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ABSTRACT

Defining financial management as the provision of financial data for, and the use of that data in, the planning, management, and evaluation functions of an institution, this document suggests an approach to improvement in the provision of financial data. A series of five cost sheets are presented which allow for cost calculations at differing levels of intra-institutional aggregation, each drawing upon the preceding sheets to process financial data into new information. An Instructor Cost Sheet enables calculation of cost per student contact hour. A Course Cost Sheet provides total cost, average cost per student, and average cost per student contact hour. A Discipline Cost Sheet provides total cost and average cost per student contact hour. A Division Cost Sheet calculates instructional costs, division indirect costs, and average division indirect cost per student contact hour. A Curriculum Program Cost Sheet yields average cost per student. Use of the forms does not require rearrangement of existing accounting systems; rather, they allow persons outside of financial administration to collect, aggregate, and rearrange financial data and to apply it to the problems of concern to the decision maker. (JDS)

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Financial Management in  
Higher Education:  
Research for Improvement

JC 770 063

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Colleges - Title III**

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Development Program**

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**FINANCIAL MANAGEMENT IN HIGHER EDUCATION**  
**AN APPROACH TO IMPROVEMENT**

by

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## INTRODUCTION

This paper begins with a premise — the premise that the colleges and universities participating in the Basic and Advanced Institutional Development Programs of the U.S. Office of Education have a unique opportunity for innovation in financial management. The bases for this premise are:

- *The state-of-the-art in educational financial management is not static.* Excellent advancements have been made, and continue to be made, by such bodies as the National Association of College and University Business Officers, the National Center for Higher Education Management Systems, the American Institute of Certified Public Accountants, and others. Nevertheless, each institution must select, from the many materials available, those pieces which can be tailored to fit its unique management needs.
- *A major theme of the Institutional Development Programs is the design and installation of effective Planning, Management, and Evaluation (PME) Systems.* Against that backdrop, each participating institution has an inherent challenge to examine its financial management practices and to introduce constructive changes.
- *The colleges and universities participating in the Institutional Development Programs are of a size amenable to change in management systems.* The direction which will be suggested in this paper is an approach which may be useful in educational institutions of any size. Nevertheless, the introduction of change is more difficult in a very large institution. This is especially true if the change poses a challenge to existing concepts or methods, or if there is little impetus for making the change.

These points can now be summarized to form a more succinct foundation of the premise. Improving the financial management of educational institutions is an active field of study by many prominent bodies; colleges and universities participating in the Institutional Development Programs are strongly encouraged to strengthen their management processes (of which financial management is an inherent part); and the nature of these participants as relatively small and evolving institutions provides them with an advantage in the design and installation of innovative financial management techniques.

## THE CONTEXT FOR INNOVATION

It is best to define terms. Our topic is financial management, a term which may have a different meaning to each reader. We need, therefore, a common understanding

of what financial management means *in the context of this paper*. It is appropriate that in drawing up our definition, we refer to an earlier paper in this same series, i.e., *Planning, Management and Evaluation*, Volume 1, Number 1.

- In that paper, management is described as "those policies and operating decisions which enable the college to achieve the objectives which were derived from the planning process." The key words we want to carry forward to this paper are "policies and operating decisions."
- That earlier paper also made a useful distinction between management and administration. Consistent with the explanation of the term "management" at the beginning of that paper, later discussion says "management is concerned with the formulation and setting of policies and the decision-making which guides the future direction of the organization." Administration is then described as ". . . the implementation of the decisions of management."
- If we then use the two preceding points as a reference for viewing our current financial activities, it appears that the bulk of those activities are "administration," and more specifically, financial administration. Certainly, however, some of those financial activities, particularly during budget formulation and periodic status reviews, are in direct support of "management."
- To move forward from a periodic interplay between management and financial administration is to move toward the term we are attempting to define, i.e., financial management. In the context of this paper, *financial management is the provision of financial data for, and the use of that data in, the planning, management and evaluation functions of an institution.*

Having now defined financial management, we can state the purpose of this paper. The title includes the phrase "an approach to improvement." More specifically, *our purpose* is to suggest *an approach to improvement in the provision of financial data*. Our definition of financial management embraces both the provision and use of financial data. The latter, use of financial data, is, therefore, beyond the scope of this paper. This clearly requires that our financial administration activities, i.e., budgeting and accounting, play a strong role. On the other hand, we are speaking of the use of those data in the making of major decisions which will involve persons who are not participants in the day-to-day functions of financial administration. The issue then, is communication. How can the financial data employed in day-to-day transactions be used as sources for succinct financial indicators which can be understood and used by the top administrators? Solving that problem is implicit in the design and installation of a comprehensive Management Information System (MIS) tailored to the institution, but that process takes time. An interim approach, if one could be found, would, therefore, do three things: one, it would quickly provide financial information which, although approximate, would be useful for planning, management, and evaluation;

two, it would prepare the institution for the use of the MIS; and three, it would assist in the design of the MIS.

Our intent, therefore, is to formulate an interim approach for providing certain financial *management* information. We should begin by looking at our current financial *administrative* functions.

## EXTERNAL REFERENCES

The most fundamental responsibility of the chief financial officer of a college or university is that of a fiduciary. Funds come to the institution and are expended by the institution. Those funds must be accounted for. As a consequence, the institutional accounting system is a primary tool for financial administration and is aimed at meeting fiduciary responsibilities. No matter how large or small, how old or new, how sophisticated or unsophisticated, every institution needs, at a minimum, a sound accounting system. However, there is an inescapable relationship between the financial condition of an institution and its present and future status as a viable organization. The past few years have demonstrated this rather conclusively! As a consequence, there has been an expanding effort to make more clear and effective the role of finance in institutional management. In the context of this paper, the drive is toward more effective financial management. We need then, to examine some of the more germane elements of that effort and, *in the context of the Institutional Development Programs*, relate them to the technique presented in this paper.

- *College and University Business Administration*, the excellent book published by the National Association of College and University Business Officers, (NACUBO) contains chapters on fiscal management and financial accounting and reporting. Any educational institution would be well-advised to use that book as a basic reference for financial administration. That book also has an excellent discussion of program budgeting, which is one of the basic steps toward financial management as that term is used in this paper. In addition, the book's discussion of program budgeting relates to the work of the National Center of Higher Education Management Systems, which is discussed next.
- The important work of the National Center for Higher Education Management Systems (NCHEMS) in the development of program classification structures is well-known and widely-accepted in the educational community. Additionally, NCHEMS has developed the *Higher Education Finance Manual*, January 1975, which is the result of a project whose goal was "to assist in higher education planning and decision-making as they relate to the need for and the use of financial information," and, in particular, to the

"communication between those who *provide* the data and those who *use* the data." The manual does this in the fashion set forth in its preface, i.e., "it addresses higher education financial data from the layman's perspective." However, the financial information discussed in the *Higher Education Finance Manual* is just that — financial information. There is much yet to be done to make it most useful.

The *Higher Education Finance Manual* states (emphasis added):

*Today there is widespread interest in costs and program information and there are requirements for more detailed information about almost every aspect of the institution's operations — past, present, and future. There has been a widespread introduction of centralized planning in higher education. The planner, as intermediary in this process, is asked to collect raw financial data from institutions, to aggregate it, to rearrange it, to combine it with nonfinancial data, and to apply it to the problems of concern to the decision-maker.*

The manual says further:

*Planners at all levels now are asking for financial data that can be related to nonfinancial data, financial data that can be related as closely as possible to the questions decision-makers will be asking (which generally are structured around the objectives and outputs of education), and financial data that can be understood and used by persons unfamiliar with the details of any particular institution's operations.*

The *Higher Education Finance Manual* can be viewed as an important step which augments the NACUBO reference, and succinctly and accurately points toward *new uses* for financial information. And, very importantly, as suggested by the emphasized statements above, those new uses need only draw on existing financial systems; there is no need to restructure the all-important basic fiduciary accounting systems.

- *Change* magazine, in its September 1976 issue, published the first of a planned series of annual reports on the Financial Health of American Institutions of Higher Education. Using data available from the Higher Education General Information Survey (HEGIS), the researchers developed a set of 16 key indicators of financial health. Data from 2,163 institutions were then analyzed and the magazine article presented the results. The authors observed that "the operating ratios employed in the analysis reflect the direction in which an institution is headed and should be the central focus for sophisticated administrators." Ten of the sixteen operating ratios combine

financial and nonfinancial data such as: current funds revenues plant assets; educational and general expenditures-degrees conferred; academic mission expenditures-educational and general expenditures; and others. The approach taken by the researchers clearly can be viewed as consistent with the NCHEMS statements quoted above.

These three external references are important to the Institutional Development Programs. They make a strong case for program budgeting, for the aggregation of financial and nonfinancial data into significant indicators, and for the use of those indicators for the top level monitoring of the financial health of an institution. A similar case was made in the AIDP paper entitled "Planning, Management, and Evaluation." That paper presented several formats of the kinds of financial data combined with nonfinancial data which should be useful to the key officials at a college or university. Many institutions will develop similar information formats as a part of their design of a Management Information System. However, for the reasons cited previously, there is merit in the application of an interim technique for developing such formats. The next section will present a generalized approach to such a technique.

## FINANCIAL MANAGEMENT – AN APPROACH

Our objective now is to define an approach which will allow us, as the *Higher Education Finance Manual* states, ". . . to collect raw financial data from institutions, to aggregate it, to rearrange it, to combine it with nonfinancial data, and apply it to the problem of concern to the decision-maker." In fashioning the technique, we draw on the preceding discussion to formulate certain design criteria. Those criteria are:

- *The integrity of the fiduciary accounting system must be maintained.*
- *The responsibilities for financial administration and accountability inherent in the organizational structure must be respected.*
- *Macrodata are sufficient. The exactitude required in accounting is not necessary.*
- *Simplicity is necessary. Simplicity reduces costs, hastens implementation and increases understanding.*
- *Flexibility must be provided. A single approach cannot be made operational in all educational institutions unless it can be modified to fit.*

The technique proposed is a set of five forms, each of which draws on the preceding form to process certain raw financial data into new elements of information. The five forms and their principle products are as follows:

Form	Product
Instructor Cost Sheet	Cost per student contact hour
Course Cost Sheet	Total cost Average cost per student Average cost per student contact hour
Discipline Cost Sheet	Total cost Average cost per student contact hour
Division Cost Sheet	Instructional costs Division indirect costs Average division indirect cost per student contact hour
Curriculum Program Cost Sheet	Average cost per student

The preceding table shows that the focus of the suggested technique is on instructional costs. Those costs relate to, again quoting NCHEMS, "the questions decision-makers will be asking (which generally are structured around the objectives and outputs of education)." Also, those costs constitute the major part of an institution's budget. The instructional costs are, therefore, the focal point of the technique presented in this paper.

Before presenting and explaining the forms, it is appropriate to emphasize that those forms are simply models, not necessarily intended for use as presented here. An institution will need to tailor the contents of the form to its unique characteristics, terminology, and information needs. The time period covered should always be shown on the forms. The initial application of the technique may be for a full year. Later applications may be for semesters, quarters, or even shorter periods. It is also important to point out that there is nothing new or sophisticated in the logic of the forms design. What, then, is the purpose of presenting them? The answer is that the forms enable persons *outside* of financial administration to, once again quoting NCHEMS, "collect raw financial data, to aggregate it, to rearrange it, to combine it with nonfinancial data, and to apply it to the problems of concern to the decision-maker." This approach is in sharp contrast to that of asking that an institution's accounting system be redesigned or augmented to provide precise data on, for example, costs per student contact hour. With the forms in this paper, existing accounting systems, policies, and responsibilities are untouched. We can now examine the forms.

## INSTRUCTOR COST SHEET (EXHIBIT A)

A form is prepared for each person with instructional responsibilities.

The first entry is a listing of the courses taught, along with the number of students enrolled, and the contact hours. The next step, as illustrated on *Exhibit A*, involves multiplication to obtain student contact hours for each course and then addition to obtain the total student contact hours provided by the instructor, noted as (1) on Exhibit A.

Next, the salary of the instructor for the period covered by the cost sheet is entered, along with fringe benefits. The third item, other instructor costs, is largely hypothetical and is shown only to illustrate that any costs unique to an individual instructor can be introduced at this point, again taking care that those indirect costs relate properly to the time period covered by the form. A total is then entered: (2) on Exhibit A.

The total average instructor costs per student contact hour, (3), are then calculated by dividing (2) by (1).

The unit cost figure, (3), is then multiplied by the student contact hour figure listed for each course to obtain the costs of this instructor, (4), for each course he or she teaches. The total, (5), is then verified against (2).

**INSTRUCTOR COST SHEET**

Period Fiscal Year 1976

Instructor J. Doe

Courses	No. Students Enrolled	Contact Hours	Student Contact Hours	Instructional Costs
English 101	42	3	126	\$4,573
XXX	28	4	112	4,066 (4)
XXX	32	5	160	5,808
Total		12	398	\$14,447 (5)

(1)

Salary	\$12,000
Fringe Benefits	1,797
*Other	650
Total	\$14,447 (2)

Total Instructional Costs Per Student Contact Hour \$ 36.30 (3)

*Other Instructor Costs	
Item	Cost
XXX	\$400
XXX	250
Total	\$650

## COURSE COST SHEET (EXHIBIT B)

One sheet is prepared for each course.

Using the Instructor Cost Sheets as the source, each instructor teaching this course is listed, along with the number of students enrolled in his or her classes and the resulting student contact hours. The instructor costs are also carried forward from the Instructor Cost Sheets. The total course instructional costs, (1), are then obtained. The enrollment and student contact hour columns are also totalled for later use.

Indirect course costs (i.e., special books, equipment, and related items) are then entered, (2), and totalled, (3).

Course total costs are then determined. The instructional and indirect totals, (1) and (3), are transposed into the third block and a new total is obtained. All three of these cost figures are then divided twice. When divided by the number of students enrolled, shown in the first block on the form, the average cost per student is obtained. Similarly, the average cost per student contact hour is obtained.

COURSE COST SHEET

Period Fiscal Year 1976

Course English 101

Course Instructional Costs			
Instructors	Student Contact Hours	Students Enrolled	Instructional Cost
Doe, J.	126	42	\$4,573
XXX	104	51	6,201
XXX	82	36	5,065
XXX	130	44	4,907
Total	442	173	\$20,736

(1)

Course Indirect Costs	
Item	Cost
XXX	\$3,450
XXX	105
Total	\$3,555

(2)

(3)

Course Total Costs			
Category	Total	Average Per Student	Average Per Student Contact Hour
Instructional	\$20,736	\$120	\$47
Indirect	3,555	20	8
Total	\$24,291	\$140	\$65

## DISCIPLINE COST SHEET (EXHIBIT C)

One sheet is prepared for each group of courses which constitutes a discipline.

Using the Course Cost Sheets as the source, information for each of the data elements shown is carried forward and the columns are totalled. The averages in the bottom blocks are then computed using the appropriate totals.

DISCIPLINE COST SHEET

Period Fiscal Year 1976

Discipline English

Course	Student Contact Hours	Instructional Costs	Indirect Costs	Total Costs
English 101	442	\$20,736	\$3,555	\$24,291
XXXX	390			
XXXX	410			
XXXX	345			
XXXX	263			
Total	1,850	\$96,210	\$13,200	\$109,410

Cost Per Student Contact  
Hour

Instructional

\$52.00

Total

\$59.14

## DIVISION COST SHEET (EXHIBIT D)

Courses, and their aggregations as disciplines, are typically administered at a higher level such as an academic division or career development center. While this sheet is intended to aggregate costs at that level, it could also be used to portray costs by program classification structure.

One sheet is prepared for each academic division or similar focal point of academic administration.

The Discipline Cost Sheets are the source documents. Each discipline supervised is listed, along with the student contact hours and course instructional, indirect, and total costs. Division totals are then obtained.

Next, the indirect costs incurred at the division level are entered in the second block. The college may have devised a method for allocating to the academic divisions the many other operating costs which are incurred by organizational elements other than the academic divisions. If so, then those costs are included here as "division indirect." For example, the college may lump all operating costs incurred outside the academic divisions and then make a pro rata apportionment to those academic divisions on the basis of the number of students assigned, or the number of student contact hours produced, or some other method which equitably relates those costs to the "products" of the college. The total division indirect cost is then divided by the number of student contact hours to obtain the average division indirect cost per student contact hour.

DIVISION COST SHEET

Period Fiscal Year 1976

Division Liberal Arts

Discipline	Student Contact Hour	Course Instructional Costs	Course Indirect Costs	Course Total Costs
English	1850	\$ 96,210	\$ 13,200	\$ 109,410
XXXX				
Totals	10,500	\$590,200	\$ 75,100	\$ 665,300

Division Indirect Costs	
Item	Cost
XXX	\$ 11,500
XXX	6,700
XXX	4,200
XXX	200,000
Totals	\$222,400

Average Division Indirect Cost Per Student Contact Hour \$ 21.18

## CURRICULUM PROGRAM COST SHEET (EXHIBIT E)

One sheet is prepared for each curriculum program of the institution.

Each course included in the curriculum program, irrespective of discipline or division, is listed on the Curriculum Program Cost Sheet. In the first column is entered the average division indirect cost per student contact hour, as derived on the appropriate Division Cost Sheet. Then, using the Course Cost Sheet as the source, the number of student contact hours and number of students are entered. The figures in the first two columns are multiplied and the product is then divided by the figure in the third column to obtain the entry in the fourth column. Next, the course instructional costs and course indirect costs are entered from the Course Cost Sheet. The grand total is then obtained by adding the figures in the preceding three columns. Program totals are entered at the bottom of the form.

\* \* \*

The forms have been presented and explained. They provide with ease, information needed for displays such as those in *Appendix A*. For example, the instructional costs per student contact hour for a discipline are used in *Exhibit A-1*, and the source can be the Discipline Cost Sheet, *Exhibit C*. Appendix A includes, with the sample displays, a brief illustration of how they may be used.

# CURRICULUM PROGRAM COST SHEET

Period Fiscal Year 1976

Curriculum Program XXX

				AVERAGE COST PER STUDENT			
Courses	Average Division Indirect Cost Per Student Contact Hour	Student Contact Hour	Students	Division Indirect Cost Per Student	Course Instructional	Course Indirect	Grand Total
English 101	\$ 21.18	442	173	\$ 54	\$ 120	\$ 20	\$ 194
XXX	(1)	(2)	(3)	$\frac{(1) \times (2)}{(3)}$			
XXX							
XXX							
XXX							
XXX							
XXX							
XXX							
XXX							
XXX							
XXX							
			Totals	\$ 864	\$2,520	\$500	\$3,884

Exhibit E

## SUMMARY AND APPLICATION

This paper began with the premise that the colleges and universities which are participating in the Institutional Development Programs have a unique opportunity for innovation in financial management. The paper then:

- *Reviewed the context for that innovation, including a definition of the term "financial management," and suggested that the points of departure should be the current financial systems.*
- *Cited several key external references, i.e., NACUBO and NCHEMS, concerning those financial systems, and drew on them for a "theme" of collecting raw financial data, rearranging it, and combining it with nonfinancial data. The very recent third reference, *Change* magazine, was then cited to show the utility of operating ratios and the need for using them.*
- *Presented a simple manual technique which enables the institution to draw raw financial data from existing financial systems, without affecting the design or operation of those systems, and to process that raw data into end products which should be useful to decision-makers.*

Each institution must fashion its own plan for application of the technique. Nevertheless, some suggested steps may be useful. Those steps are as follows:

1. **Obtain executive commitment.** The President and the top administrators reporting to him should be asked to review this paper and the one entitled "Planning, Management and Evaluation." The intended outcome should be:
  - a. A commitment to work toward the use of key indicators such as those in Appendix A.
  - b. The assignment of authority and responsibility for a trial application of the technique, including the authority to obtain the required raw financial data. This initial go-ahead may be tentative, requiring further approval of a specific plan of action.
2. **Prepare a plan of action.** Based on guidance resulting from Step 1, the person who is responsible for the trial application would, for example:
  - a. Synthesize a tentative series of report formats, such as those in Appendix A, which are appropriate to the institution.

- b. Modify the work sheets in Exhibits A through E to fit the institution and to match the formats ("a" above). Iterate the formats and work-sheets as necessary.
- c. Present the results of "a" and "b" to the appropriate authority, along with a work plan (events, responsibilities, approximate costs, and related items), and gain approval to implement it as a trial.
- d. Complete the work sheets and the report formats and present them to the President and other appropriate officials, along with recommendations.
- e. Continue the development cycle, modifying and adding, as necessary, to strengthen the use of financial data in the institution's overall planning, management, and evaluation process.

**NOTE:** The stated purpose of this paper is to suggest an approach to improvement in the provision of financial data. The use of those data is beyond the scope of this paper. However, as a parallel to the preceding plan of action for *providing* data, an institution should also plan for its *use* of the resulting data. For example, certain types of courses and programs may, by their very nature, stand out as high cost offerings. That high cost may by itself mean very little. As a consequence, the top decision-makers should plan a wide range of inputs to their planning, management, and evaluation processes, with the financial data being only one type of input.

**APPENDIX A**  
**SAMPLE DISPLAYS**

## SAMPLE DISPLAYS

The paper of which this appendix is a part presents a technique for processing certain raw financial data to obtain new types of management information. This appendix presents samples of the kinds of formats which can be prepared to display that management information. The information generated by Exhibits A through E should enable a college to develop many more formats than those contained in this appendix. This appendix also illustrates the lines of inquiry which can be generated by those formats.

Please note that these samples cover only one period of time. A series of those formats, covering several periods of time, would permit the identification of trends.

The numbers in the exhibits are synthetic, included only to demonstrate the formats. The numbers are *not* representative values for the measures shown.

**COMPARISON OF INSTRUCTIONAL WORKLOADS  
AND INSTRUCTIONAL SALARY COSTS BY DISCIPLINE  
FISCAL YEAR 1975-1976**

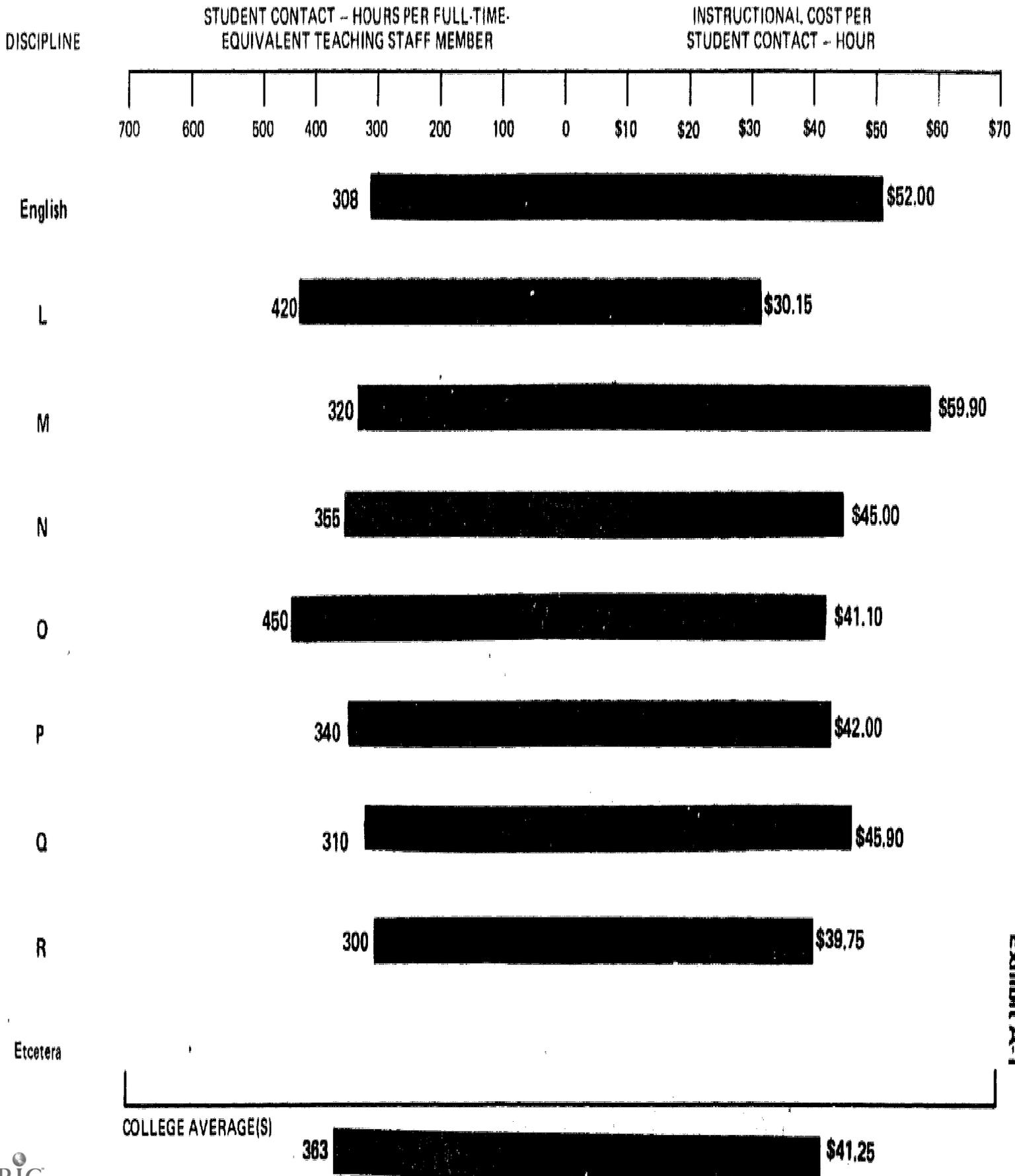
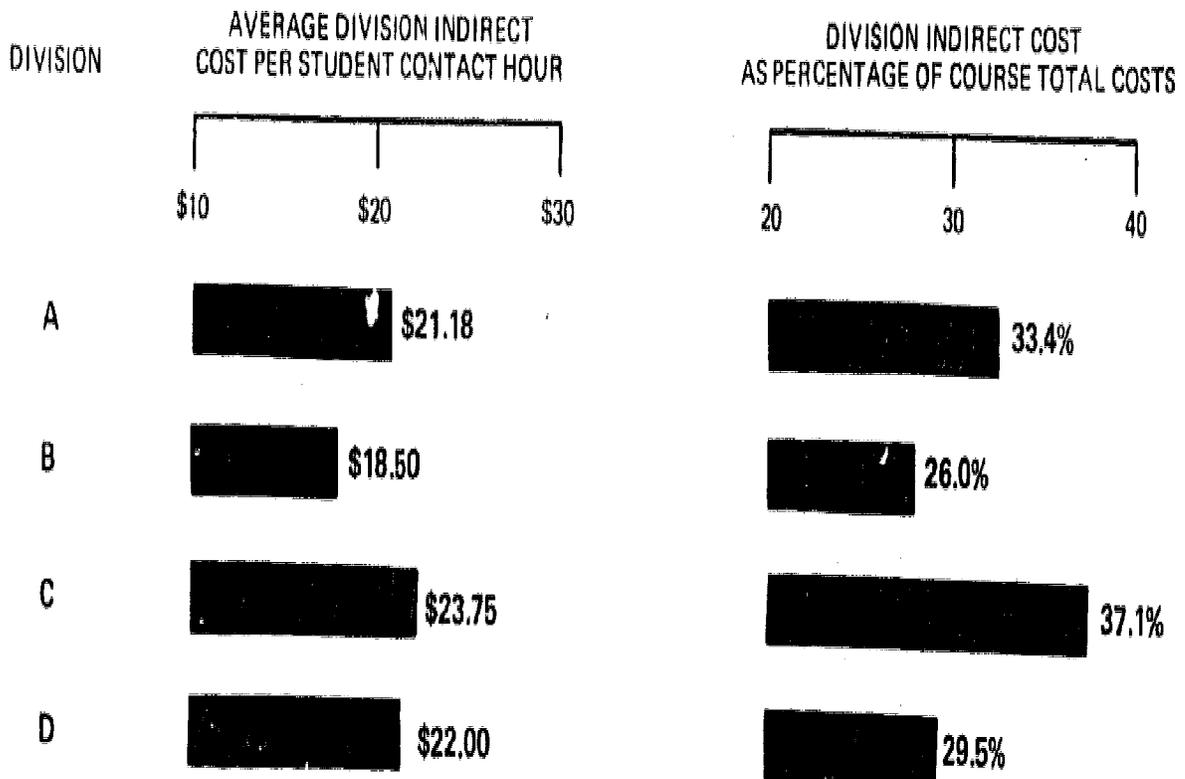


Exhibit A-1

# INDIRECT COSTS BY DIVISION

FISCAL YEAR 1975-1976



**AVERAGE DISCIPLINE COURSE COSTS  
PER STUDENT CONTACT HOUR WITHIN DIVISION**

**FISCAL YEAR 1975-1976**

<u>DIVISION/DISCIPLINE</u>	<u>AVERAGE COURSE COST PER STUDENT CONTACT HOUR</u>
<u>Division A:</u>	
▪ ENGLISH	\$59.14
▪ XXXX	<u>XX.XX</u>
▪ XXXX	<u>XX.XX</u>
▪ Et cetera	<u>XX.XX</u>
<u>Division B:</u>	
▪ XXXX	<u>\$XX.XX</u>
▪ XXXX	<u>XX.XX</u>
▪ Et cetera	<u>XX.XX</u>
<u>Division C:</u>	
▪ Et cetera	<u>\$XX.XX</u>

**COMPARISON OF AVERAGE COSTS PER STUDENT  
BY CURRICULUM PROGRAMS**

**FISCAL YEAR 1975-1976**

<u>CURRICULUM PROGRAM</u>	<u>AVERAGE COST PER STUDENT</u>
Program XXX	\$3,884.
Program XXY	<u>X,XXX.</u>
Program XYY	<u>X,XXX.</u>
Program YYY	<u>X,XXX.</u>
Et cetera	<u>X,XXX.</u>
Et cetera	<u>X,XXX.</u>

SAMPLE INQUIRIES

The formats in *Exhibits A-1* through *A-4* are not ends in themselves, but rather means to the more important end of using the comparative information in the institution's planning, management, and evaluation. The intent of this exhibit, *A-5*, is, therefore, to simply illustrate some of the basic inquiries which can originate from a review of the information displays. The imaginative reader will raise many additional questions.

*Exhibit A-1*

Is the teaching load excessive in disciplines L and O? With all instructors or a few? Why?

Why are the instructional costs in English and M so high, when apparently not caused by a high instructional load?

*Exhibit A-2*

Why are the indirect costs in division C so high? What were they last year? What has changed?

*Exhibit A-3*

Are the costs by discipline generally uniform within each division? If they vary, why is this so? Does there appear to be a clustering of high cost disciplines in one or several divisions?

*Exhibit A-4*

Which curriculum program has the highest cost per student? Is this because that program contains many high cost courses? How many students are enrolled in that program?

UNIVERSITY OF CALIF.  
LOS ANGELES

FEB 18 1977

CLEARINGHOUSE FOR  
JUNIOR COLLEGES