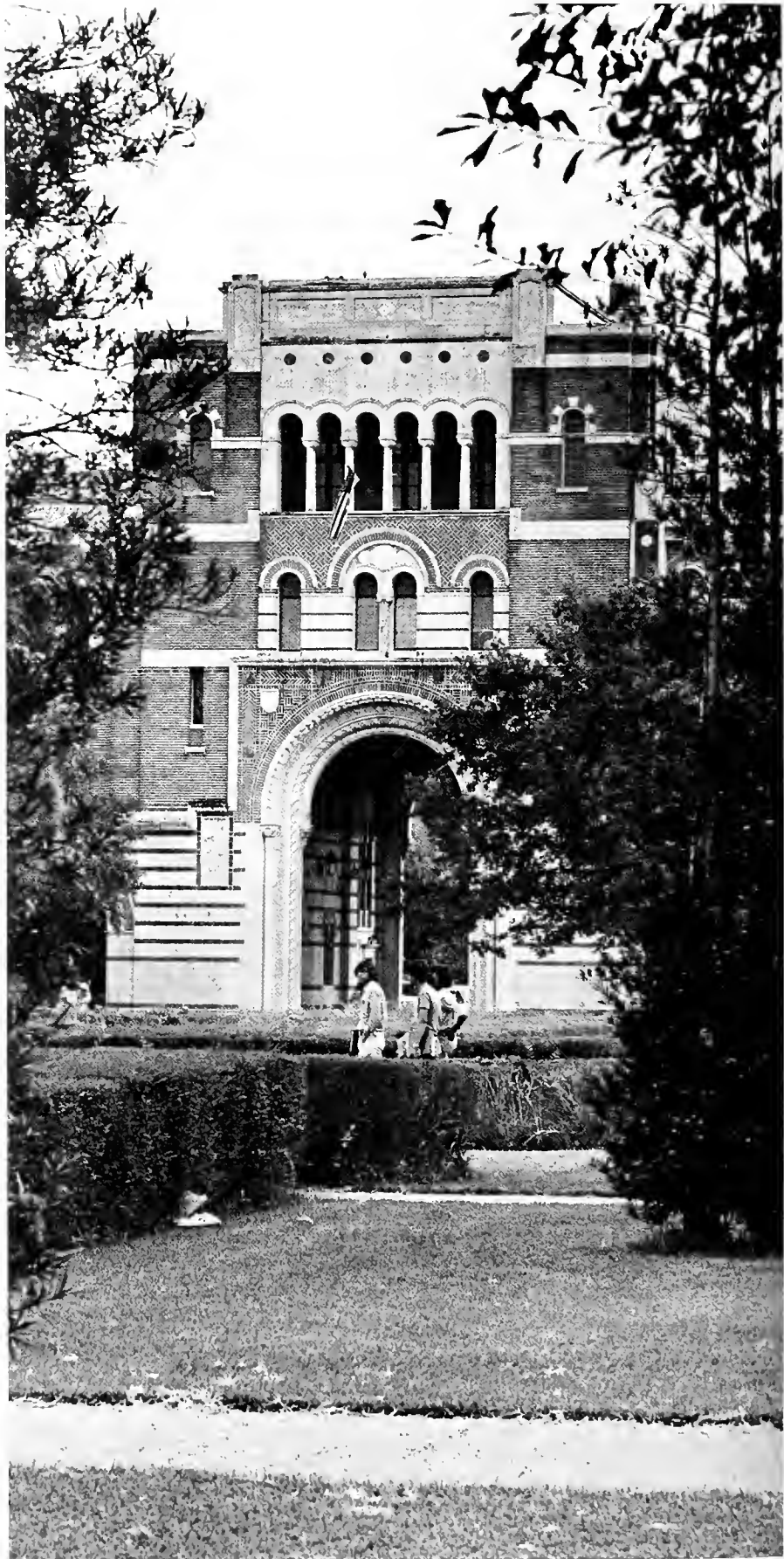


report of the
president
1974-1975
rice
university

The Annual Report of the President is published by Rice University, 6100 Main Street, Houston, Texas 77025, for the 1975 fiscal year covering the period from July 1, 1974, to June 30, 1975. Additional copies are available by writing Information Services, Rice University, Box 1892, Houston, Texas 77001.



The President's Foreword

Mythology and The University

Myths in their place delight and entertain the human mind. Only when we substitute them for reality do they cause concern. An institution so rich in history and tradition as Rice stimulates myths and lore—and some of them sometime get in the way of the university's advancement.

Most of you reading this report have heard the one about the great wealth of Rice which allows it to face today's inflationary costs without concern. Yet only by extraordinary efforts of the Board of Governors and staff has Rice avoided deficits. Oil production declines, falling stock income and values, Internal Revenue Service rulings, and rising costs constantly affect our operations and demand stern controls.

Indicative of the management effort required, we can note that for the five years ending June 30, 1974, out of 31 universities selected for a study by the National Association of College and University Business Officers, Rice University's portfolio performance was fourth from the top among universities with more than \$50 million endowment.

Yet management can only go so far in increasing resources. It is clear that only through ever-increasing private support by individuals, business, and foundations can Rice maintain its historic excellence and its distinctive approaches to student development.

Many considerations limit tuition increases as a help toward meeting rising costs. These increases fall most heavily on middle-income families which do not have eligibility for financial assistance. We must also be concerned about the gap between public and private tuitions lest we price ourselves out of the educational marketplace. Increases in public assistance for students in private universities, together with some sort of matching institutional

grants, do not now appear to be in the cards for the immediate future.

A myth sometimes associated with the one about Rice's supposed wealth is the corollary that our students must come from wealthy families. Nothing could be further from the facts. The reality of student finances required us to award financial aid to more than 60 percent of our students in 1974-75.

Whole sets of mythology surround the job market for college graduates, with the implication our society has less need for the highly-developed intellect than it did in the 1960s. A case in point is the short-lived crisis of surplus in engineering graduates. That myth enjoyed a brief vogue while the demand for this discipline adjusted to different types of engineering, shifting from an aerospace orientation to other concerns of our society—among them our environmental, engineering, and health priorities.

Among the most curious examples of mythology lie predictions in the popular press of rapid declines in enrollments for both public and private higher education. There were highly publicized forecasts of major enrollment decreases for Fall 1974 and again for Fall 1975. Yet as this report is being written, all sectors of higher education have experienced significant enrollment increases. The facts do show that we can expect a long-term decrease in the number of 18-year-olds coming of college age, especially after 1980. We already know the dimensions of the decline; how it will effect individual institutions remains to be seen.

In spite of limitations on enrollment of new students, we continue to experience small increases from year to year. The cumulative effect over the past five years has averaged slightly

The President's foreword

under 3 percent a year, and over a five-year period represents a 14.5 percent increase from 3,121 students in 1970.

It has become fashionable to compare one sector of higher education with another as we seek decisions on allocating resources, both public and private. Arguments rage, often on a personal family level, concerning the merits of public vs. private, technical vs. liberal, church vs. secular education. Yet every experience we know indicates pluralism in higher education lies among the nation's strengths, that we need more technical and vocational education in addition to, but not at the expense of, traditional higher education, and that there is healthy reason for both public and private education.

Of greatest concern to us is that Rice continue as a strong regional center unswervingly committed to excellence, while continuing its growth in importance as a distinctive institution on the national scene. We consider ourselves unusually fortunate that our faculty, staff, and student body share a realistic and concerned optimism for Rice's future and its special role in America. This is evidenced by the April 1975 report of the Commission on Goals and Objectives at Rice. This is more fully discussed on later pages.

Rice faces neither quick solutions to its financial questions nor imminent disaster. Our chief concern is that gradual adjustments to financial pressures may, over a period of time, lead to an almost imperceptible, long-term erosion of our standards, leading toward eventual mediocrity. This is all the more insidious because there is no clear, cataclysmic moment when a major decision changes quality standards. Excellence flourishes or declines through hundreds of day-to-day



judgments, through subtle influences of attitude and expectations.

One particularly strong note of encouragement comes to Rice through the increasing gifts of our donors. Alumni participation in the Annual Fund has shown encouraging growth since this effort began in 1970. This past year more than 5,000 alumni contributors gave more than \$440,000—double the participation and amounts of 1970-71. Our total voluntary support exceeded \$8¼ million. This represents an affirmation of belief in Rice's special mission to provide a fine education for a small number of students with intellectual and creative promise. We are deeply grateful for this kind of support, even as we all acknowledge that our situation never permits relaxation. Once again, the future of private higher education will depend on the daily decisions of many people who weigh their degree of commitment.

A handwritten signature in cursive script that reads "Norman Hackerman".

Norman Hackerman
President
Rice University

Goals and Objectives

Rice Facing Challenges

To make the university's recent self-study still more useful for the future, President Hackerman appointed a Commission on Goals and Objectives. It has prepared a final report for the Board of Governors, which is now reviewing the document. This is the summary of the Commission's work, representative of the Board, friends and alumni, faculty, staff, and students:

It is tempting in troubled times such as these to yield to cautious or even pessimistic outlooks and views or to drift in the backwash of uncertain goals. The Commission on Goals and Objectives, however, firmly believes that, in spite of the problems that surround us, Rice University has outstanding opportunities before it, based on its traditions, its spirit, its commitment to quality and excellence, its location, and its fine students, faculty, and staff.

Many private universities and colleges may fail or lose their identity over the next ten years. Rice University is in no such danger. Its most real peril, however, is that continuous retrenchment to assure financial survival may lead the University from excellence to mediocrity, and from mediocrity to questionable viability.

This Commission recognizes the economic and other constraints the University faces at this time. However, it regards these as challenges to be overcome rather than insurmountable obstacles to the attainment of goals. Present constraints may force consolidation

in the near term, but such consolidation should serve as a planned prerequisite for future development without becoming a long-term strategy in itself. In order to achieve its goals, Rice needs to conduct the most careful and continuous planning. The fruits of this planning may not be apparent until the latter part of the decade.

Reemphasizing the continuity of purpose and direction which has characterized Rice University's tradition and striving for excellence, the Commission offers goals which set a definitive standard for our achievements in undergraduate education. They formally recognize the intertwined roles of research and graduate or professional education with that of undergraduate education, but demand excellence for the former only in certain areas, not all. They reemphasize the importance of the quality of student life as reflected in our residential colleges, our small student body, and our intramural programs. They do not advocate any new professional schools, although they do not prohibit them. They insist on national excellence in research in certain disciplines, partly because this is what Rice should be about, and partly to make it possible to seek and obtain external support much more aggressively. They recognize that without paying careful attention to the individual aspirations of our employees, no goals are achievable. They also recognize the fundamental importance of our ties to the Houston community, although this should not detract from our national relationships.

Addressing itself to the substance of the University, the Commission concluded that Rice would ultimately not be viable as a purely undergraduate institution or as a university of merely regional reach by discarding its

aspirations toward national stature. The Commission reaffirms these aspirations which are consistent with those presented in the 1965-1975 Ten Year Plan. What the Commission finds remarkable about that Ten Year Plan is not how much of its design could not be accomplished due to changing economic circumstances and assumptions, but how many of its recommendations were in fact achieved.

In charting the future course of the University, it may be best to have shorter-range planning which would give the University administration greater flexibility. In view of external constraints over the near term, this may be the single most important activity to be undertaken. It may require consolidation and rationalization of Rice's programs and resources in order to create a sound base for future development.

Retrenchment should be considered only in cases where programs no longer serve the University's needs and goals, such as programs peripheral to Rice's major areas of teaching and research; graduate or professional programs that attempt to supply a demonstrably saturated market; and programs that either fail to reach the University's standards of excellence, or unnecessarily duplicate activities of much higher quality at other institutions. It is recognized that such considerations involve differing time frames.

In its own efforts to define goals, the Commission was aware that it might be treading a very thin line between rhetoric and substance. Goals should certainly be hard to attain, else they are probably not worth the effort, yet they must not be so unrealistic as to be unattainable. Goals should be interrelated and interdependent, reflecting an overall unity of purpose; without any one, the rest become unattainable.

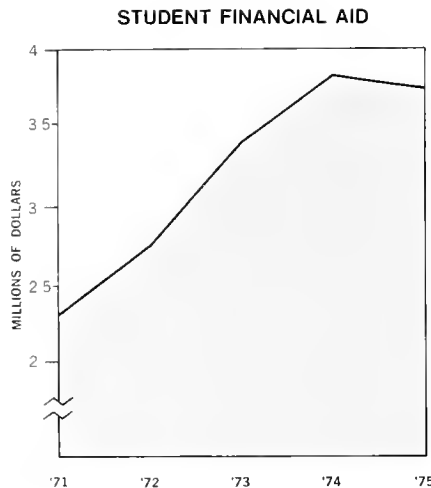
Undergraduate Students

New Scholarships Stress Excellence

The 1974-75 academic year was generally quiet and serious among undergraduate students. The MOB continued to enliven the football season with its own version of halftime entertainment, and the Richardson College Oktoberfest and the Baker-Jones Shakespearean revels brought most of the campus together, but these were only brief distractions. As in the previous year, the majority of students were soberly concerned about establishing a record which would carry them forward into graduate and professional school or into assured employment.

Rice students did well in competitive national awards, winning a Marshall Fellowship, two Danforth Fellowships, and two Watson Fellowships. To encourage academic excellence, the Board of Governors approved merit scholarships in the amount of \$50,000. This was allocated to provide \$20,000 for incoming freshmen and \$30,000 to be divided into 100 scholarships of \$300 each for students in the three continuing classes. These awards, which are known as Board of Governors Scholarships, are given for academic performance only without regard to financial need, but with the provision that a strong recommendation from the student's major department will also be considered for students completing their third year. Awards were given either on the basis of a high cumulative grade point average or on the basis of very high grades in the year just completed.

The increasing number of double majors and triple majors, often chosen from widely separated fields, suggests that undergraduates are pursuing very di-



verse interests even while planning a career. In general they looked for courses which would be interesting, useful, and non-damaging grade wise, in that order. Many faculty were concerned with the evidence of grade inflation here as elsewhere, but high grades are still tougher to get at Rice than in other schools across the state and in most out of state schools. -

The joint Bachelor's of Music and Master's of Music program in the Shepherd School of Music, which received faculty approval to begin in 1975-76, represents the most significant recent addition to the University curriculum. By the University's affiliation with the Institute of European Studies, the opportunities for Rice undergraduates to enroll in a variety of degree credit foreign study programs were increased.

The Administration of Student Affairs

In the summer of 1974, following the resignation of Dr. F. A. Wierum as Dean of Students, that office was discontinued and the administration of student affairs was restructured. The duties of the Dean as administrator for student organizations were assigned to the new office of Director of Student Activities and the responsibilities of the Dean as Univer-

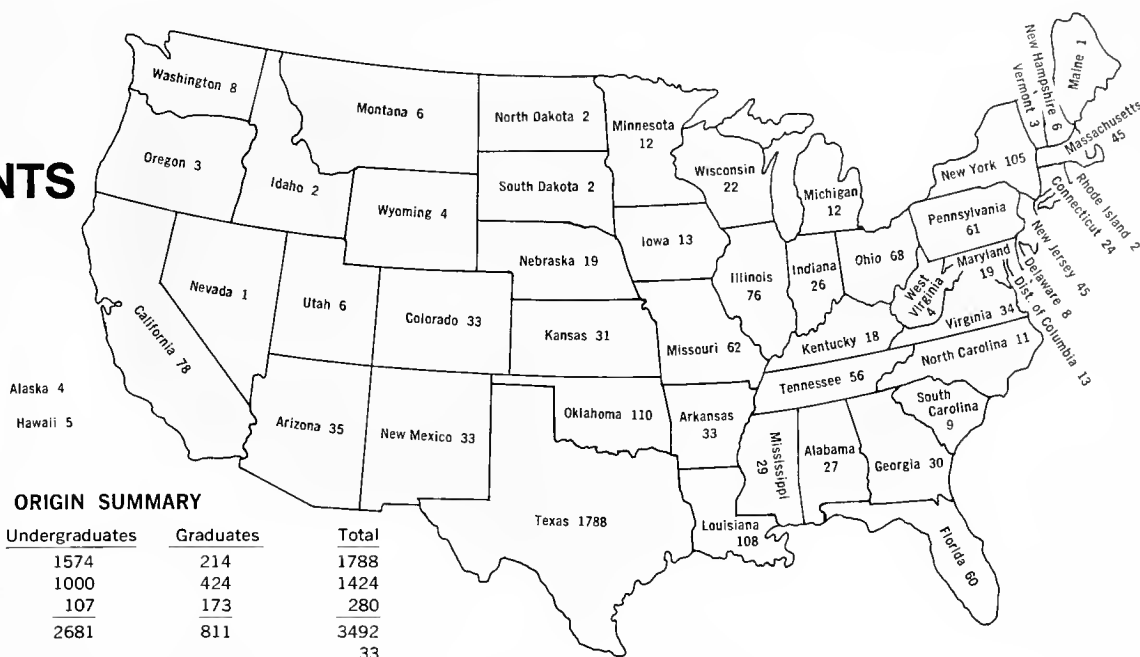
sity disciplinary officer were given to the new office of the Proctor. The Proctor was also designated to be the license holder with final legal responsibility for the graduate student pub and the proposed undergraduate pub which later became Willy's Pub.

The Director of Student Advising, appointed in 1973, was made responsible for administrative supervision of the Psychiatric Service, and the Director of Student Activities assumed administrative supervision of the Health Service. At the same time, the Professional Advisory Committee was discontinued, and its functions were shifted to a pre-law adviser and a pre-med adviser. All these offices, together with academic responsibility for the Colleges, were placed administratively under the Dean of Undergraduate Affairs who reports directly to the President.

Though the purpose of this restructuring was to clarify administrative responsibility, it was not an attempt to centralize all student services and activities. The accessibility of the faculty to undergraduates, not only in classes and laboratories but also in the Colleges and anywhere on campus, is one of the assets of Rice. While we insist that students should be responsible for their own course programs and the realization of their own goals, advice and help should and do flow to them from College Masters, faculty associates, professors, and graduate and undergraduate students. The administrative function is to coordinate this advising and to minimize the danger that individual students may fall through the cracks of such an open decentralized system.

All these changes were made with a minimum of disruption and appear to be working well. In line with the restructuring of undergraduate affairs, the University

WHERE RICE STUDENTS COME FROM



Alaska 4
Hawaii 5

Code of Judicial Procedure was revised in order to clarify the jurisdiction of the College courts, the University court, the Masters and the Proctor, and the Proctor's name was substituted for that of the Dean of Students.

Willy's Pub

In April 1975 undergraduate students found a new place to congregate. After more than a year's planning and several months of construction in the basement of the Rice Memorial Center, Willy's Pub opened for the sale of beer, wine, soft drinks, and a limited menu. Students and former students planned the remodeling and the interior decoration. A university-wide competition which produced over 200 entries decided the name. Before classes were over, the pub had become a favorite gathering place for students from all the Colleges. Operating with student management under the supervision of a student-faculty-staff Board of Control, it has contributed several thousand dollars from its profits to student activities and services.

Special Programs

Several new programs were initiated in the year just past which have continued in operation.

The Director of Student Advising began an experimental program for minority freshmen making use of specially-trained minority upperclassmen to serve as mentors to the freshmen. The principal emphasis was on personal and social adjustment to Rice, but the improvement of basic academic skills is to be incorporated into the program.

The Pre-Med Society reached into the Houston community on its own initiative and invited a group of doctors and medical students from the Medical Center across the street to act as informal advisers to pre-med students in the various Colleges.

In quite another area, the Student Association, with the help and cooperation of a community associate of Hanszen College and a group of Houston attorneys, set up a student legal-assistance program. Rotating on a monthly basis, members of the group will pro-

vide free of charge to any Rice student emergency legal relief and advice on the legal aspects of any situation, as well as the names of reliable lawyers for students needing further legal services.

The Honor System

Many things at Rice did not change in 1974-75. Though other schools abandoned their honor codes, the Honor System at Rice continues to be supported by the large majority of students and faculty under the administration of the Honor Council. During the past year the provision of ombudsmen was made a regular part of the investigation and trial procedure.

In providing both specialized training and the scope of a broad liberal education, the University continues to direct its attention towards students who are prepared to concentrate their abilities and energies on the opportunities which are here. Such students we are ready to meet on a one-to-one basis with all possible encouragement.

Advanced Studies and Research

Energy Research Given Emphasis

The encouragement of energy-related research and the development of additional potential sources of sponsorship for such research continued to receive emphasis from the Dean of Advanced Studies and Research. Several faculty committees were organized to promote and facilitate the development of a broad range of programs of energy-related research beyond that which is generally feasible by individual principal investigators.

An energy research seminar was held on the campus on June 16, 1975, to enhance this project for multi-disciplinary interactions. This seminar, conducted in cooperation with the Energy Research and Education Foundation, included energy specialists from outside the university, members of the Rice University Interdisciplinary Research Committees, and consultants on Federal government sponsored research and management.

Expenditures of external funds for research during the period continued at the annual rate of approximately \$7 million. A total of 231 formal research proposals were submitted to prospective sponsors and 137, or more than 50 percent of these, were funded.

More than 700 scholarly works of the faculty were published during the year. Also, 137 positions as editors and members of editorial boards of scholarly journals were held by members of the Rice faculty.

The Office of Continuing Studies has greatly increased its offerings for the community. Its work has developed new avenues for community-university interactions in the Houston area. In

addition to a broader range of continuing studies courses open to everyone, special courses have been provided for private companies, associations, and government agencies. During the period, 21 courses were conducted for 237 participants.

A total of 801 students was enrolled for graduate degree programs during the year. These included 761 full-time and 35 part-time students; 600 were men, 201 were women, and 171 were citizens of foreign countries. At the Spring commencement, 88 Ph.D. and 137 Master degrees were awarded. Fellowships granted by private foundations, government agencies and other external sponsors were held by 115 of our graduate students and 131 others were supported through research assistantships on externally funded research grants and contracts. Full Rice fellowships were awarded to 208.

Postdoctoral fellows and research associates participating in research with the faculty and students averaged 100 throughout the year. All of these received

100 percent of their support from externally funded research grants and contracts or fellowships.

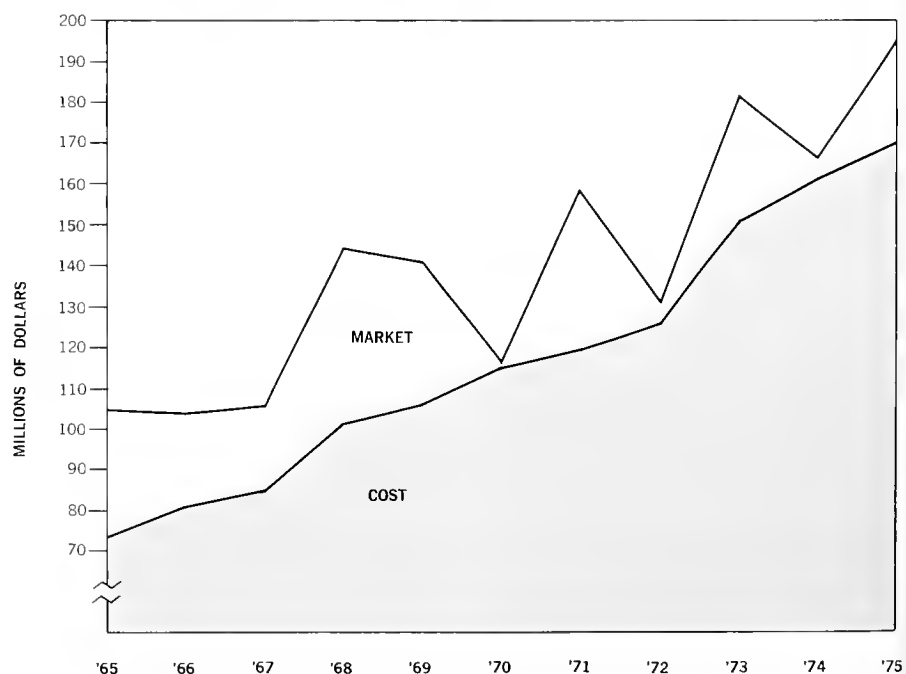
A graduate program in accounting, leading to the professional degree of Master in Accounting, was instituted in the fall of 1974. This program provides preparation for responsible positions in the public accounting profession, industry and government.

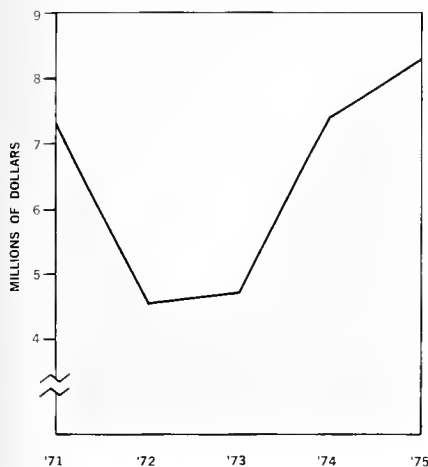
School of Architecture

Survey Ranks Rice Seventh

The School of Architecture tied with two other institutions for a seventh place ranking among U.S. architectural schools, according to a national survey conducted by Columbia University and reported in *Change* magazine. This year also saw a steady increase in student applications, with a ratio of one in five selected for the freshman class and one in 3.6 chosen for the master's programs. Total enrollment of 222 students included 16 preceptees in off-campus

ENDOWMENT AND SIMILAR FUNDS — FUND BALANCE



GIFT INCOME

training in architectural firms all over the world. This year the School's faculty body was further diversified with the addition of key adjunct faculty members drawn from the Houston community. Altogether, the faculty stood at 47 full and part time.

Prof. O. J. Mitchell completed his first year as director following the resignation of Prof. Alan Taniguchi who remains in a teaching capacity. Prof. Elinor Evans, taking a one-year leave of absence, taught at the University of Kansas, and Prof. Harry Ransom, also on a one-year leave, taught at the University of Guadalajara.

The sophomore class travels annually to a place of architectural interest, and this year 31 students traveled to the East Coast.

The Rice Center for Community Design and Research completed its second year of activities with research volume totaling more than \$650,000. It employed the services of 47 persons, including graduate students and faculty from various Rice University departments. The Center has engaged in numerous projects funded by unrestricted contributions from the community, private developers, the U.S. Department of Transportation, the City of Houston, and the National Endowment for the Arts. These programs were

concerned with land use and its environmental impact, transportation and public works, inner city improvements, community services and facilities, and housing. Of special interest to the University community was the study, "Options for a Unique Texas Place". Financed by the National Endowment for the Arts and local matching contributions, this Rice Center study focusses on the opportunities for preservation and growth of the urban communities surrounding Rice, Texas Medical Center, and Hermann Park. A permanent action organization to carry out cooperative improvements in the area is the hoped-for outcome of the study.

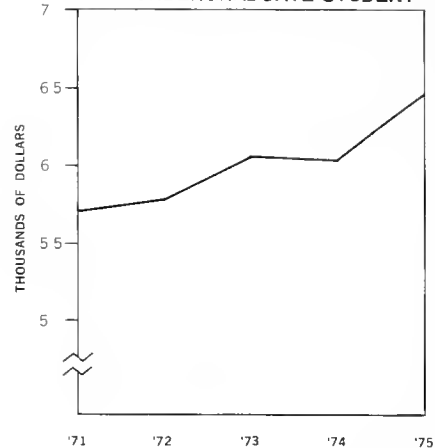
The Rice Design Alliance, Architecture's community out-reach organization, presented conferences on bayou preservation and historic preservation. It co-sponsored with the Houston Museum of Fine Arts, a public lecture series on modern architecture.

The George R. Brown School of Engineering

A New School For Engineers

Planning for organization of the George R. Brown School of Engineering at Rice dominated activities of the university's five engineering departments. Although engineering has been offered at Rice since instruction began in 1912, the decision to separate engineering from the School of Natural Sciences effective July 1, 1975 was based on lengthy study. Dr. Alan J. Chapman, Professor of Mechanical Engineering, was appointed the first Dean.

The purposes behind the establishment of the George R. Brown School were threefold. Rice wished to honor a distinguished alumnus and engineer who has contributed heavily to Rice in

UNRESTRICTED EDUCATIONAL AND GENERAL EXPENDITURES PER UNDERGRADUATE STUDENT

terms of service and benefactions over the past several years. Second, it was thought that a separate School of Engineering would make easier the development of new ideas and practices important in the engineering field. And third, the George R. Brown School hopes to increase the professional development of its students by strengthening the relationship between the School and the engineering profession locally and generally.

The year 1974-75 showed continued growth in the number of undergraduates majoring in engineering. Part of this growth resulted from the favorable state of engineering employment for students with four or five undergraduate years. The number of fifth-year students, who work for a professional Master's Degree, actually declined in 1974-75. This is undoubtedly related to the development of the four-year B.S. program for which we are seeking accreditation in 1975-76 as well as to the favorable job market for four-year graduates. The number of graduate students has remained fairly steady since 1971.

The Chemical Engineering Department, faced with a large increase in enrollment, obtained about 2,000 square feet of space in the old engineering shop area.

This will be used to expand undergraduate laboratories and design rooms.

The Civil Engineering Department completed the first year of its Preceptorship program. Students who have finished their fourth year of study work for a year in the office and under the personal guidance of a civil engineer who has achieved national or international prominence. The students return to Rice either as graduate students or as students in the last year of the professional master's program.

The Electrical Engineering Department introduced four new courses into the Bioengineering curriculum to offer a professional program in Clinical Engineering. New adjunct appointments made staffing of these courses possible. Bioengineering is rapidly becoming one of the most popular areas of specialization in Electrical Engineering.

The Department of Environmental Science and Engineering had its EPA training grant renewed for the 14th consecutive year of support. The grant was increased significantly (\$150,000) to support training in Oil Spill Containment and Countermeasure plan review. The Department offered two courses to about 60 EPA engineers with the help of the Office of Continuing Studies.

The Department of Mechanical and Aerospace Engineering and

Materials Science received permission to drop Aerospace Engineering from its title, although aerospace engineering will remain one of the options for undergraduate concentration. This is the result of an increased concentration of the Department on areas more directly associated with Mechanical Engineering.

The Brown Engineering Development Committee continued its program of recruitment of undergraduate engineering students. Scholarships, campus visits, and a successful summer program for high-school juniors are elements in its program.

The 3-2 arrangement with Texas Southern University secured a grant from Exxon Foundation U.S.A. which will enable the first group of TSU students to enroll in 1975. The Brown Engineering Committee assisted in recruiting efforts at local high schools with high minority populations.

The School of Humanities And Social Sciences

Student Interest Remains High

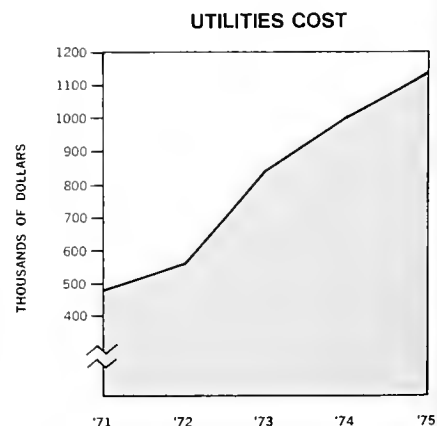
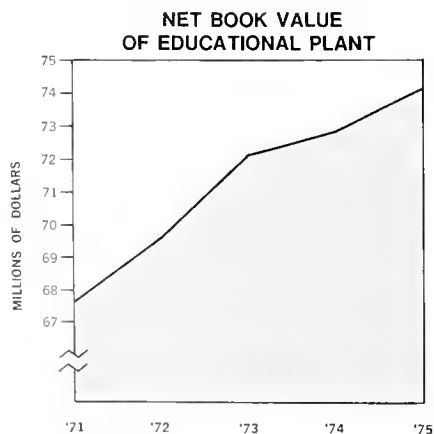
During the 1974-75 academic year a reassessment of the humanities and social sciences as well as the other segments of the university was begun under the chairmanship of the academic vice-president and provost, Frank E. Vandiver.

Enrollments in the social sciences remained high in 1974-75, particularly in psychology, political science, and sociology. In the humanities the only discipline that enjoyed similar enrollments was religion, though the other disciplines either made moderate increases or tended to remain about the same.

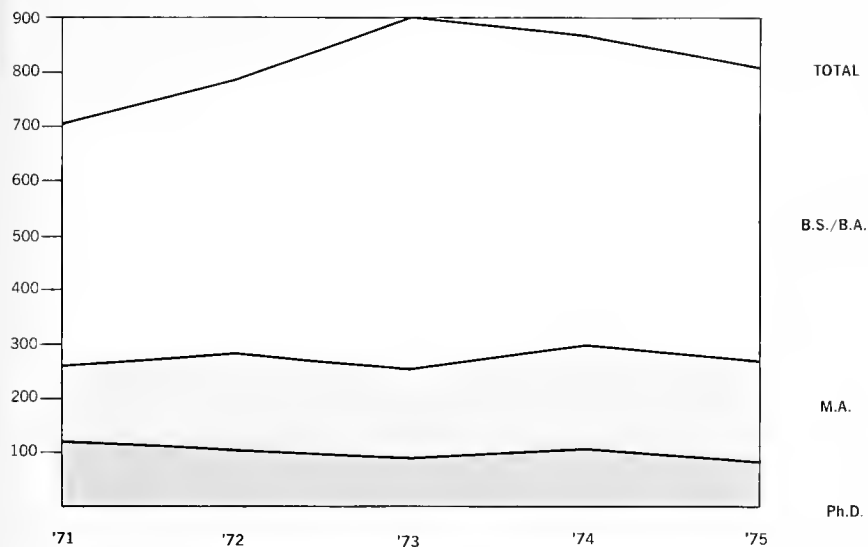
In the Philosophy Department, an important addition was the hiring of Prof. Baruch Brody to be chairman. Already this year his dynamic leadership is making itself felt within the department, as he and his colleagues reorganize department offerings and study their graduate programs. In addition, as chairman of a small committee, he has prepared a grant proposal to the National Endowment for the Humanities for a three-year Institute at Rice University. Under this large grant, for which funding looks promising, this NEH sponsored Institute would undertake the Study of Law, Values, and Society.

Last year, Prof. Rene Pintard ended a two-year association with the French Department. Prof. Pintard, who recently retired from the Sorbonne, is recognized as a world renowned 17th-century specialist of French literature. Indeed, during the past 30 years, virtually everyone who earned the prestigious doctorat-es-lettres from the Sorbonne wrote his dissertation under the guidance of Prof. Pintard.

The 1974-75 academic year witnessed a sharply increased interest in accounting. The institution of the master's degree in accounting has seen a very large number of students enrolled under this new program. And there has been an increase in the faculty in account-



DEGREES CONFERRED



ing, though ideally the enrollment figures probably justify further additions. The future of the newly-created department looks very promising.

The Program of Development Studies, with Prof. Ron Soligo as director, has succeeded in getting a renewal of its AID grant for \$486,623. As a result of this renewal, faculty members and graduate students will continue to receive the financial support needed to carry out their research projects dealing with underdeveloped or emerging countries.

Many noteworthy events took place within the Humanities and Social Sciences. For example, Prof. Thomas Haskell of the History Department was selected in nationwide competition as an Institute Fellow for the academic year 1975-76, which he is spending at the National Humanities Institute at Yale University.

Prof. James Blue, co-director of the Media Center, was awarded an NEA research grant for the 1975-76 academic year. He is engaged in making films for TV programs shown locally on Channel 8.

During the 1975 summer the Spanish Department conducted a summer program in Mexico. This has now become a regular part of

the Department's offerings. To provide their students with the widest possible educational value, the faculty members of the Spanish Department change the location of the summer offerings. The three locations utilized are Spain, South America, and Mexico.

Plans were made for Prof. Alan Grob to conduct a summer program in England on Romantic and Victorian Writers in England and Scotland. Last summer Prof. Monroe Spears received an NEH grant to conduct a poetry seminar for College Teachers of English. And during the Fall Semester Prof. Spears was invited to give the Christian Gauss Seminar in Criticism at Princeton University, one of the most distinguished series of lectures in the field of English.

In the past, members of the Department of Economics have been asked to serve in Washington as members of the President's Council of Economic Advisers. Last year, however, Miss Joan Porter became the third graduate student in Economics to be selected by the President's Council of Economic Advisers to spend a year on their staff in Washington as a junior economist.

In the Fall of 1974, largely due to the unstinted efforts of Prof.

Susan Clark of the Department of Germanics, a highly successful Rice Medieval Miscellany was held at the University in conjunction with the University of Houston.

There is assurance that the social sciences at Rice are thriving and that in spite of the depressed conditions of the humanities throughout the nation, here at Rice they seem to be faring somewhat better, in large part due to the enlightened respect accorded the humanities by the scientific and engineering segments of the University.

The Shepherd School of Music Final Planning Precedes Opening

This was the final year of extensive planning prior to the formal opening of the Shepherd School in September 1975. The School's basic curriculum, a five-year coordinated program leading to the Master of Music degree emphasizing professional training in music, was developed by Dean Samuel Jones and the Shepherd School faculty and approved by the University faculty at large.

First appointments to the School's artist faculty were made, and the Shepherd Quartet, comprised of the string principals of the Houston Symphony, was formed. Extensive purchases of equipment and library holdings were made, and preliminary planning begun for a new building to house the Shepherd School.

The year also brought the School's first major philanthropy in addition to Mrs. Perkins' original gift: a \$250,000 commitment from the Starling Foundation toward a major professorship in violin.

School of Natural Sciences

Faculty Achieve Recognition

In its report to the President the Commission on Goals and Objectives recommended the development of the University's research and professional activities to the point that ". . . Rice is ranked among the top twenty institutions in the nation generally in engineering and the sciences . . ." During the past year we have undertaken a critical evaluation of strengths and weaknesses of all programs in the sciences to determine how close we are to that objective and whether this goal can be achieved with the resources available. While the assessment of quality is difficult and often subjective, in the final analysis it depends on the quality of our faculty and its scholarly productivity, which in turn determines the quality of our graduate programs and research.

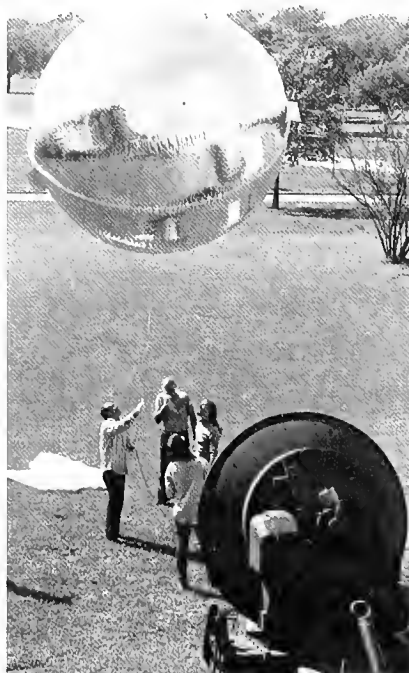
Rice has been fortunate in attracting and retaining a distinguished faculty. Eight members of the faculty of the School of Natural Sciences have been elected members of the National Academy of Sciences, a significant increase over the number five years ago. Many faculty have international reputations in their fields, hold important appointments in scientific advisory groups and professional organizations, and in general have gained Rice recognition in the scientific community.

Scholarship and research productivity within the School of Natural Sciences continued at a high level during 1974-75 as evidenced by the publication of an average of almost one paper per day during this period. This level of publication in terms of publications per faculty compares favorably with that of the most

distinguished institutions in the country. The quality of these publications is apparent from the frequency with which they are referenced in the scientific literature. Projecting from previous years, each will be cited 10 times on the average.

Relative to their size, Rice's programs in the traditional fields of Biology, Chemistry, Mathematics, and Physics have long enjoyed a tradition of excellence which has been enhanced during the past 10 years. More remarkable, perhaps, have been the development of newer programs in Biochemistry, Geology, Mathematical Sciences, and Space Physics and Astronomy, each of which has achieved national recognition since its inception. That this has been accomplished without a separate research faculty and while broadening and strengthening our undergraduate programs is a good indication of our prospects in

A Rice University research team employs the Balloon Electric Field Sensor (BEFS) to study dangers of electrified clouds to air flights.



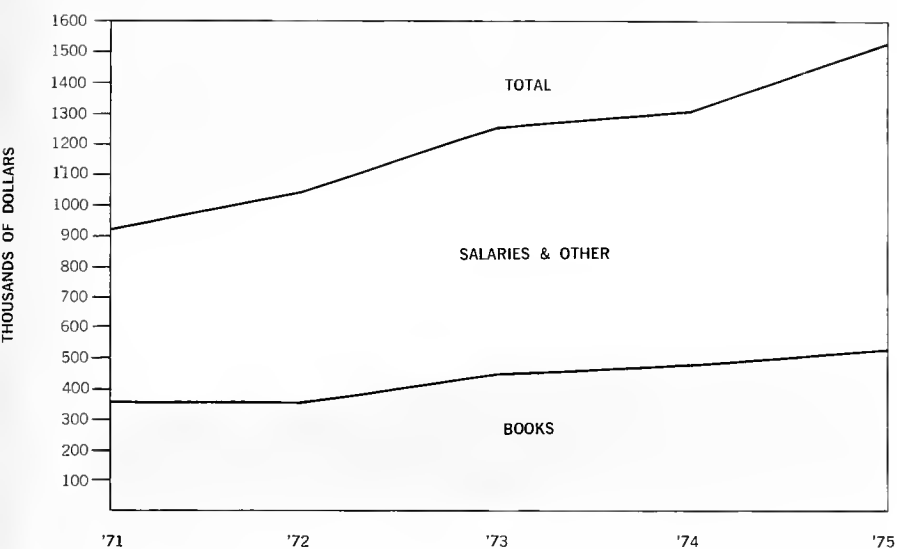
achieving the objective set forth by the Commission on Goals and Objectives.

Addressing a second major objective of the Commission's report, "To provide a level of undergraduate education at Rice University not to be excelled by any institution in the nation," we have placed a major emphasis on the development and modernization of undergraduate laboratories. These laboratories, which serve an increasing number of students not only in the sciences but also in engineering and pre-medical studies, have deteriorated during recent years because of insufficient funds to acquire and replace equipment and to keep pace with rapidly escalating operational costs. By the reallocation of resources and assistance from the National Science Foundation and other sponsors, we have begun to bring this vital aspect of our undergraduate programs to an acceptable level.

Several faculty received special recognition during 1974-75. Professors D. D. Clayton and F. C. Michel were named Andrew Hays Buchanan Professors of Astrophysics. Dr. B. Frank Jones was designated the Noah Harding Professor of Mathematics. Dean W. E. Gordon was elected to the National Academy of Engineering. Professors of Mathematics, H. L. Resnikoff and R. O. Wells, were awarded Humboldt Fellowships. Professor Wells was also the recipient of a Guggenheim Fellowship. Professors Paul S. Engel and Phillip R. Brooks of the Chemistry Department were awarded Sloan and Guggenheim Fellowships, respectively.

During the year several distinguished visitors were guests and lecturers on the campus. These included Nobel Laureates Hannes Alfvén and Edward M. Purcell. Dr. Purcell presented the William V. Houston Memorial Lecture.

LIBRARY EXPENDITURES



Support Services

Fondren Library

Inflation in book and periodical prices continued this year to be a serious difficulty for the libraries of Rice University and all academic libraries. University support for collection development has been as strong as overall budgeting permits. Total expenditures for library materials from all sources (including the Friends of the Fondren Library) increased this year by 9.7 percent, whereas the average annual increase over the past five years has been only 3.5 percent. Book and journal prices rose 11 percent and periodical prices by almost 19 percent. There are signs that there will be some moderation next year in these rates of increase.

Representatives of the academic departments along with library staff bibliographers continued their efforts throughout the year to examine the scholarly output of the world's presses and to define and acquire Rice's essential needs. A total of 35,058 volumes (including documents) were added to the collections this year, bringing the volume count to 875,000. Exclusive of docu-

ments, added volumes in 1974-75 amounted to 28,198, down from 38,464 five years ago, reflecting decreased buying power. In addition, our microform holdings increased by 60,000 units, bringing us up to 920,000 items.

The Public Services Division circulated 167,000 volumes for use outside the libraries. This represents a 6 percent increase over the previous year and a 25.6 percent increase over the past 10 years.

The Interlibrary Loan department is increasingly active with more emphasis on resource-sharing among academic libraries and more need to gain access to materials from other collections. This year witnessed the beginnings of an expanded journals access program through our membership in the Center for Research Libraries in Chicago. This Center has been increasing its journal subscriptions and is using the British Library Lending Division as a backup.

The Systems Development staff began the initial work of automating the major technical processing functions of ordering, receiving, fund accounting, cataloging, and card production. A desk-based mini-computer with sup-

porting equipment was installed in April, 1975.

The Regional Information and Communication Exchange (R.I.C.E.), a fee-based information system for business and industry operated by the Fondren Library, experienced a 24 percent increase in overall activity this year,

Computer Institute

The Institute For Computer Services and Applications continued to expand its services during the year as usage grew by 15 percent over 1972-73 figures. Over 80 percent of all Rice students now use the computer at ICSA at some time during their undergraduate years. Timesharing capabilities were increased, and several programming packages added to support new applications. By expanding unattended overnight and weekend services, ICSA was able to provide for essentially round-the-clock support to all users. Usage of the computer by the faculty and graduate students for research purposes increased steadily.

Additional new equipment allowed for the installation of an enhanced operating system which, combined with improvements in operations, led to increased throughput and faster turnaround on all jobs. Performance of the system improved approximately 14-20 percent overall.

ICSA also continued to support many of the university's administrative computing requirements and developed several new applications to assist the operating efficiency of the university.

Community usage of the facilities expanded steadily during the year. Combined with increased university usage, this enabled ICSA to recover its expenditures in spite of over 10 percent inflationary cost increases.

The Financial Year

Future Outlook Causes Concern

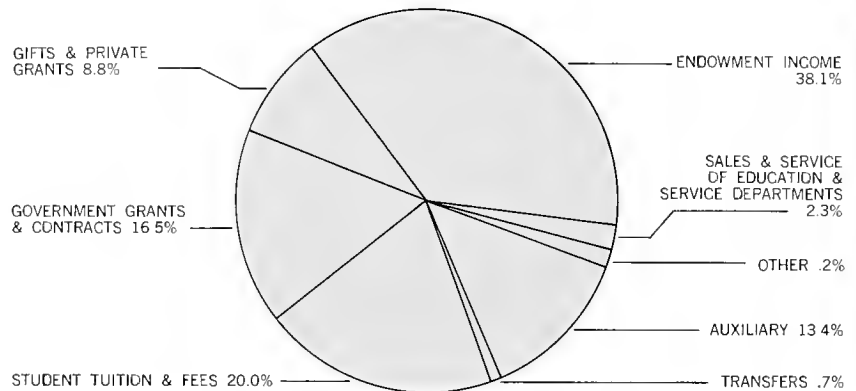
During the year ended June 30, 1975, the University had unrestricted operating expenditures and transfers of \$23,160,000 and unrestricted operating revenues of \$25,135,000 resulting in an increase in unrestricted current fund balance for the year of \$1,975,000. The increase was \$800,000 greater than was budgeted.

Educational and General Revenues exceeded expenses and transfers by \$2,051,000
Offset by auxiliary operation losses of (76,000)
Resulting in a net increase in fund balance of \$1,975,000

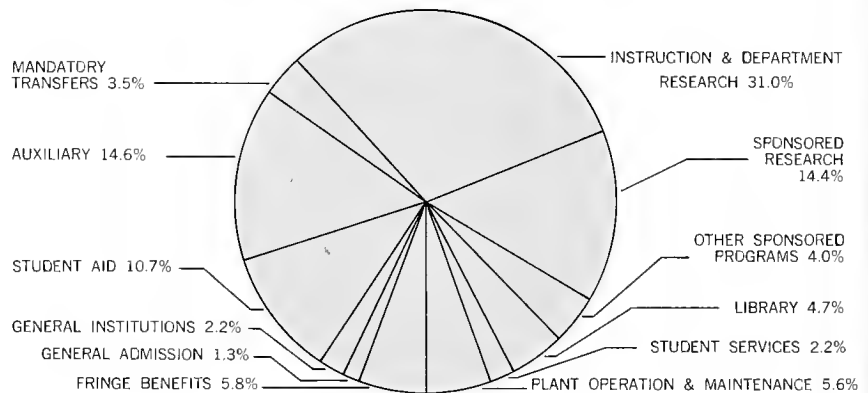
This increase, however, did not take into account major commitments for capital improvements of over \$2,000,000.

Unrestricted endowment income is comprised of about one-third oil and gas and two-thirds investment income. Net unrestricted endowment income for 1975 was \$11,354,000 and represented 55 percent of the total educational and general revenues. However, \$1,135,000 was added to the reserve for plant improvements and \$568,000 was added to the reserve for contingencies leaving \$9,651,000 for unrestricted current educational and general expenditures. The second largest item of income was tuition and fees which amounted to \$6,864,000. This source comprised 33 percent of revenues but the University provided \$3,067,000 of unrestricted student aid, an amount equal to nearly one-half of tuition revenues. Unrestricted current fund gifts and private grants in 1975 were \$881,000, an increase of \$58,000 over the previous year.

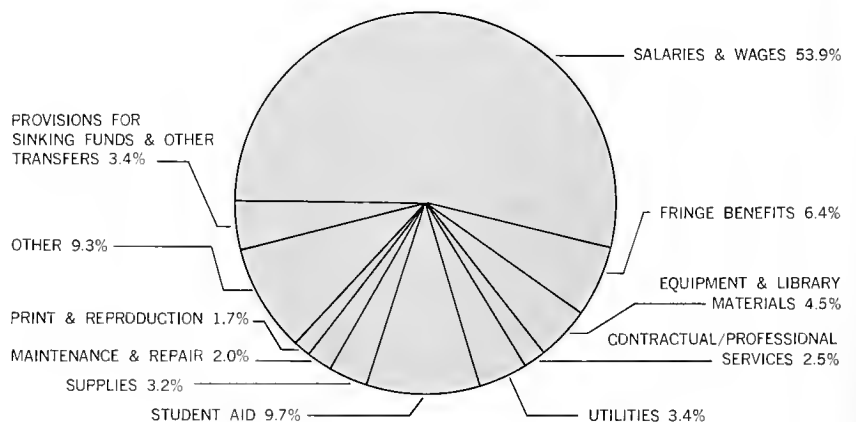
CURRENT FUND REVENUES AND TRANSFERS 1974-75



CURRENT FUND EXPENDITURES AND TRANSFERS 1974-75



CURRENT FUND EXPENDITURES AND TRANSFERS—BY CLASSIFICATION 1974-75



We ended the year with a reserve for contingencies of \$1,454,000 and, if current year operations follow plans, this should reach nearly \$2,000,000 at June 30, 1976.

In spite of a good year in 1975, we cannot be too optimistic for the future. We were fortunate to be able to invest large amounts (at times as much as \$26,000,000) in high yield short term paper last year. On some of this paper, we were able to get as high as 12½ percent. With the change in the money market, such high yield opportunities can no longer be found. As a result, current investment income may be \$1,250,000 less than 1975. However we have committed a larger share of our portfolio to long term investment in stocks and bonds which should increase potential future income as they appreciate in value.

Income from mineral investments constituted a substantial revenue source in 1975. However, actual production of oil and gas is declining by 8 to 10 percent each year as a result of the continuing

depletion of our mineral resources. If price controls on oil are modified and gas is deregulated, the anticipated price increases could materially affect income and help slow the rate of decrease of royalty income; but based on present information, we are forecasting a decline in mineral revenues through 1980. The increased income from our other endowment investments will only make up one-half of this decline.

With endowment income falling, total unrestricted current operating revenues are anticipated to increase by only 1.5 percent annually through 1980. Expenditures are anticipated to increase by at least 6 percent annually. Thus, the situation in 1975, where operations resulted in an increase in fund balance, will be reversed. In fact, the reserve for contingencies will be fully exhausted by 1979. Moreover, an unfavorable decision regarding income tax problems with the Internal Revenue Service would aggravate this situation.

The IRS is contending that in-

come received by Rice with respect to its net profits overriding royalties from certain oil and gas properties and with respect to certain timber sales is "unrelated business income." Should we lose our exemption on this income, we would be required to pay additional income taxes for the year ended June 30, 1975 in excess of \$750,000, with comparable amounts being due in future years. They also claim we owe taxes and interest for 1974 and prior years exceeding \$760,000.

If the University is unable to sustain its position, the resulting tax bill will wipe out our contingency reserve this year and the yearly tax will act to reduce future income as much as \$750,000 a year. It will also have the effect of reducing our endowment growth and investment income base.

Clearly, the future prospects of level income and continued inflation, together with the possibility of significant tax liabilities, gives cause for concern.

AUDITORS' REPORT

ARTHUR ANDERSEN & Co.

HOUSTON, TEXAS

October 6, 1975

To the Board of Governors,
William Marsh Rice University:

We have examined the balance sheet of William Marsh Rice University (a nonprofit Texas corporation) as of June 30, 1975, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of William Marsh Rice University as of June 30, 1975, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

	<u>Current Funds</u>	<u>Endowment and Similar Fund</u>
CASH, RECEIVABLES, AND PREPAYMENTS:		
Cash	\$1,241,993	\$ —
Accounts receivable	230,109	573,116
Loans receivable, net of allowance of \$550,000 in 1975 for loans doubtful of collection	—	—
Prepaid expenses and deferred charges	<u>231,101</u>	<u>139,954</u>
INVESTMENTS (Note 2):		
Bonds and short-term commercial paper, quoted market of \$31,569,000 and \$32,239,000 at respective dates	—	36,994,917
Stocks, quoted market of \$146,808,000 and \$114,367,000 at respective dates	—	121,566,038
Wholly owned corporations, at underlying equity (Note 3)	—	954,576
Mortgage and collateral loans	—	5,180,801
Oil and gas properties, less amortization of \$27,435,000 and \$26,192,000 at respective dates	—	1,153,968
Real estate and leasehold improvements, less amortization of \$4,138,000 and \$4,129,000 at respective dates	—	6,361,670
Undeveloped real estate and other	—	2,293,679
Interfund investments —		
Unexpended plant funds included in endowment fund investments	—	(736,523)
Auxiliary and educational service facilities financed from endowment (Note 4)	—	7,481,671
Other	<u>5,939,881</u>	<u>(6,273,485)</u>
EDUCATIONAL PLANT, at cost (Note 4):		
Land	—	—
Buildings and improvements	—	—
Equipment, furniture, and library books	—	—
Construction in progress	—	—
	<u>—</u>	<u>—</u>
Less — Allowance for depreciation on auxiliary and educational service facilities	—	—
	<u>—</u>	<u>—</u>
Total assets	<u><u> </u></u>	<u><u> </u></u>
LIABILITIES:		
Accounts payable	\$ 741,193	\$ 84,284
Deferred income and deposits	1,000,848	465,582
Deposits of collateral for securities loaned (Note 6)	—	4,351,900
Retirement funds (Note 7)	—	1,431,186
Commitments and contingencies (Note 9)	—	—
Total liabilities	<u> </u>	<u> </u>
FUND BALANCES:		
U.S. Government and private grants refundable	186,753	—
University funds —		
Restricted	1,404,515	45,206,222
Reserved for commitments (\$169,755 unrestricted and \$625,065 restricted in 1975)	794,820	—
Unrestricted	3,514,955	66,542,862
Funds functioning as endowment	—	57,608,346
Net investment in plant	—	—
Total fund balances	<u> </u>	<u> </u>
Total liabilities and fund balances	<u><u>\$7,643,084</u></u>	<u><u>\$175,690,382</u></u>

See notes to financial statements.

June 30, 1975

June 30,
1974,
Total

<u>Plant Funds</u>	<u>Loan Funds</u>	<u>Total</u>	
\$ —	\$ 175,779	\$ 1,417,772	\$ 524,347
—	—	803,225	1,055,713
—	3,091,908	3,091,908	2,919,452
58,123	—	429,178	351,771
—	—	36,994,917	39,314,249
—	17,581	121,583,619	108,920,129
—	—	954,576	932,148
—	—	5,180,801	5,925,060
—	—	1,153,968	1,971,211
—	—	6,361,670	5,326,629
—	—	2,293,679	2,182,219
736,523	—	—	—
(7,481,671)	—	—	—
200,618	132,986	—	—
340,525	—	340,525	444,054
56,172,960	—	56,172,960	56,285,435
20,713,923	—	20,713,923	19,654,758
793,542	—	793,542	—
78,020,950	—	78,020,950	76,384,247
3,819,993	—	3,819,993	3,483,032
74,200,957	—	74,200,957	72,901,215
\$ —	\$ —	\$ 825,477	\$ 1,018,911
—	—	1,466,430	1,859,228
—	—	4,351,900	2,378,900
—	—	1,431,186	1,441,809
—	—	—	—
—	1,674,563	1,861,316	2,517,575
745,264	494,008	47,850,009	42,012,270
—	—	794,820	677,434
250,000	1,249,683	71,557,500	67,677,852
—	—	57,608,346	56,644,601
66,719,286	—	66,719,286	66,095,563
<u>\$67,714,550</u>	<u>\$3,418,254</u>	<u>\$254,466,270</u>	<u>\$242,324,143</u>

	<u>Unrestricted</u>	<u>Restricted</u>
REVENUES AND OTHER ADDITIONS:		
Educational and general revenues	\$20,483,407	\$ 1,018,716
Auxiliary enterprises revenues	4,651,259	30,127
Gifts and bequests — restricted	—	1,474,531
Grants and contracts — restricted	—	6,643,914
Investment income — restricted	—	2,009,747
Oil and gas royalties	—	—
Realized gains on investments	—	—
Distributions from wholly owned corporations (Note 3)	—	—
Increase in underlying equity of wholly owned corporations (Note 3)	—	—
Repayment of advances from endowment funds (Note 4)	—	—
Interest on loans receivable	—	—
U.S. Government advances	—	—
Expended for plant facilities (including \$1,618,205 charged to current funds expenditures)	—	—
Refund of Federal taxes on unrelated business income	—	—
Miscellaneous	—	—
Total revenues and other additions	<u>25,134,666</u>	<u>10,176,415</u>
EXPENDITURES AND OTHER DEDUCTIONS:		
Educational and general expenditures	17,298,362	9,559,426
Auxiliary enterprises expenditures	4,727,675	98,755
Indirect costs recovered	—	1,496,534
Refunded to grantors	—	29,310
Provision for loans doubtful of collection	—	—
Loan cancellations	—	—
Administrative and collection costs	—	—
Expended for plant facilities (including noncapitalized expenditures of \$25,350)	—	—
Retirement of plant assets (Note 4)	—	—
Repayment of advances from endowment funds (Note 4)	—	—
Total expenditures and other deductions	<u>22,026,037</u>	<u>11,084,025</u>
TRANSFERS AMONG FUNDS — ADDITIONS/(DEDUCTIONS):		
Mandatory —		
Loan fund matching grant	—	(10,410)
Provision for plant improvements (Note 8)	(1,135,418)	—
Funding of current unrestricted expenditures for equipment (Note 8)	729,163	—
Provision for contingencies (Note 8)	(567,709)	—
Unrestricted gifts and investment income allocated	(129,521)	21,376
Other voluntary transfers, net	(30,125)	228,369
Total transfers	<u>(123,500)</u>	<u>218,955</u>
NET INCREASE/(DECREASE) FOR THE YEAR	<u>1,975,019</u>	<u>232,345</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>1,709,691</u>	<u>1,983,988</u>
FUND BALANCE AT END OF YEAR	<u>3,684,710</u>	<u>2,216,333</u>

See notes to financial statements.

<u>Income Restricted</u>	<u>Income Unrestricted</u>	<u>Functioning as Endowment</u>	<u>Unexpended</u>	<u>Investment in Plant</u>	<u>Loan Funds</u>
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—
4,400,795	540,350	—	336,695	72,445	12,857
—	—	—	—	—	—
568,779	—	—	37,838	—	6,664
2,998	347,654	—	—	—	—
145,008	183,876	158,117	—	—	—
—	481,237	—	—	—	—
—	22,436	—	—	—	—
—	—	—	—	197,028	—
—	—	—	—	—	35,828
—	—	—	—	—	225,645
—	—	—	—	1,889,522	—
—	—	93,128	—	—	—
27,617	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	550,000
—	—	—	—	—	43,215
—	—	—	—	—	10,065
3,620	—	258,245	34,802	—	—
—	—	—	—	1,025,200	—
—	—	—	197,028	—	—
—	—	—	—	—	—
—	—	—	—	—	10,410
—	—	1,135,418	—	—	—
—	—	(729,163)	—	—	—
—	—	567,709	—	—	—
—	—	108,145	—	—	—
176,406	—	(111,364)	(305,568)	(510,072)	552,354
5,317,983	1,575,553	963,745	(162,865)	623,723	240,478
39,888,239	64,967,309	56,644,601	1,158,129	66,095,563	3,177,776

(Note 1)

	Year Ended June 30, 1975			Year Ended June 30, 1974
	Unrestricted	Restricted	Total	Total
REVENUES:				
Educational and general —				
Student tuition and fees	\$ 6,864,278	\$ 141,618	\$ 7,005,896	\$ 6,551,367
Government grants and contracts	1,331,766	4,445,290	5,777,056	5,766,170
Gifts and private grants (Note 5)	880,895	2,203,938	3,084,833	3,124,519
Endowment income (Note 2)	11,354,180	2,009,747	13,363,927	11,138,776
Sales and services of educational and service departments	—	803,163	803,163	593,776
Other sources	52,288	25,924	78,212	189,251
Total educational and general				
Auxiliary enterprises	4,651,259	28,500	4,679,759	4,165,327
Total revenues				
EXPENDITURES AND MANDATORY TRANSFERS:				
Educational and general —				
Instruction and departmental research	7,403,538	2,782,948	10,186,486	8,577,076
Sponsored research	—	4,712,777	4,712,777	4,830,540
Other sponsored programs	—	1,297,680	1,297,680	1,563,546
Library	1,406,638	127,277	1,533,915	1,301,437
Student services	656,205	72,076	728,281	638,818
Operation and maintenance of plant	1,758,568	88,862	1,847,430	1,633,988
General administration	2,296,181	43,559	2,339,740	2,059,400
General institutional	710,583	357	710,940	738,678
Student aid	3,066,649	433,890	3,500,539	3,203,997
Educational and general expenditures				
Mandatory transfers for —				
Provision for plant improvements (Note 8)	1,135,418	—	1,135,418	976,825
Loan fund matching grant	—	10,410	10,410	17,635
Total educational and general				
Auxiliary enterprises	4,727,675	98,755	4,826,430	4,364,419
Total expenditures and mandatory transfers				
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):				
Excess of restricted receipts over transfers to revenues	—	22,321	22,321	211,812
Refunded to grantors	—	(29,310)	(29,310)	(33,923)
Funding of current unrestricted expenditures for equipment (Note 8)	729,163	—	729,163	675,261
Unrestricted gifts and investment income allocated	(129,521)	21,376	(108,145)	(144,266)
Provision for contingencies (Note 8)	(567,709)	—	(567,709)	(488,414)
Other voluntary transfers, net	(30,125)	228,369	198,244	(673,901)
Net increase in fund balances				

See notes to financial statements.

(1) Summary of significant accounting policies —

Basis of accounting —

The financial statements of William Marsh Rice University have been prepared substantially on the accrual basis of accounting except for depreciation accounting explained in Note 4 below. To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as expenditures. To the extent these expenditures are funded from the reserve for plant improvements (Note 8), such amount is transferred from endowment and similar funds. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

Fund accounting —

In order to ensure observance of limitations and restrictions placed on the use of available resources, the accounts of the University are maintained in accordance with the principles of "fund accounting." Fund accounting is a procedure by which resources are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Although separate accounts are maintained for each fund, funds that have similar characteristics have been combined into fund groups and all financial transactions have been reported by those fund groups in the accompanying financial statements.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of William Marsh Rice University's Board of Governors. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds.

Gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments, receivables, and other assets is accounted for in the fund owning such assets, except for income derived from investments owned by endowment funds, which income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. Restricted current funds receipts are reported as revenues and expenditures when expended.

Current funds —

The unrestricted current fund is used to account for those transactions related to the University's operating budget as approved by the Board of Governors.

The restricted current fund is used to account for funds expended for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended, and is also used to account for resources which have been designated for specific purposes by the University administration. The restricted current fund balance includes approximately \$669,000 at June 30, 1975, and \$382,000 at June 30, 1974, of administratively designated funds. Receipts and expenditures for such funds during 1975, included in the statement of changes in fund balances and the statement of current funds revenues, expenditures, and other changes, were approximately \$1,100,000.

Endowment and similar funds —

Endowment funds are generally subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be expended. While funds functioning as endowment have been established by the Board of Governors for the same purposes as endowment funds, any portion of funds functioning as endowment may be expended at the discretion of the Board of Governors.

Income restricted endowment funds generally represent gifts and bequests received by the University for which the donors have stipulated that the principal is to be maintained inviolate and income resulting from investment of the funds may be expended for specified purposes. To the extent that programs

have not been established for the specified purposes, or if the investment income exceeds the program expenditures, such income is added to the endowment fund balances. Accordingly, income of \$568,779 in 1975 and \$507,124 in 1974 was added to these funds. This accumulated income may be utilized, when permitted, to fulfill the funds' restricted purposes.

Other endowment funds consist of income unrestricted endowment funds, including the founder's endowment, and funds functioning as endowment. Income unrestricted funds represent gifts and grants together with allocated realized capital gains and losses that are maintained inviolate. Income earned by investment of these funds is used for unrestricted operations.

Loan funds —

Loan funds include gifts and grants which are limited by donors to the purpose of making loans to students or faculty and funds of the University which have been designated by the Board of Governors as loan funds. Also included in these funds is the National Direct Student Loan Program financed primarily by the Federal government and administered by the University.

Plant funds —

Plant funds consist of the total invested in the educational plant together with unexpended gifts, grants, and reserves which are held for acquisition, replacement, or construction of physical properties.

(2) Investments —

Investments are recorded at cost at date of acquisition or fair market value at date of donation in the case of gifts, except for investments in wholly owned corporations (Note 3) and certain donated interests in undeveloped real estate which are recorded at a nominal value plus costs incurred for taxes and maintenance (approximately \$121,000 in 1975 and \$94,000 in 1974) subsequent to the date of acquisition.

Premiums or discounts applicable to nonconvertible bonds purchased are amortized against or added to investment income over the life of the bonds. Realized gains and losses on the sale of marketable securities are determined by the average cost method.

Most income restricted endowment funds participate in a common pool which is operated on a market value basis. Those income restricted funds which by the terms of the gift do not permit participation in such a pool are maintained on a separate investment basis.

Other endowment funds together with interfund investment amounts of other funds are commingled for investment purposes in the general investment pool. Interfund investments do not share in the general investment pool's gains and losses, but are allowed interest.

Income from investments in marketable securities as a percent of total investments in marketable securities and net gain on sales is as follows:

	Total Investments in Marketable Securities at June 30 (in 000's)		Yield on Cost	Yield on Market	Realized Gain on Sales (in 000's)
	Cost	Market			
1975	\$158,579	\$178,377	5.7%	5.0%	\$ 477
1974	148,234	146,606	5.2	5.3	3,692

Portions of investment income from oil and gas properties and improved real estate held for investment are retained in the endowment funds for the purpose of asset recovery. The portion of real estate investment income retained in the endowment funds is approximately equal to that percentage of net receipts which will recover the cost of improvements over their estimated lives. A corresponding amount is recorded as amortization of real estate and real estate improvements in the endowment funds until the cost of the improvements has been fully recovered. Real estate investment income not retained in the endowment funds is recognized as endowment income in the current funds as described in Note 1.

Of the investment income from oil and gas properties, 27½ percent of the net receipts is retained in the endowment funds. A corresponding amount is recorded as amortization of producing

oil and gas properties in the endowment funds until the producing properties have been fully amortized. The 72½ percent of net receipts not retained in the endowment funds (\$3,260,229 in 1975 and \$2,680,419 in 1974) is recognized as endowment income in the current funds.

(3) Investments in wholly owned corporations —

The financial statements include all assets, liabilities, and fund balances of the University except certain separately incorporated but related entities for which the University is fiscally responsible. These corporations are included in the endowment and similar funds balance sheet at underlying equity. In the accompanying statement of changes in fund balances, distributions to the current funds are included in educational and general revenues. Condensed financial statements of these corporations follow:

CONDENSED STATEMENT OF FINANCIAL POSITION June 30, 1975 And 1974

	1975	1974
Gas production payments	\$15,754,457	\$13,479,110
Marketable securities, quoted market of \$433,070 and \$370,807 at respective dates	496,518	486,591
Real estate and other assets, at cost or fair market value at date of acquisition	625,556	480,156
Total assets	16,876,531	14,445,857
Long-term debt, secured by gas production payments	15,754,457	13,479,110
Other liabilities	167,498	34,599
Total liabilities	15,921,955	13,513,709
Investment in wholly owned corporations, at underlying equity as included in the accompanying balance sheet	\$ 954,576	\$ 932,148

CONDENSED RESULTS OF OPERATIONS For The Years Ended June 30, 1975 And 1974

	1975	1974
Revenues	\$ 2,672,705	\$ 1,638,738
Expenses	2,095,531	708,181
Income before distributions to the University	577,174	930,557
Distributions —		
To current unrestricted revenues	73,501	107,733
To unrestricted endowment	481,237	833,643
	554,738	941,376
Increase (decrease) in underlying equity of wholly owned corporations as included in the accompanying statement of changes in fund balances	\$ 22,436	\$ (10,819)

(4) Educational plant —

The educational plant is stated at cost. No provision is made for depreciation of educational buildings and equipment. Six and two-thirds percent of capitalized equipment and certain improvements is charged off (retired) each year.

Depreciation charges (\$394,000 and \$375,000 in 1975 and 1974, respectively) have been made to educational service and auxiliary operations for recovery of the cost of facilities used in these operations and which are not financed by gifts and grants. These charges are based substantially on estimated useful lives and are intended to reimburse endowment funds for amounts advanced to fund auxiliary and educational service facilities. In addition, unexpended plant funds were utilized (\$197,028 in 1975 and \$250,000 in 1974) for repayment of endowment funds for a portion of such advances.

(5) Gifts —

Gifts of \$529,934 received during the year for unrestricted operations have been deferred for use during the 1975-1976 academic year. Gifts of \$543,285 received during the prior academic year are included in current unrestricted revenues. Other than those gifts deferred, gifts are included in revenues or added to the appropriate fund balances only when received, and, accordingly, pledges or assets held by trustees will be recorded as gifts when received.

Pledges outstanding, which are not recorded in the accompanying financial statements, are as follows:

	June 30	
	1975	1974
Current funds —		
Unrestricted	\$ 176,000	\$ 236,000
Restricted	1,042,000	1,420,000
Total current funds	1,218,000	1,656,000
Plant and endowment funds	6,242,000	1,998,000
Total pledges	\$7,460,000	\$3,654,000

Assets having a market value of approximately \$5,100,000, consisting of marketable securities, mortgage loans, and real estate were held by trustees at June 30, 1975, pending distribution to the University from estates and are not recorded in the accompanying financial statements.

(6) Deposits of collateral for securities loaned —

The University received \$4,351,900 as collateral deposits for certain securities temporarily loaned to brokers. As of June 30, 1975, the securities on loan amounted to \$3,601,736 at cost (market \$4,557,563) and the collateral deposits were invested in short-term paper.

(7) Retirement plans —

Retirement funds represent balances of pension benefits held for retired and present employees participating in the William Marsh Rice University Retirement Plan (Rice Plan) and unvested benefits held for present employees participating in the Teachers Insurance Annuity Association-College Retirement Equities Fund (TIAA-CREF) Retirement Plan for Faculty and Staff. Vested benefits for participants in the TIAA-CREF Plan are administered by TIAA-CREF. The Rice Plan is a defined contribution plan. In addition, participants who were employed prior to the inception of the plan in 1946 are entitled to receive certain defined benefits. The TIAA-CREF Plan is a defined contribution plan. However, most participants who were over 50 years of age in 1974 when changes were made to the plan are guaranteed certain minimum benefits. The University's policy is to expense pension costs on a current basis together with an amount for projected costs of the minimum benefits. Total pension costs of \$974,000 in 1975 and \$914,000 in 1974 include amortization of estimated minimum benefit costs over a period of 15 years. The actuarially computed value of vested benefits for both plans as of June 30, 1975, exceeded the total of the retirement funds by approximately \$1,100,000.

Provisions of the Pension Reform Act of 1974, which will become effective in 1976, will require the University to change certain of its policies relating to administration of its plans and funding of certain benefits. The effect on annual pension costs for 1976 and subsequent years resulting from this change has not been determined and is dependent upon the funding alternative which the University will ultimately elect.

(8) Provisions for plant improvements and contingencies —

Transfers equal to five percent of unrestricted endowment income, as a provision for contingencies, and 10 percent, as a provision for plant improvements, have been made from current unrestricted funds to funds functioning as endowment. Current unrestricted expenditures for equipment (\$729,163 in 1975) and certain other plant additions (\$258,245 in 1975) are funded by a charge against the reserve for plant improvements.

Balances of funds functioning as endowment reserved for contingencies and reserved for plant improvements were \$1,453,576 and \$738,853, respectively, at June 30, 1975.

(9) Commitments and contingencies —

The Internal Revenue Service is reviewing certain tax returns of the University and has indicated that it may assert that the University is liable for additional taxes on certain items which may be deemed to be "unrelated business income."

There are several suits and claims pending against the University, the effect of which cannot be estimated at this time; however, legal counsel for the University believe that the ultimate liability, if any, will not be material to the University's financial position.

The University was committed under contracts at June 30, 1975, for capital improvements of approximately \$2,500,000 to be financed primarily from funds functioning as endowment.

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