



from the president JOHN E. KLEIN

Seeking Balance

August 2008

As Susan and I continue to travel the country meeting with alumnae and as I talk with those of you who return to campus, I am asked frequently about the College's financial situation. I will try to respond to those questions in this paper. Simply put, we are seeking balance—between operating revenues and expenses, between drawing on the endowment and ensuring it remains healthy for future generations of students, between the proud history of Randolph-Macon Woman's College and the vision for Randolph College, and among competing demands for limited resources. I call it “breaking even in a responsible way.”

Q: How did the College's finances get so out of balance?

The College has had, and continues to have, an imbalance of millions of dollars annually in its operating revenues and expenses. This problem has developed over decades as enrollment has declined, net student fee revenue has been stubbornly flat, alumnae giving percentages have gradually declined, and expenses have increased, particularly in areas such as faculty and staff compensation,

energy, and technology. It is important to understand the impact that enrollment, endowment, and gifts have on financial balance.

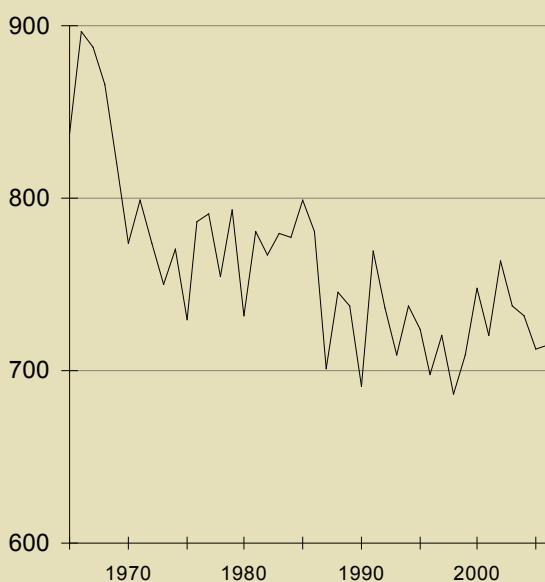
Enrollment peaked at nearly 900 students in fall 1966 but could not be sustained as men's colleges became coed. In general terms, R-MWC enrollment ranged between 800 and 750 from 1970-1986 and then subsided to the 750-700 level through 2006.

At no time following the mid 1960s did the College experience three consecutive years of increasing enrollment.

In the 1990s, the College began using more scholarship grants for domestic and then international students in an effort to boost enrollment back to the 800 level. While this policy helped to stabilize enrollment within a narrow range, it did not increase student numbers substantially, and the growing use of grant aid depressed net fee revenue.

Net fee revenue is the amount of tuition and fee revenue that actually flows into the College's operating budget. It depends on the number of students and the fees they are charged, *minus* grants from the College for need-based and merit aid.

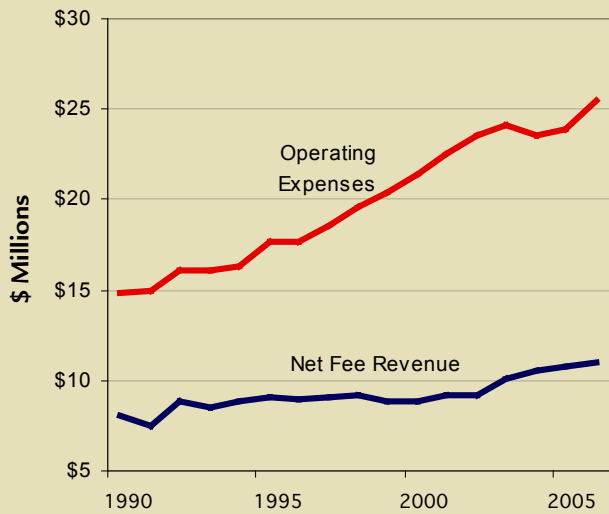
Headcount Enrollment,
Fall 1965-Fall 2006



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Operating Expenses and Net Fee Revenue

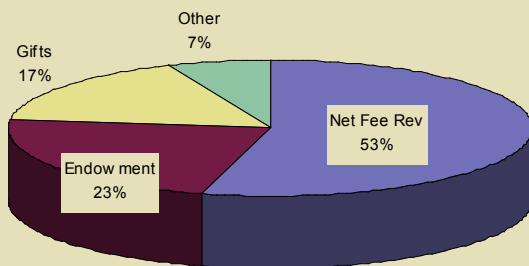


While the College has increased tuition and fees each year, net fee revenue has not grown proportionately. For example, in the 10-year period from 1992 to 2002,

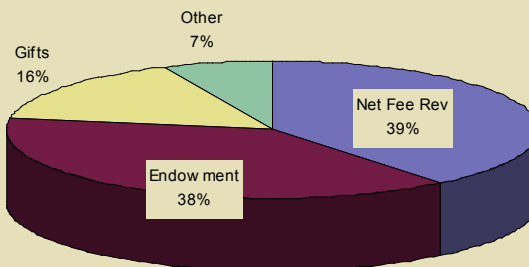
- expenses grew from \$16 million to \$23.4 million, a difference of \$7.4 million
- gross fee revenues increased by \$5.5 million, but net fee revenue was only \$400,000 higher in 2002 than in 1992
- gifts to the Annual Fund, mostly from alumnae, supplied a steady, but not increasing, percentage of needed revenues.

With expenses outpacing net fee revenues and Annual Fund gifts, demand on endowment grew from 23% of revenues in 1991-92 to 38% of revenues in 2001-02. Increasing draws against the endowment constrained its ability to grow and were not sustainable.

Revenues, 1991-92



Revenues, 2001-02

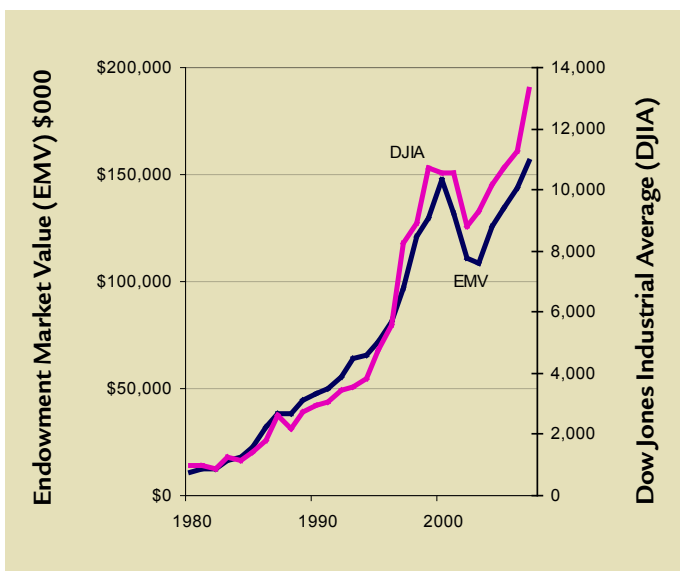


Endowment serves to ensure an institution's future. Endowment grows through investments and gifts and spins off a portion of its value for operating funds. Current best practices in higher education indicate that a **sustainable endowment draw** is about 5%. Simplistically, if endowment returns are 8% and inflation is 3%, a draw of 5% maintains the real value of the endowment. The larger the endowment, the greater the dollar value of a sustainable draw. For example, an annual draw of 5% of \$100 million would produce \$5 million *annually* to the operating budget while 5% of \$200 million would produce \$10 million annually. Conversely, if the endowment market value falls, so does the dollar value of the sustainable draw.

The stock market and the College's endowment prospered during the 1980s and 90s and into the new millennium. At the same time that the College's financial grant aid was increasing, the endowment's growth through June 2000 offset

large draws to balance the budget. However, the financial market's substantial correction following September 11, 2001 brought urgent focus to the issue of the College's financial sustainability. Subsequent strategic planning led to the decisions to expand the enrollment base through coeducation; to sell four paintings to augment the endowment; and to reduce faculty, staff, and academic programs to lower expenses.

Gifts to the College, in addition to net fee revenue and endowment draws, are the third major source of income to the operating budget. Historically, a high percentage of R-MWC alumnae have given to the College, and their Annual Fund support has provided steadily increasing funding to the operating budget over time such that gifts have maintained their proportional share. While on average a remarkable 50 percent of alumnae gave *annually* from 1981-1997, alumnae participation began a steady decline in 1998, mirroring in part a national trend influenced by growing student loan obligations, and fell to 35% participation by 2006.



The \$100 million Capital Campaign that concluded in 2006 was instrumental in updating facilities and technology; supporting the operating budget through the Annual Fund; and adding new, endowed funds to support faculty and students. However, only \$18 million was added to the endowment. \$38 million was raised for the Annual Fund, capital improvements, and donor-restricted purposes and spent during the Campaign period while \$4 million was put aside for future projects at the Library and the Physical Education and Recreation Building (PER). The balance, more than \$40 million, comprised planned gifts and pledges that were not yet available for use. Even with this campaign and the advantages it enabled, the College was not able to meet fully the needs identified at that time. Those needs are still here and continue to grow.

Contributions for programming, facilities, and operations have been essential in helping maintain the quality of the institution, and many of our alumnae have been remarkably generous. But our experience indicates that alumnae giving cannot grow dramatically to compensate for the budget imbalance. *We must increase revenues through higher enrollment, more net fee revenue, and a larger endowment.*

Expenses. The College has reduced its operating expense growth by taking significant steps. Prior to the coed decision, the College cut \$1.4 million from its general expenses, eliminated certain staff positions, and instituted hiring freezes for others. The result was an operating budget that was \$4 million lower than our nearest peer institution but that generally protected the academic program from cuts. Even so, our accrediting agency placed the College on financial warning in December 2006.

In 2007, the College reduced staff positions by 15 percent, initiated a salary freeze, reduced pension contributions, effected a faculty early retirement program, and eliminated several academic programs. The severe tightening of operating

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expenses and the proposed sale of art were instrumental in the College's being removed from warning in December 2007. The cuts have been exceptionally hard for this community, but they are done. We will remain vigilant with respect to expenses, but we seek now to rebuild.

Q. How can the College spend money on athletic facilities when it has an operating deficit?

This question gets to the heart of balancing competing demands for scarce resources. Except for the addition of a second playing field in 2001-02, the College's athletic facilities have been updated only minimally since the mid-1900s when PER was built. Renovations have occurred in Main, Moore, West, Martin, Presser, Smith, Wright, Webb, Leggett, Thoresen, and Psychology buildings, but the athletic and dance facilities have languished, even as females have become increasingly engaged in high school sports and fitness. Our facilities pale in comparison to the majority of high school athletic facilities that our students have experienced. High school college counselors around the country have told us how important athletics—both competitive and intramural—are to today's high school graduates. Having updated athletic facilities will be very important to growing our enrollment.

The current field and track project expands the College's original playing field and adds artificial turf, lighting, and a track around the perimeter. The field will be used primarily by the soccer and lacrosse teams. The lighting and turf of the new field will address scheduling demands for practices and games that exceed daylight hours and the tolerance of the grass playing surfaces. Track is the most frequently mentioned sport among prospective students, and the facility will give the College the option to have a track team in the future. Meanwhile, the track will be a recreational and exercise resource for students, faculty, and staff and will enhance the facility's use as a community resource.

The Capital Campaign that concluded in 2006 included a goal to fund a new dance and athletics building with inviting social spaces. That goal, identified as a need when we were still firmly a women's college, was only partially funded. As funding lagged, estimated construction costs for the new building escalated beyond financial feasibility, and the building project was put on hold. The field and track project will meet some of our immediate needs while giving a welcome boost to recreation and athletics. There is real excitement on campus as we see the field and track under construction and anticipate using the playing field this fall.

Q. Is our art going to become an ATM for the College?

Statements such as this deny the hard choices confronting the Board of Trustees and the alumnae group that was involved in considering alternatives. The decision to sell the four paintings came only after exhaustive efforts to arrange a sharing agreement with another institution or museum.

The financial plan for establishing balance between the College's revenues and expenses calls for the addition of at least \$50 million to the endowment. This was an urgent need last fall when the paintings were scheduled for auction, and it is even more important today with the negative financial market trends of the past six months. An additional \$30-50 million for known projected needs will be sought through fundraising.

The College must deal with its financial realities. We have sold Tamayo's *Troubadour* and added the proceeds to the endowment. We will sell the other three paintings when the market appears advantageous. There is no plan to sell additional paintings from the College's collection. To the contrary, I sincerely hope that the collection can be integrated more fully with the curriculum and that the collection can be strengthened as our financial situation reaches balance.

Q: How can the College afford an inauguration?

Most importantly, the inauguration will signal that this college has turned the corner. The College is no longer under SACS warning, staff and faculty cuts are behind us, the coed litigation has been firmly dismissed, and the art litigation has been withdrawn. The inauguration will also showcase student and faculty achievements. We are focusing on a strong future for this college, and we are excited about it. I invite you to celebrate the College with us October 24-25, 2008.

Inaugural events will be sponsored by individual donors, and the inauguration committee (comprising trustees, faculty, and staff) is keeping a sharp eye on costs.

Q: What is the current status of enrollment?

Enrollment will be lower this fall than it was last year. This is disappointing, and we recognize that enrollment was influenced negatively by the protracted litigation, the financial warning from SACS, and the difficult environment on campus last year. We have restructured the enrollment division and have a strong admissions team and plan in place for the coming year. A positive indicator for this fall's enrollment is that net fee revenue for the first-year class will be higher than last year's.

We are enthusiastic about every student who will be here. Strong leaders among returning students will help introduce new students to the honor system, traditions, and distinctive academic experience, and the low student-faculty ratio will give us the opportunity to excel in the environment for which this college is known. We will strive to regain the community spirit that is the College's hallmark, and I reach out to ask for your help.

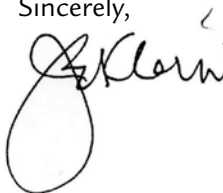
Concluding thoughts . . .

Moving toward balance is an uneven process. We have experienced setbacks with the SACS warning, cutbacks in academic programs and personnel, delayed sale of the four paintings, and lower enrollment. We have experienced successes in lowering the tuition discount rate, emerging from

SACS warning, concluding litigation, receiving our fourth highest total giving ever in 2007-08, and attracting and making exciting new hires in key positions. As we move forward, our focus is on the students we serve—the very reason the College exists.

We seek to ensure that the College attracts and retains students who will be excellent representatives of this institution, who will look back on their experience here with deep affection and appreciation, and who will make us proud. And as those students come, we must continue to offer them a first-rate educational program in its many facets and within the reality of our finances.

I am proud of the College and would like for you to be equally so. If Randolph College is to shine as R-MWC did, we will need the help of R-MWC alumnae. I ask for your support and continuing connection to the College.

Sincerely,




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