



CAMPUS STRATEGIES

**Randolph-Macon Woman's College  
Financial Review  
May 7, 2007**

Campus Strategies was engaged to perform a financial review of Randolph-Macon Woman's College's (RMWC). The purpose of the review is to assess the College's health and provide advice regarding a response to the action taken by SACS (i.e., placing RMWC on warning status). This report presents the results of the review.

**Process**

The review was conducted by Larry Goldstein. As part of the process, background discussions took place with RMWC's vice president for finance and administration, Chris Burnley. In addition, the College's audited financial statements and auditor-prepared management letters were reviewed. Three days were spent on campus working with additional financial and related material and meeting with Chris Burnley and the College's president, Ginger Worden. The results of those efforts and the recommendations related thereto are presented below.

**Findings and Recommendations**

The warning sanction that the College received is a serious matter. Although the College is wealthy from a balance sheet perspective—especially with its healthy endowment—it has started down a path which quickly will erode the endowment. The current and projected endowment spending rates are signals that the College is not able to sustain itself beyond the very near term. The College recognizes the seriousness of the situation and, even before the SACS action, undertook the dramatic action of changing the mission and character of the institution. By admitting men in the fall of 2007, RMWC will embark on a new chapter in its history—one that, if coupled with other structural financial changes, has the potential to reverse the recent financial downturns that have been experienced.

The College already understands that the SACS financial assessment process is very subjective. There is no specific formula that can be used to demonstrate financial viability. There are, however, ratios and other indicators that demonstrate the lack of viability. Although the College scores well on the financial viability ratios relied on by the federal government for participation in Title IV (student aid) programs, there are numerous other indicators that would cause an objective reviewer to lack confidence in the College's long-term viability. Selected indicators are presented below.

Tuition Discounting

RMWC's average tuition discounting in recent years is in the mid-60 percent range. The following table indicates national averages for all students (top line) and freshmen (second line).

<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
33.8	34.5	35.0	35.5	35.7	36.3
36.5	37.3	38.7	38.9	38.8	39.6

Additionally, although a similar national database is not available, RMWC's across-the-board tuition discount of greater than 80 percent for international students is significantly higher than the rate at other institutions.

Endowment Spending

RMWC's spending rate from endowment is currently calculated at 12.8 percent for the fiscal year ending June 30, 2007. The latest proposed budget for the fiscal year ending June 30, 2008 calls for a spending rate of more than 13 percent. For the ten-year period from 1996 through 2005, only five institutions out of 753 participating in the NACUBO Endowment Study had double-digit spending rates from their endowments during all or any portion of the period. The average spending rates during the period were between 4.4 and 5.1 percent on an equal-weighted basis, and 3.9 to 4.9 percent on a dollar-weighted basis.

An equally alarming statistic comes from the College's 2005-06 audited financial statements. The statement of activities discloses that the College financed in excess of 40 percent of its operating expenses from endowment spending. This is a staggering percentage—one that greatly exceeds the level at other private institutions, including elite, well-endowed institutions that tend to rely more heavily on endowment to support their operations. The highest level observed in a random sample was 13 percent—less than one-third of RMWC's amount.

Selected Element Peer Analysis

Peer analysis was conducted using a tool provided by the U.S. Department of Education. The Integrated Postsecondary Education Data System (IPEDS) is a government-mandated collection process for financial, student, employee, and similar information from colleges. IPEDS offers a Peer Analysis System using a set of variables such as enrollment, size of budget, and other quantifiable factors. As such, it produces peers that—from a statistical perspective—match RMWC. The following tables reflect the results of analysis using the Peer Analysis System.

	<u>RMWC</u>	<u>IPEDS Peers</u>	<u>Diff.</u>	<u>% of RMWC</u>
Enrollment	713	772	(59)	(8.3)
Tuition and required fees	\$23,030	\$16,590	\$6,440	28.0
Percent receiving merit aid	99%	92%	7%	7.1
Tuition/fee revenue as % of total	24%	37%	(13%)	(54.2)
Gift revenue as % of total	39%	26%	13%	33.3
Investment income as % of total	34%	10%	24%	70.6

Academic staff	83	72	11	13.3
Executive staff	27	19	8	29.6
Other professional	70	45	25	35.7
Non-professional	<u>82</u>	<u>48</u>	<u>34</u>	<u>41.5</u>
Total in-house employees	<u>262</u>	<u>184</u>	<u>78</u>	<u>29.8</u>

It is apparent that the above data for RMWC present some serious warning signs regarding its operations. Although its enrollment is 8 percent smaller than its IPEDS peer group, it has 30 percent more employees on average than its peers. Of similar concern is the percentage of revenue from various sources. RMWC is receiving less than two-thirds of the average percent of revenue from students that its peers are receiving. The relationship for investment income is even more alarming. The College is three and one-half times more dependent on investment income to finance its operations than are its peers. Finally, although it's very positive that the College is as successful in fund raising as it is, it's of significant concern that RMWC is 50 percent more dependent on gifts to finance its operations than its peers.

The above factors are easily discoverable by the SACS reviewers and, in all likelihood, played a role in their decision to place RMWC on warning. The College must take steps to address the situation as quickly as possible. The change in mission clearly is a positive step in that direction. Unfortunately it will take several years before there is sufficient experience to demonstrate the success of this action.

SACS will not be willing to remove the College's warning without concrete evidence indicating that the financial situation has been addressed. Actions such as continuing salary raises, routinely filling vacant positions, failing to reduce the size of the workforce, etc. indicate to SACS that the College isn't serious about the situation in which it finds itself. Understandably, there are positions that must be filled if they become vacant. There also are key staff and faculty whose loss would have significant negative effects on the College and its operations. In those situations, the College must take steps to replace and/or retain these individuals. In the current situation, however, these should be exceptions rather than the norm.

Three things must happen to convince SACS that the College is serious about being removed from warning status. The first is a series of operational actions. The College should implement a hiring freeze, with a provision for exceptions on a case-by-case basis, and should temporarily defer any salary increases (with a similar provision for exceptions). Additionally, the College should aggressively examine its staffing to determine which departments and offices have the potential to operate satisfactorily with reduced staffing. Understandably this may necessitate the elimination of some programs or activities. Therefore, a careful review is required to ensure that essential services and programs are not adversely affected.

The second action relates to the plans for an expansion of the Physical Education and Recreation facility. Although this is deemed essential for the transformation to a coeducational institution, pursuit of this at the current time will send the wrong signal to

SACS. The College should not pursue any major capital projects while it finds itself in warning status—especially those that would require debt financing.

Finally, as is already under consideration, the College must realize a substantial financial inflow through the leveraging of a portion of its art collection. The amount realized should immediately be added to the College's endowment to increase the amount of money available for operations through the endowment spending rate. If a sufficient amount is realized to enable the College to significantly reduce its overall spending rate devoted to operations, this will be a strong signal to SACS that it is financially viable while it reshapes its character as a coed institution.

Understandably the College is not in complete control of the situation related to the art. It would be optimal though to complete the contractual arrangements before the 2006-07 financial statements are issued so that the issue can be addressed in a subsequent event disclosure. Equally, if not more, important will be the receipt of the cash from the arrangement prior to December when SACS will meet to review the College's status. Failure to realize the dramatic cash infusion to the endowment likely will result in the College being placed on probation. Although there are no guarantees in such a subjective process, the combination of the actions recommended here should ensure that the warning status is removed by SACS.

### Conclusion

Randolph-Macon Woman's College is at a crossroads as it transitions from a same-sex college to a coeducational institution that soon will award degrees to men for the first time in its history. It currently finds itself operating under the cloud of an accreditation sanction. Though serious, this situation need not be fatal to the College's future if it responds appropriately. As this report is being written, the College is well led by an interim president and served by a capable chief financial officer. If these individuals work together with the Board of Trustees and the members of the Senior Staff, they can establish a solid financial foundation for the incoming president. If the steps suggested in this report can be accomplished within the recommended timeframes, there is no reason to believe that the accreditation sanction will last beyond the calendar year. In addition to removing the sanction, the College will have embarked on a process which should enable it to continue to deliver high quality education within a financial model that is sustainable far into the future.

In closing, I would like to express appreciation to Chris Burnley and Ginger Worden for their candor and support during this engagement. Without their extensive cooperation and willingness to consider difficult issues, it would not be possible to have developed the understanding needed to prepare a report of this type.

Prepared and submitted on May 7, 2007 by:

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