	Based on MCHE FTE Enrollment Forecast (1,000)		Based on President's FTE Enrollment Forecast (1,029)	
	1973-1974 Tuition and Fees ($2,300)	6% Inflated Tuition and Fees ($2,739)	1973-1974 Tuition and Fees ($2,300)	6% Inflated Tuition and Fees ($2,739)
Revenues:				
Tuition and Fees	$ 2,425,000	$ 2,888,000	$ 2,495,000	$ 2,972,000
Other Revenues	3,118,000	3,118,000	3,118,000	3,118,000
Total	5,543,000	6,006,000	5,613,000	6,090,000
Expenditures	6,923,000	6,923,000	6,923,000	6,923,000
	(1,380,000)	(917,000)	(1,310,000)	(833,000)
Endowment Growth in Current Operations	306,000	306,000	306,000	306,000
Excess Revenues (Expenditures)	$ (1,074,000)	$ (611,000)	$ (1,004,000)	$ (527,000)

In summary, to avoid incurring a projected deficit in 1976-1977, the school must increase tuition and fees revenues 60% over the next five years, or 10% per year. As discussed previously, the school's ability to accomplish this is not supported by historical trends for these revenues. The President has indicated that tuition and fees increases of at least 6% per year can be attained. Therefore, revenue increases above this amount might come from increases in tuition and fees revenues or possibly other sources. As mentioned before, an alternative method is to hold expenditures below the 6% per year increase. The institution has taken recent action in this direction and believes further steps are possible

INSTITUTION – E

In 1972, this institution had adequate resources available to finance its current operations even though a sizeable operating deficit occurred. The institution is likely to incur significant further deficits through 1976-1977 which we believe could impair the financial capability to continue operations provided the following major assumptions are realized:

(1) Expenditures will increase at a rate of 6% per year.

(2) Student aid and grants will increase at a rate comparable to the full time enrollment tuition increase or about 4½% compounded, annually except for additional Federal assistance amounting to $112,000.

(3) Auxiliary enterprises will maintain the operating margin experienced in 1971-1972.

(4) Other revenues will be maintained at the 1971-1972 level.

(5) A combination of increases in enrollment and tuition will fall short of providing the 12% per year increase in tuition and fees revenues required to break even.

To offset the projected deficit, the institution will have to seek revenues from sources not currently in the school's plans or utilize unrestricted endowment principal. This principal appears adequate to absorb the projected deficits through 1976-1977.

1. General Procedure

Representatives of Touche Ross & Co. visited the college in company with Dr. Shepler, MCHE staff, on December 7, 1972 and January 26, 1973. Discussions concerning the college's historical financial results and plans for the near future were conducted with the President and Treasurer. Analysis of major historical trends and current conditions, and projections of the college's financial position in 1976-1977 based on various assumptions are provided on the following pages.

2. Financial Management

A detailed budget is prepared annually. The annual budget is not time phased by month, but this step is planned within the next two years. At present, actual year-to-date results are reported monthly with a current percentage complete figure for control purposes. Cash flow forecasting is performed on a formal basis by the Comptroller to plan short-term expenditures and receipts. The college's financial statements are audited by a certified public accounting firm and presented to the Board for review. We believe the financial management at this institution is adequate, but improvement is possible in the area of preparation of a five-year financial plan. The college is currently in the process of further upgrading its budgetary and financial management process.

3. Current Operating Fund

The institution operated with a deficit in 1971-1972 and the trend over the past four years was unfavorable. A change in policy allowed the 1971-1972 current fund to be subsidized with endowment fund growth utilizing a 5% total yield concept. This change provided an additional $139,000 of revenues to the current fund in 1971-1972. Even with the change in policy, however, the college operated with a deficit, as shown below. Total expenditures per full time equivalent student in 1971-1972 was $7,200.

	1967-1968	1971-1972	% Increase
Total Revenues	$1,258,000	$1,931,000	53%
Total Expenditures	1,355,000	2,275,000	68%
Excess Revenues (Expenditures)	(97,000)	(344,000)	
Endowment Growth Utilized in Current Operations	-	139,000	
Excess Revenues (Expenditures)	$ (97,000)	$ (205,000)	

Important factors contributing to these results are:

(a) Education and general expenditures increased faster than associated revenues, as follows:

	1967-1968	1971-1972	% Increase
Education and General Revenues	$1,148,000	$1,461,000	27%
Education and General Expenditures	1,228,000	1,727,000	41%
Excess Revenues (Expenditures)	$ (80,000)	$ (266,000)	

Education and general expenditures per full time equivalent student in 1971-1972 was $5,400.

(b) Tuition and fees revenues increased 39% over the past four years or slightly over 8½% per year, as shown below:

	1967-1968	1971-1972	% Increase
Tuition and Fees	$ 866,000	$1,204,000	39%

This increase, however, did not keep pace with the rise in total education and general expenditures of 41% (as shown above).

Tuition and fees revenues represented 62% of total revenues and 82% of education and general revenues in 1971-1972. In our opinion, this is high.

(c) Student aid expenditures currently exceed revenues by $78,000, of which $48,000 was a result of the college's scholarships, and $30,000 results from teaching assistantships. The unfavorable trend is primarily due to the increase in the college's scholarship program and teaching assistantships. This excess student aid expenditure represented 6% of tuition and fees revenues in 1971-1972.

	1967-1968	1971-1972	% Increase
Student Aid Revenues	$ 97,000	$ 160,000	65%
Student Aid Expenditures	97,000	238,000	145%
Excess Revenues (Expenditures)	$ -	$ (78,000)	
College Scholarships	$ -	$ 48,000	
Teaching Assistantships	$ -	$ 30,000	

The increase in scholarships and assistantships has been instrumental in maintaining the current level of student enrollment.

4. Auxiliary Enterprises

The college's auxiliary enterprises have consistently operated at a deficit after an appropriate allocation of maintenance and debt service, and employee fringe benefits, as shown below. It does not include an allocation of other administrative expenses. In 1968, auxiliary enterprises consisted of a book store. In 1971-1972, it also included residence halls and apartments, food service, and parking facilities.

	1967-1968	1971-1972
Revenues	$ 12,000	$ 293,000
Expenditures	20,000	203,000
Excess Revenues before Maintenance and Debt Service	(8,000)	90,000
Maintenance	-	33,000
Debt Service	-	75,000
Excess Revenues (Expenditures)	$ (8,000)	$ (18,000)

There are no approved plans for more facilities in the future.

5. External Indebtedness

The external indebtedness of the college as of June 30, 1968 and 1972 was as follows:

	1968	1972
Deferred Income	$ 123,000	$ 120,000
Student Deposits	-	13,000
Accrued Expenses (Payroll)	-	31,000
Notes Payable	498,000	9,000
Garage Loan	-	652,000
Student Union - Dining Hall - Dormitory -- 3% Bonds	-	1,455,000
Total	$ 621,000	$2,280,000

In our judgment, this indebtedness seems high for a college with a $2 million operating budget and an operating deficit. The debt service of $75,000 associated with auxiliary enterprises causes these activities to operate at a deficit.

No significant additional external indebtedness has been approved for the near future.

6. Endowment

During the four-year period under analysis, the endowment fund declined in value as shown below.

The two factors primarily influencing the decline was the use of these resources to finance continued current fund deficits and the transfer of trustee responsibility for a $659,000 trust in 1972. The reduction in average income yield was primarily caused by recent shift in the composition of the portfolio to emphasize future growth at the sacrifice of current income. However, the 1971-1972 income yield was still about average for the institutions studied.

	1967-1968	1971-1972	% Decline
Cost	$4,300,000	$3,600,000	16%
Market Value	6,000,000	5,500,000	8%
Income Yield	4.2%	3.4%	

Endowment income available for general operations in 1971-1972 represented 5.2% of total revenues and 6.7% of education and general revenues which, in our opinion, is low.

7. Plant Fund and Investments

The college has $6,763,000 invested in plant fund assets, an average investment of approximately $21,300 per full time equivalent student. In our opinion, this is an unusually high investment but is probably appropriate for an institution with this type of instructional program. The college estimates the current replacement value of the plant assets to be in excess of $14,942,000. In addition, the institution has a fine arts collection with a current value of about $1,000,000.

8. Projections - - 1976-1977

Current fund projections for the year 1976-1977 utilizing alternative assumptions, indicate a range of operating results, as shown below. The assumptions utilized in each projection are the same except for those involved in projecting tuition and fees revenues. Two of the tuition and fees revenues projections are based on the MCHE forecasted enrollment for 1976-1977 (325 FTE), while the other two are based on the President's forecasted enrollment for the same period (336 FTE). Each set of enrollment projections employ two different tuition and fees structures – the anticipated 1973-1974 rate ($2,355) and the 1973-1974 rate increased by 6% per year ($2,805).

	Based on MCHE FTE Enrollment Forecast (325)		Based on President's FTE Enrollment Forecast (336)	
	1973-1974 Tuition and Fees ($2,355)	6% Inflated Tuition and Fees ($2,805)	1973-1974 Tuition and Fees ($2,355)	6% Inflated Tuition and Fees ($2,805)
Revenues:				
Tuition and Fees	$ 1,460,000	$ 1,607,000	$ 1,486,000	$ 1,637,000
Other Revenues	1,041,000	1,041,000	1,041,000	1,041,000
Total	2,501,000	2,648,000	2,527,000	2,678,000
Expenditures	3,163,000	3,163,000	3,163,000	3,163,000
	(662,000)	(515,000)	(636,000)	(485,000)
Endowment Growth Used in Current Operations	87,000	87,000	87,000	87,000
Excess Revenues (Expenditures)	$ (575,000)	$ (428,000)	$ (549,000)	$ (398,000)

In summary, to avoid incurring a projected deficit in 1976-1977, the institution has three general alternatives, or their combination, available. First, attempt to raise tuition and fees revenues (including summer and preparatory schools) by 67.6% over the next five years, which is unlikely. The most optimistic of the four above alternative projections only produces a 39.4% increase in tuition and fees revenues. As previously discussed, the school's ability to accomplish even this rate of increase is not supported by the four-year historical trends for these revenues. Otherwise, the institution must attempt to either increase operating expenditures at less than the 6% projected rate or develop revenue sources not currently in the school's plans.

If these alternatives do not develop, the unrestricted endowment fund principal of $2.8 million appears adequate to cover the deficits produced by any projections. However, the use of endowment fund principal to finance the projected deficits would significantly weaken the institution's financial capability.

INSTITUTION – H

In 1972, this institution had adequate resources available to finance its current operations even though a minor operating deficit occurred. The institution is likely to incur significant further deficits through 1976-1977 which we believe could impair the financial capability to continue operations provided the following major assumptions are realized:

(1) Expenditures will increase at 6% per year.

(2) Contributed services will increase at only 5% per year.

(3) A combination of increases in enrollment and tuition will fall short of providing the 55%, or 10% per year, increase in tuition and fees revenues to break even.

(4) Debt service related to the contingent liability for a joint library will not be incurred in the next five years.

If the President's projections for 47% increase in enrollment over 5 years is realized, the dificit may be offset. However, if not, the institution will have to seek revenues from sources not currently in the school's plans or utilize unrestricted endowment principal. The projected endowment principal does not appear adequate to absorb projected deficits through 1976-1977.

1. General Procedure

A representative of Touche Ross & Co. visited the college on December 31, 1972 and January 23, 1973. Discussions concerning the college's historical financial results and plans for the near future were conducted with the President and Treasurer. Analysis of major historical trends and current conditions, and projections of the college's financial position in 1976-1977 based on various assumptions are provided on the following pages.

2. Financial Management

Fiscal year budgeting has recently been initiated at the institution. The budgeting process involves department heads as well as the President, Dean and Treasurer. The budget is not time phased by month. Actual results are reported monthly on a cash basis, with reports to the Board periodically. There is no formal cash forecasting. The school's investment portfolio is managed by individuals outside the school staff. The financial management is adequate but there are areas for improvement, such as time phased budgeting, cash forecasting and long-range planning.

3. Current Operating Fund

The current fund operated with a deficit in 1971-1972 and the trend over the past five years has been unfavorable, as shown below. Total expenditures per full time equivalent student in 1971-1972 was $3,400.

	1967-1968	1971-1972	% Increase
Total Revenues	$2,073,000	$1,981,000	(4%)
Total Expenditures	1,797,000	2,045,000	14%
Excess Revenues (Expenditures)	$ 276,000	$ (64,000)	

Important factors contributing to these results are:

(a) Education and general revenues did not increase, percentage wise, as fast as associated expenditures, as the following table indicates:

	1967-1968	1971-1972	% Increase
Education and General Revenues	$1,287,000	$1,409,000	9%
Education and General Expenditures	998,000	1,377,000	38%
Excess Revenues (Expenditures)	$ 289,000	$ 32,000	

A significant portion of the increase in revenue was attributable to an increase in contributed services of $107,000 and a $90,000 appropriation from the State of Maryland. The total of these revenues in 1971-1972 was $466,000, or 54% of education and general revenues. Education and general expenditures per full time equivalent student in 1971-1972 was $2,300.

(b) Tuition and fees revenues declined 6% over the past four years, or 1¼% per year, as shown below:

	1967-1968	1971-1972	% Decrease
Tuition and Fees	$ 915,000	$ 864,000	6%

This decline resulted from a 23% decrease in student enrollment, to the 1971-1972 level of 609 FTE.

Tuition and fees revenues represented 44% of total revenues and 61% of education and general revenues in 1971-1972, which is, in our opinion, slightly high.

(c) Student aid expenditures exceeded revenues by $65,000 in 1971-1972 due to scholarships and tuition discounts.

	1967-1968	1971-1972	% Decrease
Student Aid Revenues	$ 189,000	$ 101,000	47%
Student Aid Expenditures	242,000	166,000	31%
Excess Revenues (Expenditures)	$ (53,000)	$ (65,000)	

The proportion of excess student aid expenditures to tuition and fee revenues increased from 6% to 7% over the four-year period.

Student aid revenue represented 5.1% of total revenue in 1971-1972, which is high.

4. Auxiliary Enterprises

The college's auxiliary enterprises have historically operated with excess revenues after an apporpriate allocation of maintenance and debt service, as shown below:

	1967-1968	1971-1972
Revenues	$ 597,000	$ 465,000
Expenditures	366,000	337,000
Excess Revenues before Maintenance and Debt Service	231,000	128,000
Maintenance	37,000	47,000
Debt Service	70,000	67,000
Excess Revenues (Expenditures)	$ 124,000	$ 14,000

The decrease in revenue was primarily a result of the decline in student enrollment as mentioned above.

The dormitory capacity in the Fall term of 1971-1972 was 459, however, the facilities were only 74% occupied.

5. External Indebtedness

The external indebtedness of the college as of June 30 in 1968 and 1972 was as follows:

	1968	1972
Accrued Expenses and Accounts Payable	$ 1,000	$ 5,000
Student Deposits and Deferred Income	114,000	93,000
Residence Halls Mortgage	1,384,000	1,273,000
Academic Building Bonds	955,000	872,000
Total	$2,454,000	$2,243,000

The $1,273,000 obligation on residence halls consists of a loan owed to Housing and Home Finance Agency with debt service of $67,000 in 1971-1972. The $872,000 debt on the academic building is with the U.S. Commission of Education, Department of HEW at 3% interest per year. In our opinion, the above indebtedness is high for a college with a $1.9 million budget and a contingent liability for a joint library (discussed below).

The school is constructing a joint library with another institution. A fund campaign is currently in process to raise the necessary capital. If adequate funds are not received, the institution will jointly share the indebtedness required for the balance of the $3.1 million total cost.

6. Endowment

The college's general endowment fund has grown significantly over the past four years, as shown below, but is still relatively small. The average income yield, based on market value, has declined during recent years, and is low for the institution studied.

	1967-1968	1971-1972	% Growth
Cost	$ 456,000	$ 600,000	32%
Market	558,000	900,000	61%
Income Yield	3.2%	2.1%	

In addition, the institution has a $253,000 Ford Foundation Teacher Fund and $105,000 in quasi-endowments. Endowment income represents only 1% of total revenue, which is, in our opinion, low.

7. Plant Fund and Investments

The college has $15,710,000 invested in plant assets, an average of $25,800 per full time equivalent student. In our opinion, this is extremely high. The college estimates the current replacement value of the assets to be

$15,014,000, exclusive of land. No current appraisal of the land value exists. However, based on recent land transactions, the institution estimates the value at $1,489,000.

8. Projections - - 1976-1977

Current fund projections for the year 1976-1977 utilizing alternative assumptions, indicate a range of operating results, as shown below. The assumptions utilized in each projection are the same except for those involved in projecting tuition and fees revenues. Two of the tuition and fees revenues projections are based on the MCHE forecasted enrollment for 1976-1977 (600 FTE), while the other two are based on the President's forecasted enrollment for the same period (896 FTE). Each set of enrollment projections employs two different tuition and fees structures – the anticipated 1973-1974 rate ($1,600) and the 1973-1974 rate increased by 6% per year ($1,906).

	Based on MCHE FTE Enrollment Forecast (600)		Based on President's FTE Enrollment Forecast (896)	
	1973-1974 Tuition and Fees ($1,600)	6% Inflated Tuition and Fees ($1,906)	1973-1974 Tuition and Fees ($1,600)	6% Inflated Tuition and Fees ($1,906)
Revenues:				
Tuition and Fees	$ 960,000	$ 1,144,000	$ 1,434,000	$ 1,708,000
Other Revenues	1,303,000	1,303,000	1,303,000	1,303,000
Total	2,263,000	2,447,000	2,737,000	3,011,000
Expenditures	2,642,000	2,642,000	2,642,000	22,642,000
Excess Revenues (Expenditures)	$ (379,000)	$ (195,000)	$ 95,000	$ 369,000

Not included in the projection is the institution's share ($164,000) of the joint library annual debt service, which the school believes will be funded from the special campaign currently in progress, nor a provision for a State of Maryland appropriation, which was $99,000 in 1971-1972.

In summary, to avoid incurring a projected deficit in 1976-1977, the institution must increase tuition and fees revenues 10% annually over the next five years. The school's ability to accomplish this is not supported by the five-year historical trend which shows a decline in these revenues. However, if the President's forecast for a 47% increase in enrollment over five years is realized, the deficit may be offset. In fact, if enrollment increases to 703 FTE in 1976-1977 with annual tuition and fees increases of 6%, the institution will operate at break even.

The unrestricted endowment fund principal, $487,000, is not adequate to cover extended deficits through 1976-1977 of the magnitude projected through use of the MCHE enrollment data.

INSTITUTION – K

In 1972, this institution had adequate resources available to finance its current operations even though a minor operating deficit occurred. The institution is likely to incur significant further deficits through 1976-1977 which we believe could impair the financial capability to continue operations provided the following major assumptions are realized:

(1) Expenditures will increase at an annual rate of 6% per year.

(2) A combination of increases in enrollment, and tuition and fees will fall just short of providing the 29%, or 5% per year, increase in tuition and fees revenues required to break even.

(3) Student aid expenditures will be limited to the amount of external revenue specifically designed for student aid.

(4) Other major sources of revenue will increase at 6% per year, except the State of Maryland appropriations which will remain at $29,000.

To offset the projected deifcit, the institution will have to seek revenues from sources not currently in the school plans. There are inadequate present resources to absorb projected deficits through 1976-1977.

1. General Procedure

Representatives of Touche Ross and Co.visited the institution in company with Dr. Shepler, MCHE staff, on November 17, 1972 and January 22, 1973. Discussions concerning the institution's historical financial results and plans for the near future were conducted with the President and Bursar. Analysis of major historical trends and current conditions, and projections of the institution's financial position in 1976-1977 based on various assumptions are provided on the following pages.

2. Financial Management

The institution periodically prepares a two-year budget. A detailed budget is prepared annually. The annual budget is not time phased by month. Cash flow forecasting is performed on an informal basis, as required. The institution's financial statements are audited by a certified public accounting firm and presented to the Board for review. We believe the financial management for this institution is adequate, but improvements are possible in such areas as long range planning, cash flow forecasting, and time phasing the annual budget by month for comparison with actual results.

3. Current Operating Fund

The current fund operated at a slight deficit in 1971-1972. The trend over the four-year period ending in 1972 was generally unfavorable, as shown below. The total expenditure per full time equivalent student in 1971-1972 was $2,200.

	1967-1968	1971-1972	% Decrease
Total Revenues	$ 573,000	$ 428,000	25%
Total Expenditures	562,000	429,000	24%
Excess Revenues (Expenditures)	$ 11,000	$ (1,000)	

Important factors contributing to these results are:

(a) Expenditures in 1971-1972 included $21,000 of debt service (i.e., principal and interest) on a note that was not held in 1968.

(b) Extraordinary expense item of $6,000 was incurred in 1972.

(c) Education and general expenditures declined more than associated revenues (due in part to a $29,000 State of Maryland appropriation) as shown below:

	1967-1968	1971-1972	% Decrease
Education and General Revenues	$ 518,000	$ 385,000	26%
Education and General Expenditures	499,500	360,000	28%
Excess Revenues (Expenditures)	$ 18,500	$ 25,000	

This excess of education and general revenues over expenditures was not sufficient to offset the $27,000 of expenditures outlined above.

The education and general expenditures per full time equivalent student in 1971-1972 was $1,900.

(d) Tuition and fees revenues declined 34% over the four-year period ending 1971-1972.

	1967-1968	1971-1972	% Decrease
Tuition and Fees	$ 505,000	$ 335,000	34%

In 1971-1972, tuition and fees revenues represented 87% of education and general revenues and 78% of total revenues. This is unusually high. The major reason for the decrease was a decline in enrollment.

(e) Student aid revenues and expenditures have increased over the four-year period. Student aid expenditures were limited to the amount of external revenue received which was designated for student aid in 1971-1972.

	1967-1968	1971-1972	% Decrease
Student Aid Revenues	$ 7,000	$ 19,000	71%
Student Aid Expenditures	7,000	19,000	71%
Excess Revenues (Expenditures)	$ -	$ -	

4. Auxiliary Enterprises

The college's auxiliary enterprise (a book store) has historically operated at a deficit after an appropriate allocation of maintenance. There is no debt service associated with this activity.

	1967-1968	1971-1972
Revenues	$ 53,000	$ 22,500
Expenditures	56,000	23,000
Excess Revenues before Maintenance and Debt Service	(3,000)	(500)
Maintenance	-	500
Debt Service	-	-
Excess Revenues (Expenditures)	$ (3,000)	$ (1,000)

The decline in revenues and expenditures can be attributed to a decrease in student enrollment.

5. External Indebtedness

The external indebtedness of the college as of June 30 in 1968 and 1972 was as follows:

	1968	1972
Accrued Expenses and Accounts Payable	$ 38,000	$ 45,000
Student Deposits and Deferred Income	3,000	5,000
Notes Payable	-	36,000
Total	$ 41,000	$ 86,000

In our opinion, the above indebtedness is not disproportionate for a college with a $428,000 budget. No significant additional external indebtedness is planned for the near future.

6. Endowment

The college has an extremely small endowment fund – $1,000 in cash in 1967-1968 and $2,000 in 1971-1972.

7. Plant Fund and Investments

The college has $283,000 invested in equipment and books or $1,500 per full time equivalent student. This is extremely low. The school's academic facilities are leased for $40,000 per year, under an agreement expiring September 15, 1974. There is an option to renew for an additional five years or to purchase at time of expiration. If neither of these options are selected, the institution will have to move to a new location. The appraisal value of the equipment and books is estimated at $285,000.

8. Projections

Current fund projections for the year 1976-1977 utilizing alternative assumptions, indicate a range of operating results, as shown below. The assumptions utilized in each projection are the same except for those involved in projecting tuition and fees revenues. Two of the tuition and fees revenues projections are based on the MCHE forecasted enrollment for 1976-1977 (603 FTE), while the other two are based on the President's forecasted enrollment for the same period (675 FTE). Each set of enrollment projections employ two different tuition and fees structures – the anticipated 1973-1974 rate ($600 per quarter) and the 1973-1974 rate increased by 6% per year ($715 per quarter).

	Based on MCHE FTE Enrollment Forecast (603)		Based on President's FTE Enrollment Forecast (675)	
	1973-1974 Tuition and Fees ($600)	6% Inflated Tuition and Fees ($715)	1973-1974 Tuition and Fees ($600)	6% Inflated Tuition and Fees ($715)
Revenues:				
Tuition and Fees	$ 362,000	$ 431,000	$ 405,000	$ 482,000
Other Revenues	109,000	109,000	109,000	109,000
Total	471,000	540,000	514,000	591,000
Expenditures	540,000	540,000	540,000	540,000
Excess Revenues (Expenditures)	$ (69,000)	$ -	$ (26,000)	$ 51,000

In summary, to avoid incurring a projected deficit in 1976-1977 will require a 5% annual increase in tuition and fees revenues over the next five years. The school's ability to accomplish this is not supported by the four-year historical trend for these revenues. In addition, the President believes tuition and fees cannot be raised in the near future without losing students; therefore, increases in tuition and fees revenues will probably have to come from additions to the student enrollment.

There are inadequate present reserves to absorb projected deficits through 1976-1977.

INSTITUTION – L

We were unable to prepare a financial analysis and projection for this institution similar to the analysis and projections of the other institutions because no audited financial information is currently available for the fiscal year 1971-1972, nor has the school been in operation a sufficient length of time to provide a basis for five-year projection. However, a representative of Touche Ross & Co., in company with Dr. Shepler, met with the President and Treasurer to discuss the college's historical financial results, and plans for the future.

Based upon this conversation and a general review of unaudited reports and a five-year plan prepared by the institution, the institution must be considered headed for serious financial difficulties which we believe will impair the financial capability to continue operations due to insufficient tuition and fees revenues and a general lack of other education and general revenues.

The institution projects four years of deficit operations through 1976-1977. If these dificits are not absorbed by alternative sources of revenue not currently in the school's plans, the institution will face financial insolvency.

1. Financial Management

The institution prepares a five-year plan and yearly operating budget. Periodically, the institution prepares financial reports indicating the results of operations. Cash flow forecasting is performed on an informal basis as required. The institution did not have its financial reports audited by a certified public accounting firm in fiscal year 1971-1972. The school plans to have its statements audited in the future.

2. Current Operations

The institutions unaudited financial statements report an excess of revenues over expenditures in 1971-1972 of over $350,000. This excess was primarily a result of a one-time gift consisting of the cancellation of a debenture incurred at the school's beginning of over $450,000. The institution's primary source of revenues are tuition and fees and auxiliary enterprises. The other traditional sources are insignificant.

Approximately 100 FTE students are enrolled for the 1972-1973 academic year. This enrollment is in spite of the fact that the institution relocated to temporary facilities at a hotel until another permanent site is located. Nevertheless, the President and Treasurer believe that the $300,000 budget for the current year will be balances.

3. Auxiliary Enterprises

At present, the institution's auxiliary enterprises are residence halls, food service, and a book store. These activities are operated with an excess of revenues over expenditures. Similar to the educational and institutional facilities, the auxiliary enterprises are primarily located in a local hotel. The college is in the process of evaluating building plans for future permanent facilities.

4. External Indebtedness

The President and Treasurer indicated that the institution has no significant external indebtedness; however, if the institution receives approval of the plans for a permanent campus, the school will have to incur significant debt to commence construction.

5. Endowments

At present, the institution has a nominal endowment fund carried on the books at less than $4,000.

6. Projections - - 1976-1977

The institution has prepared a five-year plan which indicates that expenditures will exceed revenues by over $100,000 in 1976-1977. Projected operating results for 1973 through 1976 also indicate significant deficits. These deficits are projected in spite of a forecasted enrollment increase of over 150%.

To the extent that the institution is unable to obtain external financing for these dificits, the college would probably be faced with financial insolvency or the need to drastically modify the instructional programs.

INSTITUTION – N

In 1972, this institution had adequate resources available to finance its current operations. The institution is likely to incur significant deficits through 1976-1977 which we believe could impair the financial capability to continue operations provided the following major assumptions are realized:

(1) Expenditures increase at a rate of 6% per year.

(2) The value of services contributed by a religious order will decline $68,000 over the next five years.

(3) A combination of increases in enrollment and tuition falls short of providing the 77% or 12% per year increase in tuition and fees revenues required to break even.

To offset the projected deficit, the institution will have to increase tuition and fees revenues significantly above the historical trend or seek revenues from sources not currently in the school's plans. The school does not have reserve funds sufficient to absorb any large deficits.

1. General Procedure

A representative of Touche Ross & Co. visited the college in company with Dr. Shepler, MCHE staff, on December 21, 1972 and January 23, 1973. Discussions concerning the college's historical financial results and plans for the near future were conducted with the President, a member of the board and a representative of the firm which audits the financial statements. Analysis of major historical trends and current conditions, and projections of the college's financial position of 1976-1977 based on various assumptions are provided on the following pages.

2. Financial Management

The college prepares a detailed budget annually. Although the budget is not time phased by month, the institution plans to do so in the future. Capital budgeting is performed as a part of the annual budgeting process. Actual year-to-date results are reported monthly. Cash forecasting is performed quarterly and presented to the Board. The college's financial statements are audited by a certified public accounting firm and presented to the Board for review. The financial management at this institution is adequate but there are areas for improvement in long range budgeting, time phased fiscal year budgeting and cash forecasting on a monthly basis.

3. Current Operating Fund

The current fund operated with an excess of revenues in 1971-1972. The trend over the past four years was generally favorable, although the amount of the excess revenues declined slightly as shown below. Total expenditures per full time equivalent student in 1971-1972 was $2,200

	1967-1968	1971-1972	% Increase
Total Revenues	$ 314,000	$ 555,000	77%
Total Expenditures	277,000	533,000	92%
Excess Revenues (Expenditures)	$ 37,000	$ 22,000	

Important factors contributing to these results are:

(a) Education and general revenues increased more than associated expenditures, as shown below:

	1967-1968	1971-1972	% Increase
Education and General Revenues	$ 272,000	$ 486,000	72%
Education and General Expenditures	231,000	437,000	89%
Excess Revenues (Expenditures)	$ 41,000	$ 49,000	

In part, the increase in revenues is due to gifts and grants being applied toward the current fund in 1971-1972, while in 1967-1968 they were applied to a development fund for a new academic center. In addition, contributed services increased $54,000 over the same period, to a total of $122,000. A new source of revenue, a State of Maryland appropriation of $16,000, also contributed to maintaining an excess of education and general revenues over expenditures.

Education and general expenditures per full time equivalent student was $1,800.

(b) Tuition and fees revenues increased 24%, or 5½% per year, over the four year period, as shown below:

	1967-1968	1971-1972	% Increase
Tuition and Fees	$ 214,000	$ 266,000	24%

Tuition and fees revenues represented 48% of total revenues and 54% of education and general revenues in 1971-1972. In our opinion, this is slightly high.

(c) Student aid revenues did not increase as much as associated expenditures:

	1967-1968	1971-1972	% Increase
Student Aid Revenues	$ 21,000	$ 51,000	142%
Student Aid Expenditures	17,000	54,000	218%
Excess Revenues (Expenditures)	$ 4,000	$ (3,000)	

This source of revenue represented 9% of total revenue ($555,000) which, in our opinion, is high. The excess student aid expenditures represented only 1% of tuition and fees revenues.

4. Auxiliary Enterprises

The college's auxiliary enterprises have operated at a deficit or break even point over recent years after an appropriate allocation of maintenance, as shown below:

	1967-1968	1971-1972
Revenues	$ 21,000	$ 18,000
Expenditures	22,000	13,000
Excess Revenues before Maintenance and Debt Service	(1,000)	5,000
Maintenance	7,000	5,000
Debt Service	-	-
Excess Revenues (Expenditures)	$ (8,000)	$ -

The above revenues and expenditures are a result of two major activities: food services, and book store. No additional activities are planned.

5. External Indebtedness

The external indebtedness of the college as of June 30 in 1968 and 1972 was as follows:

	1968	1972
Accured Expenses and Accounts Payable	$ 14,000	$ 56,000
Student Deposits and Deferred Income	-	14,000
Academic Building	-	962,000
Other	1,000	-
Total	$ 15,000	$1,032,000

The $962,000 obligation on the academic building is a forty-year 3% bond. Debt service will be $14,000 until 1977, and $45,000 thereafter.

The above indebtedness is, in our judgment, high for a college with a $555,000 budget.

6. Endowment

The institution has no endowment fund, however, the Board has approved a campaign designed to raise $500,000.

7. Plant Fund and Investments

The college has $3,021,000 invested in plant fund assets, an average of approximately $12,300 per full time equivalent student. The college estimates the current replacement value of the plant assets to approximate cost. This is exclusive of land. No current appraisal of the land value exists; however, it is carried by the college at a cost of $59,000.

8. Projections - - 1976-1977

Current fund projections for the year 1976-1977 utilizing alternative assumptions, indicate a range of operating results, as shown below. The assumptions utilized in each projection are the same except for those involved in projecting tuition and fees revenues. Two of the tuition and fees revenues projections are based on the MCHE forecasted enrollment for 1976-1977 (240 FTE), while the other two are based on the President's forecasted enrollment for the same period (368 FTE). Each set of enrollment projections employ two different tuition and fees structures – the anticipated 1973-1974 rate ($1,415) and the 1973-1974 rate increased by 6% per year ($1,685).

All projections assume that the value of services contributed by a religious order will be $54,000 in 1976-1977.

	Based on MCHE FTE Enrollment Forecast (240)		Based on President's FTE Enrollment Forecast (368)	
	1973-1974 Tuition and Fees ($1,415)	6% Inflated Tuition and Fees ($1,685)	1973-1974 Tuition and Fees ($1,415)	6% Inflated Tuition and Fees ($1,685)
Revenues:				
Tuition and Fees	$ 339,000	$ 402,000	$ 520,000	$ 619,000
Other Revenues	255,000	255,000	255,000	255,000
Total	594,000	657,000	775,000	874,000
Expenditures	709,000	709,000	709,000	709,000
Excess Revenues (Expenditures)	$ (115,000)	$ (52,000)	$ 66,000	$ 165,000

In summary, it will require a 77% increase in tuition and fees revenues over the next five years, or 12% per year, to avoid incurring a projected deficit in 1976-1977. As previously discussed, the school's ability to accomplish this is not supported by the four-year historical trends for these revenues. However, if the President's projection for a 53% higher enrollment in 1976-1977 is realized, the deficit may be offset.

The unrestricted fund balances do not appear adequate to cover an extended period of deficits.

INSTITUTION – P

We were unable to prepare a financial analysis and projection for this institution similar to the analyses and projections of the other institutions because no audited financial information is currently available for less than the three year period since operations began. However, during a meeting on January 5, 1973, with the President and Treasurer, a representative of Touche Ross & Co., in the company of Dr. Shepler were informed of the facts contained in the following paragraphs.

Based upon this conversation, the institution must be considered financially insecure because of its almost total dependence upon various government programs. such as Work Study, National Defense Student Loan, and Educational Opportunity Grants, to finance the current operating budget. Around $382,000 of such funds are included in an overall 1972-1973 budget of about $500,000.

The President indicates that for the next six to eight years a similar state of dependence will exist. Should these federal programs be terminated or funds already funded by the programs be materially reduced during this period, the institution would face financial insolvency since the President believes developing significant alternative sources of revenue during the next six to eight years will be extremely difficult. During the same period, the President and Board do not plan to further increase the budget unless additional grants are received in advance of the academic year in which they will be utilized.

1. Financial Management

Prior to the current academic year, the institution's financial records were maintained away from the institution which somewhat limited control. With the start of this year the President assumed direct responsibility for the financial records and had them returned to the college premises. He has recently engaged a firm of certified public accountants to assist the Treasurer in installing a new chart of accounts in preparation for getting the transactions properly recorded and an examination of financial statements completed. The institution's Board contains a high percentage of successful business and civic leaders which have assumed an active business-like attitude to the management of the school's financial affairs.

2. Current Operations

Approximately 350 FTE students are enrolled for the academic year. Ninety percent of these students are from homes located near the institution within the inner-city area. Most of the students' personal financial situations are highly dependent upon a very high percentage of financial assistance in order to attend the college. The President believes that most all of the present student body would be forced to discontinue their education if the present amount of Federal funding, or their equivalent, were unavailable. The President believes that the $500,000 budget for the current academic year will be balances although approximately $50,000 of additional revenue is needed to complete the picture.

3. Auxiliary Enterprises

At present, the institution is not operating any auxiliary enterprises. All of the educational and institutional facilities are located in a building leased from a private corporation. The college plans to purchase another adjacent building if Federal funds can be obtained. This building would be refurbished to furnish a complete academic student housing complex including classrooms, administrative offices, dormitories, food service and athletic facilities.

4. External Indebtedness

The President indicated that the college has no external indebtedness except for normal trade credits which are being kept current.

5. Endowment

At present the college has no endowments.

6. Projections - - 1976-1977

The President indicated there are presently many more qualified individuals who would like to attend the college if additional student aid resources could be obtained. Therefore, the school plans to request additional Federal assistanc in coming years as a means of providing this aid until other sources of gifts and eventually endowments can be developed. The institution has recently been recommended by the National Appeals Panel for Student Aid for $1.8 million of assistance for fiscal year 1973-1974.

To the extent these funds are available, the institution will grow so long as a balanced budget can be produced. However, should even the current level of federal funding be curtailed the President believes the college would face financial insolvency since sufficient alternative sources are believed unobtainable.