

An Education in Leading a College Growing in Turbulent Times

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Abstract

Elmhurst College is a small liberal arts college located in Illinois that provides undergraduate and graduate programs in liberal arts as well as professional programs in business, nursing and education. The school faced a serious budget crisis in 1971 and then President Dr. Frick implemented stringent financial measures including the termination of some tenured faculty. After a period of steady growth the school faced another financial crisis in 2003. This paper describes the approach taken by Dr. Cureton, the President, to get all stakeholders involved in charting and executing a course that enabled the College to survive and become stronger. The paper highlights the role played by a President of a small college in building bridges with the faculty and developing equity with this key constituency. The paper concludes with a reflection on the current situation facing the College, with a new President who has to manage a serious set of challenges in the current economic downturn.

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1 Introduction

Elmhurst College is a small, private liberal arts college located in Elmhurst, Illinois, affiliated with the United Church of Christ. It was founded in 1871 by Carl Frederick Kranz, a minister and teacher who arrived from his native land Germany on December 6th and stepped off a passenger train in Elmhurst, accompanied by 14 students. Kranz, who spent his formative years in an orphanage, worked as a tutor for a wealthy family and studied theology at the University of Breslau. He and his students came to Elmhurst from

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a preparatory seminary in Evansville, Indiana, to establish the German Evangelical Proseminary "to maintain a culture in the wilderness, to provide an educated leadership for the developing communities, and to teach the liberal arts within the context of the Christian faith." The name "Elmhurst College" first appeared on the cover of the school catalog in 1901 (Cutright 1995). The College has grown considerably since then, and currently serves more than four thousand students. In the early days, the College did not have any residence facilities and all students commuted to the College from their homes. Over the years, the College has constructed several residence halls (dormitories) and the percentage of resident students among the undergraduate population has increased to nearly 60%. The College enrolls traditional high school seniors as well as transfer students (transfers) who come from local community colleges or other institutions to Elmhurst College. The College has a long and rich history of preparing students for lifetimes of professional achievement. It offers undergraduate programs in both liberal arts and professional areas. The former include languages, arts and sciences, while the latter consist of nursing, business and education. Over the past twenty years, the school has been adding Masters Degree programs in select fields, including a Masters in Business Administration program.

Elmhurst College faced a significant challenge during the economic downturn in the early part of the last decade and faces challenging times now. Falling enrolments and loss of state grants along with a sizable loss in the value of the Endowment significantly impacted the College's finances. In discussions with the College's Officers and other faculty members, it became apparent that there was a dearth of published academic work that studied the challenges faced by not-for-profit academic institutions. Collins (2005) offers suggestions on managing not-for-profits including 'Level 5 Leadership' and the "Hedgehog Concept" but does not deal in depth with the challenges faced by leaders of academic institutions. Glazer (1998) describes then New York Mayor Mr. Giuliani's attempt to deal with the poor educational levels at the City University of New York by proposing the elimination of "open enrolment." Zaidi (1998) outlines the challenges faced by the State University of New York where, "between 1995 and 1997, enrollment fell 20% for students from families earning \$21,000 to \$45,000 a year and 14% for those earning \$45,000 to \$85,000, while 14% more freshman enrolled from families earning above \$105,000." Zaidi also describes the large increase in the debt load of SUNY students and the loss of 1,600 full-time professors due to reduced state funding. Gustavs & Clegg (2005) study the partnership between a global financial corporation and a leading Australian University to develop "Work-based Learning." They observe that such partnerships are on the rise as Universities, strapped financially to maintain traditional programs, look to new programs and untapped markets for revenues.

This paper describes the challenges faced by the College over the past ten years and the efforts by its senior leadership to "grow through the crisis." It can be used as a case study to discuss managerial challenges facing not-for-profit organizations, especially academic institutions.

2 Case Background

2.1 Structure of Elmhurst College

Elmhurst College is registered as a 'not for profit' institution in Illinois and is governed

by its Board of Trustees (the Board). The Board is generally composed of thirty to thirty five members. Board members are either alumni of the College, well-known business leaders, or civic leaders. New Board members are elected by other members, with no input or influence from the State of Illinois. Elmhurst College is run by a President who is appointed by the Board. He oversees two distinct constituencies- the faculty who are in charge of the curriculum and the educational component of the College, and the administrative staff (the administration) who are responsible for the administration of the College including recruitment, human resources, finance, facilities management, student affairs, and other activities. The faculty is headed by the "Vice President of Academic Affairs and the Dean of Faculty" who reports to the President. The organizational chart of the College is shown in Figure 1.

2.2 Liberal Arts Colleges in the Chicago Metro Area

In addition to the large research-driven private and public universities a number of "Liberal Arts" colleges and universities also serve the Chicago-land area. These schools focus more on undergraduate teaching and education than on research and have smaller class sizes than the big universities. Illinois Wesleyan University, Wheaton College, Augustana College, Lake Forest College, Millikin University, North Central College, Dominican University, St. Xavier University, Benedictine University, University of St. Francis, University of Wisconsin-Whitewater, North Park University, Eastern Illinois University, Lewis University, Western Illinois University and Olivet Nazarene University (IL) could be considered in this category. Of these, Elmhurst College considers Benedictine University, Wheaton College, North Central College, Illinois Wesleyan University, and Augustana College as its peers and direct competitors. In athletics, EC teams, nicknamed the Bluejays, participate in the Division III College Conference of Illinois and Wisconsin, commonly referred to as CCIW.

2.3 The Frick Years: 1971-1994

When Ivan Frick became president of Elmhurst College in 1971, costs were rising faster than income in American higher education and at the College. A sudden splash of red ink at the College produced a major financial crisis for the administration. Dr. Frick moved quickly to cut costs and promote growth. A conservative manager, he focused on expenses and by 1974 eliminated the red ink. When Dr. Frick left office in 1994, the endowment stood at \$35 million, having grown 46-fold during his stewardship. During the Frick years the College saw a number of capital additions and improvements across campus including the Buehler Library, the Computer Science and Technology Center and a nuclear accelerator. The Old Main building was renovated and achieved a spot on the National Register of Historic Places. A new physical education center seated 2,000 Bluejays devotees. During President Frick's tenure the College made significant advances in academic programs, including the establishment of the Center for Business and Economics, a Department of Computer Science and Information Systems, and an accelerated management curriculum for part-time working students- the Elmhurst management Program or EMP. Looking back at the early years of his presidency, Dr. Frick said, "We needed to restore our financial equilibrium to enable us to advance our academic program with some assurance that this was a place with a future." However, in the effort to cut costs Dr. Frick fired some tenured faculty, which created significant

friction between the faculty and the administration. Subsequently the faculty had developed a deep mistrust of administration's actions, which has continued to exist to the present time.

2.4 President Bryant Cureton and the Action Plan Years

Elmhurst College experienced a major change in leadership when Dr. Bryant L. Cureton was appointed as the College's twelfth president on July 1, 1994. Over the next year he worked with faculty, staff, and the Board members in creating a future vision of the College. A five year Action Plan, subsequently called Action Plan I, was developed to create and enhance the following:

- Synergy between liberal learning and professional preparation.
- Vigorous campus intellectual and cultural life.
- A stable, strong, diverse, and successful student community.
- Facilities and resources to support long-term strength.
- Broad external awareness and respect.

Significant progress towards these goals drove the development of a second Action Plan (Action Plan II) to continue the enhancements of the College. Endorsed by the Board of Trustees in March 2001 this plan focused on the following:

- Fulfilling the Potential - Extending and completing the work of Action Plan I
- Creating Memorable Learning Experiences - Bringing the academic and intellectual life of the College to a new level of excellence, enriching the educational experience of students and advancing the College's academic reputation.

Elmhurst enrolled a succession of freshman classes that were larger, more academically prepared, and more likely to complete their degrees. Between 1994 and 2003, the number of new freshmen rose sixty-five percent from 222 to 366 (Table 1). The total full-time equivalent enrollment, including all students, rose from 2,117 to 2,335, while the total enrollment dropped from 2,862 to 2,593 (Table 1). The customary measures of student academic preparedness also increased. The average composite ACT score of entering freshman rose from 20.7 to 23.4 and the proportion of freshmen who ranked in the top twenty-five percent of their high school class rose from 33 percent to 50 percent (Table 2). The five-year graduation rate rose from 50 percent in 1994 to 66 percent in 2003. The number of full-time faculty grew from 94 to 127. During the Action Plan years, the quality of Elmhurst's academic programs became more widely recognized. U.S. News & World Report consistently ranked the College in the top tier of its category. The Princeton Review called Elmhurst "a small college with a big bang," citing its "excellent" internships, "gorgeous" campus, and "intimate academic experience."

The Action Plans called for the College "to clarify and develop its distinctive edge, the integration of liberal arts education and preparation for professional life." This effort led to the creation of three new "centers of distinction" that aim to solidify the bond between liberal learning and professional preparation. In 1997, the College launched the Center for Professional Excellence, designed to augment each student's classroom experience with extended professional and intellectual challenges, on campus and beyond. The center's programs included international study, career exploration, service-learning opportunities, a burgeoning Honors Program, and internships. In 2001, the College established the Niebuhr Center with a \$2 million grant from the Lilly Endowment. Named for two of Elmhurst's most illustrious alumni, the theologians Reinhold Niebuhr and H. Richard Niebuhr (the College's sixth president), the center hosted an academic program for

students who were motivated by faith, whatever their religious background. It guided and supported students who considered a calling to a service profession or the ministry. In 2003, the Center for the Health Professions was launched to bring together students who were aspiring to careers across the spectrum of health care for an innovative mix of academic and co-curricular programs. The center offered expert academic advising and professional mentoring to students in a range of majors and pre-professional programs, including biology, chemistry, pre-med, nursing, exercise science, and speech-language pathology.

During the Action Plan years, the College also expanded its service to embrace new student constituencies. It launched nine master's programs—the first in the institution's history—and created the School for Advanced Learning, which served both graduate students and adult learners in undergraduate programs. The Action Plan years also involved considerable construction on the campus. The most conspicuous physical improvements included a new academic building, a fifth residence hall, a renovated library, an expanded student center, a new fitness center, and several exterior improvements, such as Alumni Circle, the Reinhold Niebuhr Monument, and the new Founders Gate on the eastern edge of campus. Together, these developments reshaped the landscape, sometimes subtly, sometimes significantly.

As a significant part of the city of Elmhurst the College also enlarged its contribution to the cultural life of the city during the Action Plan years. The campus events calendar became crowded with concerts, plays, art exhibits, and an array of impressive speakers, including Maya Angelou, Marian Wright Edelman, David Gergen, Taylor Branch, Sister Helen Prejean, and two Nobel Peace Prize winners, Lech Walesa and Elie Wiesel. The Action Plans also sought to enhance the College's affiliation with the United Church of Christ, which Dr. Cureton regarded as a key asset. He commented that "Our heritage enables us to pay close attention to issues of values and ethics, in an open intellectual climate that welcomes students of all backgrounds and traditions."

2.5 The College Budget

The College's Executives, led by the President, created a budget for each academic year during the spring and summer of the previous year. Under normal circumstances the College's planned net revenues (revenues net of discounts, financial aid, scholarships, and other offers) either exceeded or fell short of planned expenses by a few hundred thousand dollars. Consequently a draw of a few hundred thousand dollars from the Colleges' Endowment was normally included in the budget. At the end of the academic year, any money left over was returned to the endowment, effectively reducing the draw on the endowment. Figure 2 displays the College's actual net revenues minus expenses, before any money was drawn from the Endowment.

3 Main Challenges and Analysis

3.1 The Crisis

After running operating budget surpluses between 1999 and 2001, the College had a deficit of \$344,000 in 2002. Based on preliminary data, the College had run a deficit of \$499,000 in 2003 necessitating a special draw on the endowment that had to be approved

by the Board (Figure 3). The College's preliminary budget for FY 2004 also projected a deficit and a special draw on the endowment of more than half a million dollars. While total enrollment in traditional full-time programs had grown at the College, enrollment in part-time and special programs had declined (Figure 4). The "discount factor" or the percent of the nominal tuition that was discounted to students as financial aid had risen significantly over the past four years. The "net tuition revenues" or tuition after deducting financial aid was not keeping up with the increase in operating expenses incurred to support the higher enrollment and the drive towards operating improvements in the College. Further, the College had seen significant declines in its highly profitable adult-oriented Elmhurst Management Program, and this loss of adult revenue was not made up fully in other areas. The various components of revenues and expenses are listed in Table 3. The macroeconomic factors were also having a significant impact on the College. The bursting of the Internet Bubble and the market crash in 2001-2002 had reduced the College's endowment from \$75 million in 2000 to \$59.9 million by June 30, 2003 (Figure 5). This had a significant impact on the financial flexibility of the Board. Further, the State of Illinois eliminated the enrollment-based Financial Assistance Grant that the College had received in the past. This grant had amounted to \$689,308 in the year 2000 and went towards supporting the College's operating expenses. The economic downturn also affected families of potential students, and they were looking for increased financial assistance, including financial aid.

Other schools in the area that EC competed with, including Loyola and North Central, had also experienced losses during this period, even as enrollments increased. However some of these schools had much larger endowments, which gave them a financial cushion and time to work through the crisis.

3.2 The Rescue Plan

Clearly this was a time of crisis. It was apparent that change was imperative and status quo would result in larger deficits and compel the Board to take drastic action. The "easy" response was to make significant cuts in the annual operating budget to bring it into balance for the current year (Figure 6). While this option could get support from the Board, there were significant risks to this strategy. A faster decline in revenue spurred by cost-cutting would put the College in a disastrous downward spiral (Figure 7). Dr. Cureton was also concerned about the effect the cost-cutting measures would have on the momentum that had been building up over the past few years. He was aware of the Frick era and the lingering impact of Dr. Frick's actions, including layoffs and other cost reduction efforts. He wanted a plan that could garner support from key stakeholders in all constituencies, including faculty, staff, and the students. He understood the importance of 'Level 5' leadership, or getting things done in a diffuse power structure (Collins, 2005). He realized that his strategy had to be persuasive and enable consensus building. He was working on a radical idea- increasing spending to drive enrollment growth while exercising strict discipline and controlling the discount factor. The idea was to drive net revenue growth at a faster rate than the associated expense growth (Figure 8). If the plan worked, it would result in a budget surplus after three or four years. The key principles underlying the plan were: Rebalance by "disciplined growth," build "a culture of innovation" and "The people here are the solution." He adopted the hedgehog principle outlined by Jim Collins (2005), namely, understanding what the organization stands for, what the organization is best at, and the time, money and brand that drive the Resource

Engine, to develop the strategy for moving forward.

Dr. Cureton created the blue print for Action Plan III- a successor to the previous two Action Plans, to move the College forward, through the crisis. The key elements, as he sketched them out, were as follows:

- Robust recruiting through the creation of a new position of an Admissions Officer and revising the strategy for recruitment
- Disciplined financial aid and integration of recruiting and financial aid
- Efficient new program development
- Requiring business plans for all initiatives
- Watchful eye on costs
- Refocused fundraising
- Support for innovation

3.3 Getting Faculty Engaged

President Cureton kicked off the annual faculty and staff retreat in August 2003 with a presentation on the “State of the College.” He outlined the data on enrollment, the state of the endowment, and his plan for moving the College forward through strategic investing. Sharing the data with all constituents, he requested their support in making the plan successful. He made a presentation at the Faculty Meeting where he shared the information on enrollment and asked for faculty’s help in executing the strategic plan. Subsequently a “Strategic Steering Team” composed of 8 faculty and 11 administrators (including the President) was formed to guide the planning and execution. Faculty then voted on prospective candidates and selected experienced members to be faculty representatives on the SST (in the following year, the SST was renamed the Academic Council for Strategic Planning). This team was responsible for identifying and prioritizing projects that were deemed strategic to the College’s success, and allocating resources for those projects. Another team called the Innovation Support Team (IST) was created for the purpose of analyzing proposals, conducting feasibility studies, and developing business cases for projects proposed by any constituency on campus. The IST would make its recommendations to the SST which would make the ultimate decisions on the proposals. The IST was considered an ad-hoc committee and its members were selected from the business department for their expertise in business case development. With these two entities in place, the plan called for “relentless communication” and “flawless execution.” Some of the new initiatives approved by the SST included the Nursing Growth Plan and a new Graduate Program in Nursing, a new Graduate Program in Education, an expansion of the Music Department, a certification program in Geographic Information Systems. Another initiative that was approved was Elmhurst Life Skills Academy (ELSA), a four-year program that provides a full-time, post-secondary educational experience to young adults with developmental disabilities. Upon completion of the ELSA program, students received a certificate from the Academy. An ELSA graduate was expected to be better prepared to hold a job and live with greater independence in the community or with their families. Even though this program was not expected to make a big impact on the College’s finances, it was a unique program that could provide a higher profile for the College in the community and also create opportunities for students to be mentors and educators. Faculty supported these initiatives through active participation. Even though salaries were frozen in 2004 and only one new faculty member was hired, faculty understood the position of the College, and actively

worked for the success of these initiatives. Faculty members proposed more than thirty new projects to the IST. Further, faculty took a greater role in student recruitment. Some faculty members actively called their colleagues in the two year colleges recommending Elmhurst College as the destination for their students. Faculty undertook greater advising workloads, and also talked to parents of prospective students. Dr. George Thoma, the senior faculty on the SST, reported on the committee's activities at every faculty meeting. The Dean, and sometimes the President, also made presentations at faculty meetings, updating the faculty members with the progress being made.

This approach taken by President Cureton was similar to the best practices recommended by business department faculty to corporate managers regarding the new product development process (Berenson et al., 2002). These practices included the creation of cross-functional teams, close collaboration among various stakeholders, early supplier and customer involvement, continuous monitoring of progress based on key performance metrics, and clear and open communication across all members and channels.

3.4 Results

The College drew significantly less than what was projected from the endowment in 2004 and 2005. The school effectively turned an operating profit in 2006, and allowed it to allocate some money to a special projects fund to execute projects that were not in the original budget. Construction started on a new "state of the art" environmentally sustainable "green" residence hall, after the College raised money through a successful bond issue. Traditional freshman enrollment increased to nearly 590 students in 2008 and the quality indicators were higher across the board. The College endowment had risen to \$125 million and the Chairman of the Board was targeting an endowment of \$200 million in a few years.

3.5 Current Challenges

After President Cureton's retirement in July 2008, Dr. Alan Ray took over as the new President of Elmhurst College. His primary mandate was to increase the endowment and alumni donations, secure funds for major capital projects. However, the global economic downturn that started in 2007 and intensified in 2008 and 2009 had started to affect Elmhurst College. The Endowment had suffered losses of nearly 30% and was near \$90 million. Freshmen enrollment, after hitting a record 586 for the Fall term of 2008, declined to 538 for the Fall term of 2010. Full time transfer students numbered 339 in 2008 but declined to 267 in 2009 before rebounding to 319 in Fall 2010. While a recessionary economy was generally expected to benefit college enrolments (Economist, 11/14/2009) it was not the case for Elmhurst College. Tuition increases, ranging between 4% and 8%, meant that the annual expense of attending the College exceeded thirty-five thousand dollars. Over the past three years a greater number of students were asking for more financial aid or student loans. Some students had indicated that they would shift to a lower-cost school to complete their education.

The first major initiative by the new President was to start a comprehensive strategic planning process in Fall of 2008. The strategic plan was developed by a task force composed of a broad cross-section of faculty, staff, board members and students and was facilitated by external consultants. After significant effort, the proposed plan was approved by faculty and ratified by the Board. However, a number of elements in the plan

depended on the commitment of significant resources. The planning process did not take into account the macroeconomic changes in the marketplace.

The new President sent notice to faculty that the decision on salary increases for the upcoming year would be delayed until September, by which time the tuition revenue picture would be clearer. A major revision of the General Education curriculum, spearheaded by the Dean of Faculty and Vice President of Academic Affairs, passed by just one vote in Spring. The College was waiting to see what direction the new President would chart for the College, and how he would sell it to the various constituencies including faculty.

4 Conclusion and Teaching Notes

This paper describes the challenges faced by Elmhurst College over the past ten years and the efforts by its senior leadership to “grow through the crisis.” It presents the challenges faced by management of not-for-profit organizations in leading diverse constituencies towards common goals in a difficult operating environment. This case study can be used as an effective tool to discuss management of not-for-profit organizations, especially academic institutions, and debate strategies for growth during significant downturns in the environment. This case is intended for use in courses in general management, strategic management, management of not-for-profits, and related topics at the graduate or undergraduate levels. It has been used to educate students on the managerial challenges faced in institutions where the power structure is diffuse and cooperation among multiple stakeholders is needed to make progress. Textbooks on Management, Strategic Management, and Managing Not-for-profits can be used to support the analysis of the case. Textbooks like “Nonprofit Management – Principles and Practice” by Michael J. Worth and “Essentials of Contemporary Management” by Gareth Jones and Jennifer George can be used in the “Nonprofit Management” and “Principles of Management” courses respectively.

The teaching objectives of the case are to enable students to

- a) Understand the managerial challenges in serving diverse stakeholders,
- b) Consider strategies for growth even in a severe downturn,
- c) Think about the challenges in building relationships with and between stakeholders with often conflicting interests, and
- d) Consider the challenges in leading an organization with a diffuse power structure.

The following questions can lead to engaging class discussions and enable learning of core concepts in managing not-for-profits.

1. What do Industry Analysis frameworks (like Porter’s Five Forces) reveal about the segment of the higher education industry that Elmhurst College competes in?
2. What factors in the organization's environment (including the sociocultural milieu, technological developments, economic conditions, and political climate) have a significant impact on the future of the College?
3. Does the College’s Mission demonstrate the characteristics the mission statement that results from the analysis of history, distinctive competence, and the environment?
4. According to the textbook a firm’s mission statement must be customer-focused, achievable, motivational, and specific. Analyze the College’s mission statement on these dimensions.
5. According to the competitive strategy model, organizations can develop distinctive

- competence in three ways: differentiation, cost leadership, and niche. Apply the competitive strategy model to develop operating strategies.
6. What are the key factors that influence enrollments?
 7. Model the “supply chain” in the education industry.
 8. What metrics should be tracked to manage the performance of the President, the faculty and senior administration members??
 9. Develop strategies to pull EC out of the downturn.
 10. What are the risks associated with President Cureton’s strategy? What organizational changes need to be made to support the strategy?

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Appendix

Table 1: Student Enrollment

	1994 (Before ActionPlan)	2003
New Freshmen	222	366
New Transfers	292	278
Continuing/Returning	1,118	1,278
Traditional Part-Time	952	243
Accelerated Undergraduate	278	231
Graduate Programs	n/a	197
Total	2,862	2,593

Table 2: Incoming Student Characteristics and Retention

	1994 (Before ActionPlan)	2003
Resident Students	496	796
Average ACT Scores	20.7	23.4
From Top 1/4 of H.S.	33%	50%
Retention: Freshmen to Soph.	73%	83%
Graduation Rate	50%	66%

Table 3: Revenue and Expense Compositions based on FY2003 Actual Income Statement

Revenues	
Traditional	\$ 95.16
Adult	\$ 8.77
Other (Summer, etc.)	\$ 5.18
Other Income	\$ 17.08
Other Support ¹	\$ 7.24
Total Revenue	\$ 133.43
Scholarships	\$ (33.43)
Net Revenue	\$ 100.00
Expenses	
Instruction	\$ 34.71
Plant Ops/Maint	\$ 12.05
Institutional Support	\$ 19.90
Other	\$ 25.41
Total Educational Expenses	\$ 92.07
Aux. Services	\$ 6.98
Appropriations	\$ 0.96
Total Expenses	\$ 100.00

Notes: Revenue and expense items are computed on a revenue of \$100 and a cost base of \$100. ¹Includes transfers from endowment

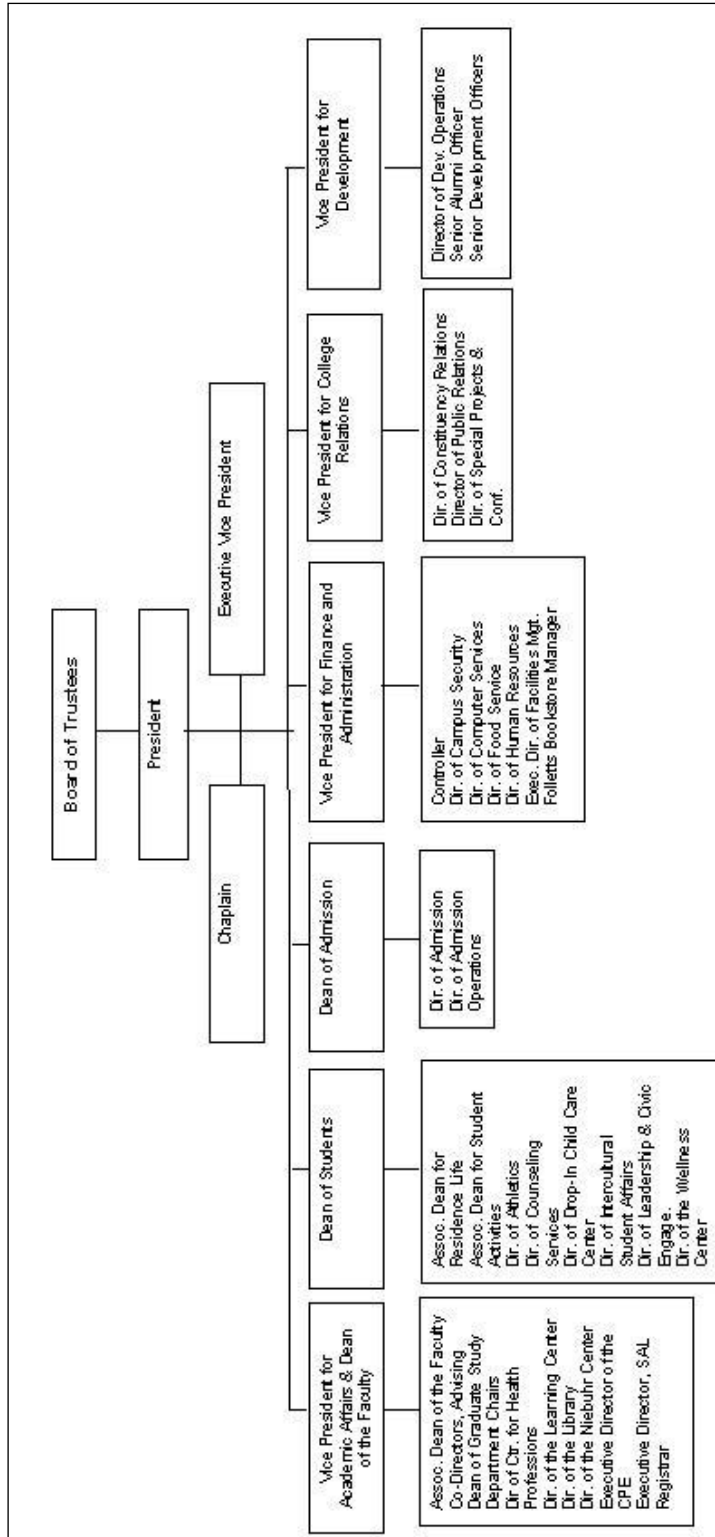


Figure 1: Organizational Chart of the College

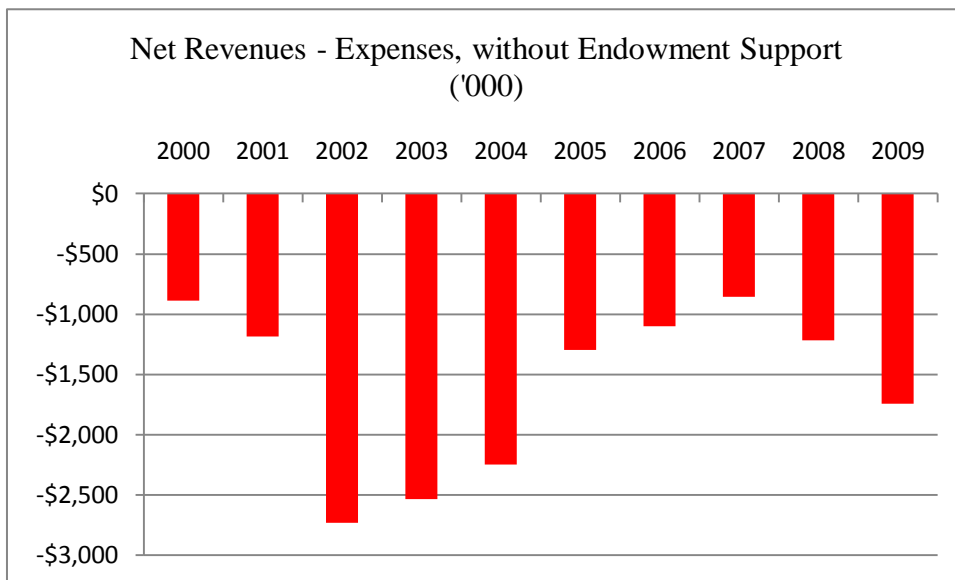


Figure 2: Operational Performance: Net Revenues – Expenses

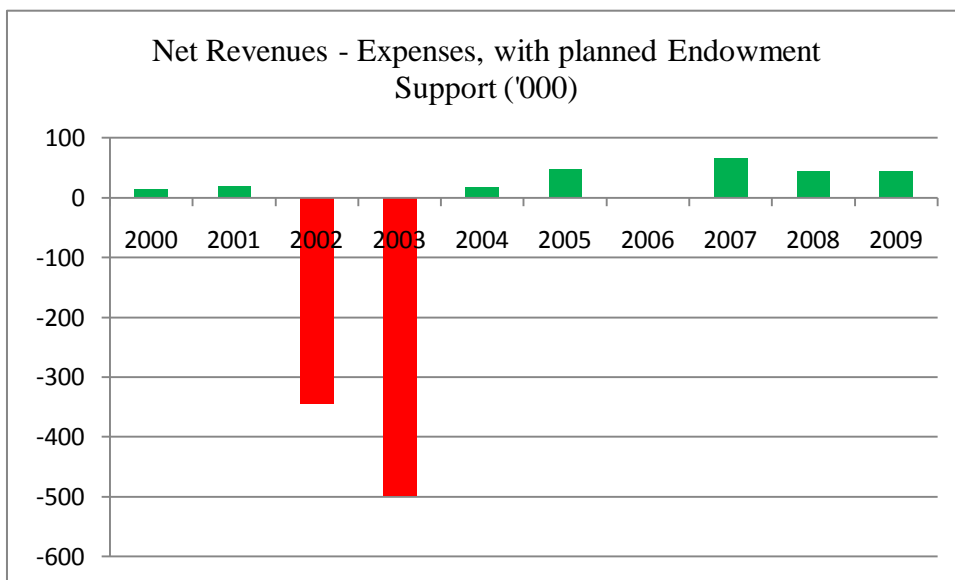


Figure 3: Net Revenues – Expenses, with Planned Draw on Endowment

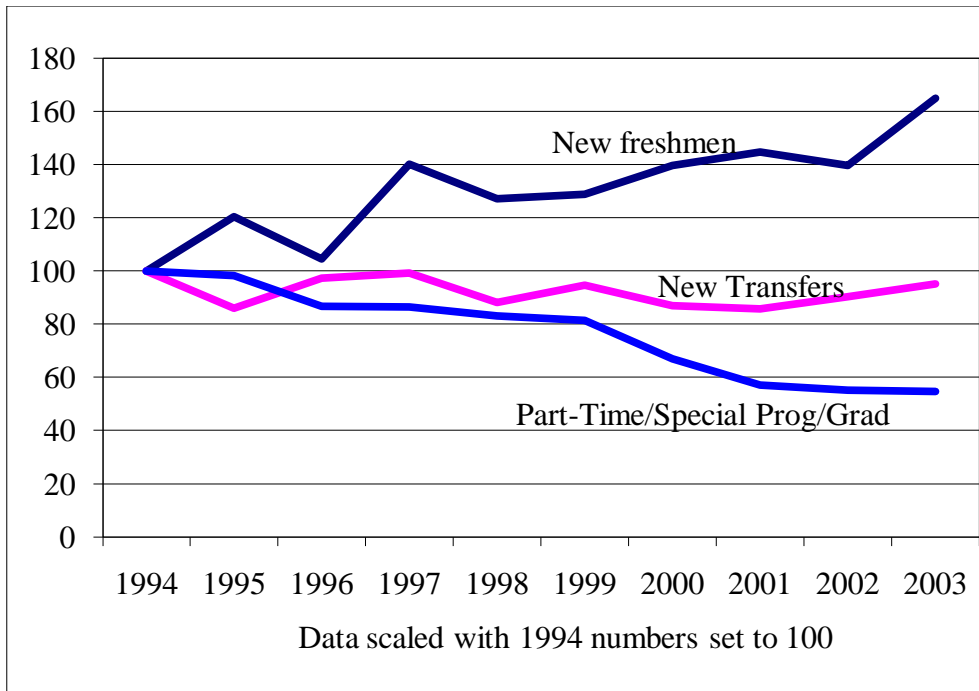


Figure 4: Trends in Enrollments

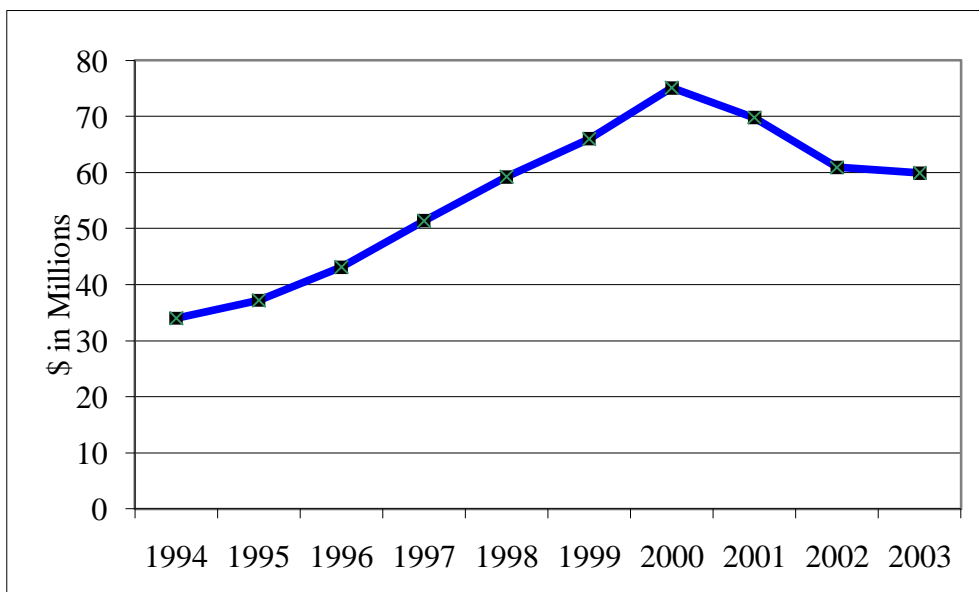


Figure 5: Market Value of the Endowment Fund

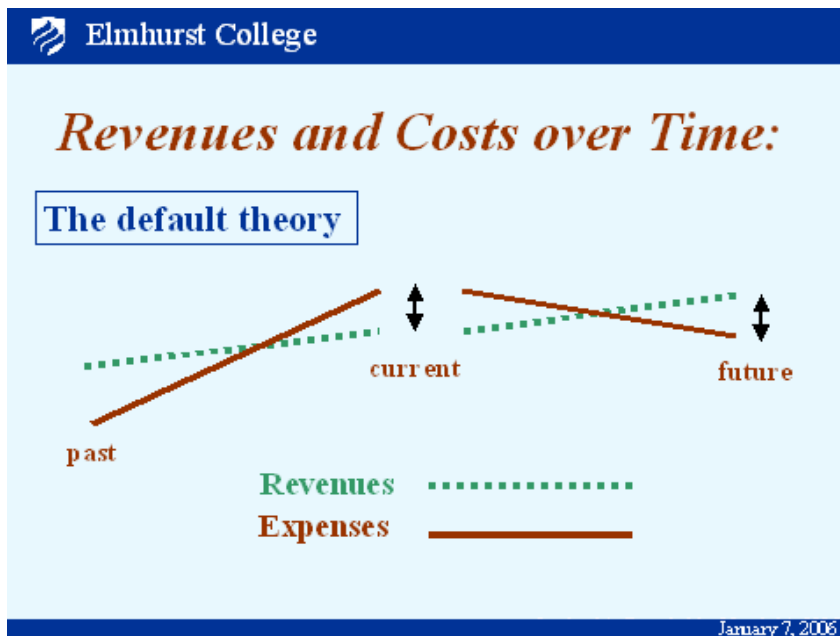


Figure 6: Strategy for Growth – Default Model

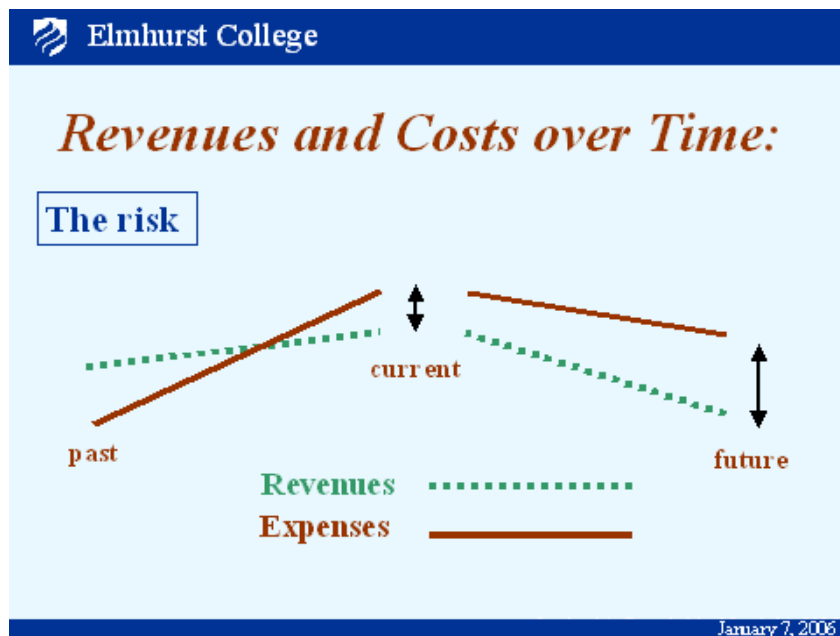


Figure 7: Risks Associated with the Default Strategy

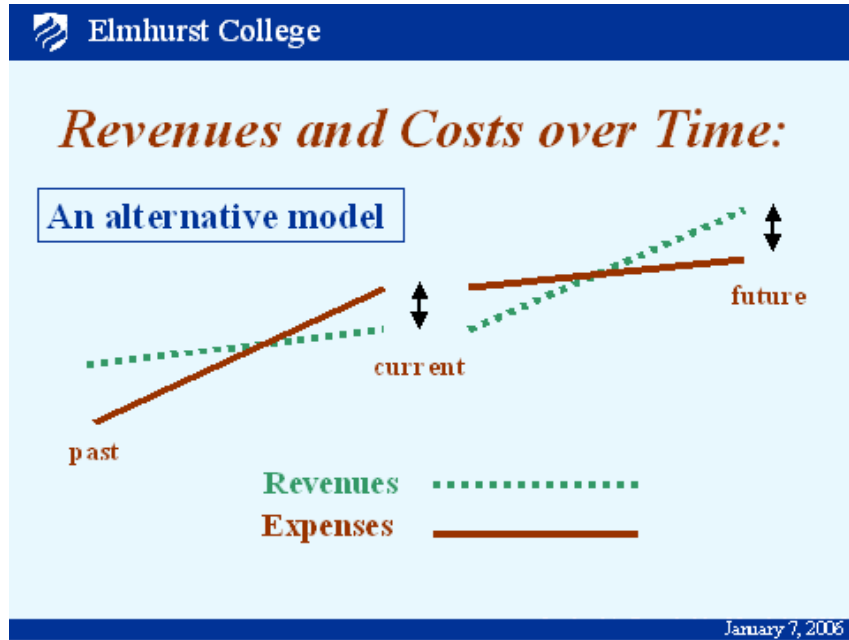


Figure 8: An Alternate Strategy for Growth