



February 22, 2008

Senator Max Baucus
Senator Charles Grassley
United States Senate
Committee on Finance
Washington, DC 20510-6200

Dear Senators Baucus and Grassley:

I submit Grinnell's responses to your letter of several weeks ago. We are glad to be able to provide information about our endowment and how we invest and spend it and most importantly how we use it as the primary resource, larger in our revenues than tuition and fees, to support students of any background and all financial needs to come here and then to move on to do great things for the common good.

Grinnell College is distinctive among colleges on the list of those with large endowments in three respects: 1) our overall discount rate is about 55% meaning that the average enrolled student pays, net of aid provided, only about 45% of our tuition due largely to the relatively high need profile of our students, 2) 87% of our currently enrolled students receive Grinnell grants and scholarships with the lion's share in the form of need based aid, and 3) we remain truly need blind for domestic students and also meet their full demonstrated need. The College recognizes that its endowment payout policy is cautiously prudent, reflecting the higher vulnerability of its budget, and the students and employees it supports, to a significant and extended market contraction, as perhaps we are witnessing currently. Three years ago in light of our endowment's growth and in furtherance of our current strategic plan we embarked on a significant improvement of our financial aid packaging with the goals of increasing the size of our need awards, reducing significantly the amount of loans packaged in such awards, and financially encouraging students to participate in programs designed to promote the common good, like the Peace Corps and Teach for America (we are regularly cited as among the largest per capita providers for these programs). These aid enhancements have, as you will see in the enclosed, caused repeated double digit increases (17.4% for the coming year as compared to a tuition increase of 3.0%) in our financial aid budget.

We would be glad to meet with the two of you (I have already met with Senator Grassley) or anyone else on your committee or its staff as you explore how we spend our endowment for the benefit of our students, their education, and the common good.

My Best,

Russell K. Osgood



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RESPONSE TO QUESTION 1

Please provide the number of undergraduate and graduate students year-by-year for the last ten years.

Fiscal Year	Full-time Students ⁽¹⁾	Part-time Students	Total
1999	1406	36	1442
2000	1411	40	1451
2001	1424	40	1464
2002	1423	37	1460
2003	1432	53	1485
2004	1485	39	1524
2005	1529	27	1556
2006	1546	31	1577
2007	1556	33	1589
2008	1623	31	1654

⁽¹⁾ Full-time students = full-time on campus + 9th semester teaching + off-campus study

Within the Carnegie Classification System, Grinnell College is designated as a Baccalaureate College – Arts & Sciences. The College enrolls only undergraduate students.



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RESPONSE TO QUESTION 2

Please provide the total cost of undergraduate tuition (including all fees) – both sticker and average, mean and median – year-by-year for the last ten years.

<u>Academic Year</u>	
1998-99	\$18,446
1999-00	\$19,460
2000-01	\$20,500
2001-02	\$22,250
2002-03	\$23,530
2003-04	\$24,490
2004-05	\$25,820
2005-06	\$27,504
2006-07	\$29,030
2007-08 ⁽¹⁾	\$34,392
2008-09 ⁽²⁾	\$35,428

⁽¹⁾ Tuition and fees apply to first-year students who entered during the 2007-08 academic year. Returning and transfer students continue to pay charges based upon the previous year's tuition and fee model. Tuition and mandatory fees for returning and transfer students total \$30,192.

⁽²⁾ Tuition and fees apply to 1st and 2nd year students. 3rd and 4th year students will pay \$31,098.

The same charge is applicable to all new students entering from high school (i.e. first-time, full-time).



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RESPONSE TO QUESTION 2 *(continued from previous page)*

Please provide the amount of tuition assistance (not including loans or work study) that the university has provided to undergraduate students year-by-year for the last ten years.

Total Scholarships & Grants
(in thousands)

Fiscal Year	Unrestricted Sources	Restricted Sources ⁽³⁾	Total	Discount Rate ⁽⁴⁾
1998	\$9,316	\$1,975	\$11,291	50.8%
1999	\$9,465	\$2,177	\$11,642	51.4%
2000	\$9,926	\$2,876	\$12,802	52.5%
2001	\$10,014	\$3,313	\$13,327	51.0%
2002	\$10,907	\$3,612	\$14,519	51.1%
2003	\$11,587	\$3,606	\$15,193	48.0%
2004	\$13,620	\$3,673	\$17,293	50.3%
2005	\$14,839	\$4,071	\$18,910	50.7%
2006	\$16,670	\$4,327	\$20,997	51.8%
2007	\$17,881	\$4,593	\$22,474	52.4%
2008 ⁽⁵⁾	\$20,150	\$5,040	\$25,190	52.0%
2009 ⁽⁶⁾	\$23,140	\$5,800	\$28,940	57.0%

⁽³⁾ Restricted Sources includes endowment funds and private gifts specifically restricted for scholarships and grants and **excluding federal grants**.

⁽⁴⁾ Total gross tuition and mandatory fees as a percentage of total scholarships and grants, **including federal grants**.

⁽⁵⁾ Projected scholarships and grants as of June 30, 2008. .

⁽⁶⁾ Scholarships and grants approved by the Board of Trustees on February 8, 2008. Unrestricted and restricted sources are estimated.

For the most recent year, please provide the percentage of students receiving university grants (for example 25%; 50%; 75% and 100% of tuition and fees).

The percentage of students receiving institutional scholarships and grants in FY 2007 was 89.6%. In FY 2008, 88.0% of students enrolled are projected to receive institutional aid.

Please provide the average grant amount.

The average institutional grant for students receiving financial aid in FY 2007 was \$16,355. The average grant award for FY 2008 is projected to be \$17,905. As the 1st year class for next fall (Class of 2012) has not been determined, it is unclear what the average grant award will be in FY 2009. The College expects the FY 2009 average grant award to be materially higher with the implementation of the recently approved need-based loan cap program.



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RESPONSE TO QUESTION 3

Please explain your university's financial aid policy. How do you inform students and parents of that policy? What outreach efforts does your university take to recruit potential low-income students? How is low-income defined? What is the amount spent on these efforts?

Grinnell College is fully need-blind in its admissions of domestic students, e.g. it does not take into account the need status of a student in admitting him or her. In addition, the College meets the full demonstrated need of all domestic students admitted and throughout their four years (and increases need-based awards as tuition, fees and other costs increase). The College is moving gradually to meet the full need for enrolled international students (about 8-11% of each class) but does not yet do that. The College also awards about \$1,000,000 per annum of domestic merit aid to each class entering. Merit aid is offered to encourage certain groups of students to come to Grinnell including Iowa residents, City of Grinnell residents, and students with very strong academic profiles (and other characteristics gathered together as “promise of contribution”). We have no unitary definition of “low income” for our financial aid system awards full aid across the entire spectrum of those with need as defined in the Free Application for Federal Student Aid (FAFSA) methodology without regard to any floor or ceiling.

The College enrolls a very high percentage of needy students (87% of our students receive aid awards). We have a number of programs to reach out to them including:

- Posse Program (2 cohorts, up to 80 enrolled students)
- Grinnell Science Project (summer program for 30-40 students)
- Multicultural Recruiting
- Honor Scholars/Summer Institute
- Grinnell Diversity Leaders college visit program
- Admitted student fly-in programs (specifically for first-generation, Pell-eligible students from non-contiguous states)
- Work with agencies on historically under-represented groups and lower socio-economic status (such as I Have a Dream Foundation and College Horizons)
- Recent partnership with the Center for Student Opportunity, a non-profit organization committed to helping low-income and first-generation students into college



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RESPONSE TO QUESTION 4

Who determines and decides when tuition increases are necessary? What is the process for making this decision? Does the full Board of Trustees vote on tuition increases? Are students, parents and the public provided an opportunity to comment on tuition increases prior to final decisions being made? What role does your university endowment play in providing financial assistance to students?

Grinnell's annual budget is developed in an iterative fashion by both an on-campus budget steering committee comprised of faculty, administrators, and students and a Trustee budget committee. The on-campus Budget Steering Committee begins work in August of each year, looking at foreseeable needs and possible revenues. Over half of Grinnell's revenue (we believe this may be the highest such figure in the group of colleges and universities with large endowments) comes from the endowment and about 30% from net tuition and fees. The Budget Steering Committee projects estimated tuition and fees, grants and scholarships, salary pools and other significant budget components as early as mid-October. These estimates are discussed in public sessions and also various other on-campus fora. The Steering Committee and the President check in with the Trustee Budget Committee throughout the fall and a proposed budget is finalized in January. The proposed budget is reviewed fully by the Trustee Budget Committee which adopts its own version with any modifications for presentation to and approval by the full Board in sessions which include representatives of the executive administration and elected leadership of the faculty and student body.

In addition, each year the President, the Vice-President for Institutional Planning and the Treasurer (with the Finance Office) prepare five-year (forward looking) budget models with estimates of net tuition revenues as a key variable. The College has a unitary budget that blends operating and capital expenditures. The College collects endowment distributions not allocated to current operations for future capital and other extraordinary needs and expends those funds as approved by the Board of Trustees for capital projects, community contributions or special programmatic expenditures of the College.



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RESPONSE TO QUESTION 5

Please explain how your university's endowment is managed and the role of the Board of Directors.

The Grinnell College Board of Trustees has delegated investment responsibility to its Investment Committee via Article VII of the By-Laws. In addition, Article VII identifies eligible investments and directs the Investment Committee to establish both short-term and long-term investment strategies. It further states that investments may be made on behalf of the College either by the Investment Committee or its delegated members, the Treasurer, or by independent investment managers selected by the Investment Committee. The Investment Committee currently consists of eight members and operates pursuant to an *Investment Policy* approved by the Board of Trustees. This policy includes meeting requirements, articulates the College's commitment to socially-responsible investment, and establishes three investment categories – endowment funds, operating funds, and annuity funds – based upon their unique attributes and objectives. The Investment Committee met eight times in 2007.

Article V of the By-Laws designates the Treasurer as the chief financial officer and chief investment officer of the College. The Treasurer is charged with implementing and administering the *Investment Policy* subject to the direction of the Investment Committee and is custodian of the College's securities. The Treasurer reports to the Board of Trustees on behalf of the Investment Committee at each meeting and prepares a comprehensive written annual report on the performance of particular investments and categories of investments. The College's investment staff, both professional and support, is a modest 4.5 FTE, including the Treasurer.

What are your university's endowment payout and investment policies?

The College's *Endowment Spending Policy* is referenced in and required to be consistent with the *Investment Policy*. The distribution (payout) is currently calculated as 4.0% of the twelve-quarter moving average endowment market value determined annually as of the December 31 immediately prior to the beginning of the fiscal year. The calculated distribution is allocated annually between the College's operating budget and strategic (including capital replacement) initiatives. This allocation is approved by the Board of Trustees as part of the annual budget process. The *Endowment Spending Policy* is available in its entirety on the College's website at www.grinnell.edu/offices/treasurer.

The *Investment Policy*, as summarized above, is available in its entirety on the College's website at www.grinnell.edu/offices/treasurer.



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RESPONSE TO QUESTION 5 *(continued from previous page)*

What is the mission of your university's endowment?

As set forth in the *Investment Policy*, the mission of the endowment is to provide predictable and stable financial support for the College's mission as a liberal arts institution. Consistent with our responsibility to achieve intergenerational equity, the College executes an investment strategy focused on long-term growth of capital rather than short-term returns with the expectation to preserve or enhance the real purchasing power of the endowment into perpetuity.

When was the last time that the university's endowment policy was reviewed?

The current *Endowment Spending Policy* was approved by the Board of Trustees on April 30, 2004.

The current *Investment Policy* was approved by the Board of Trustees on February 8, 2008. It had last been approved October 24, 2003.

When will it next be reviewed?

The *Investment Policy* requires periodic review of the *Endowment Spending Policy*. As such, it is scheduled for review by the Board of Trustees at its meeting of April 24-26, 2008. It will be evaluated and set in light of long-term inflation-adjusted performance expectations and the College's mission.

Based upon its review and approval at the most recent meeting of the Board of Trustees, the *Investment Policy* is not yet scheduled for subsequent review.



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RESPONSE TO QUESTION 6

Please provide the year-by-year net growth of the university's endowment for the last ten years (in both percentage and dollars). What is the amount of donations the endowment has received year-by-year for the last ten years?

Growth of Endowment
(in thousands)

<u>Fiscal Year End</u>	<u>Market Value of Endowment</u>	<u>Net Growth</u> ⁽¹⁾	<u>%</u>	<u>Gifts to Endowment</u>
1997	\$754,599			
1998	\$1,019,048	\$264,449	35.0%	\$2,237
1999	\$1,020,372	\$1,324	.1%	\$3,075
2000	\$862,487	-\$157,885	-15.5%	\$1,820
2001	\$1,024,671	\$162,184	18.8%	\$3,100
2002	\$1,075,153	\$50,482	4.9%	\$1,637
2003	\$1,111,615	\$36,462	3.4%	\$481
2004	\$1,291,781	\$180,166	16.2%	\$2,063
2005	\$1,390,545	\$98,764	7.6%	\$2,108
2006	\$1,471,804	\$81,259	5.8%	\$767
2007	\$1,718,313	\$246,509	16.7%	\$1,387

⁽¹⁾ Net growth includes endowment return, gifts to endowment, endowment spending and other additions and transfers.



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RESPONSE TO QUESTION 6 *(continued from previous page)*

Please provide the percentage of investments in each asset class (equity, fixed income, hedge funds, private equity, venture capital, etc.) and the amount invested outside the United States.

Asset Allocation as of June 30, 2007

	<u>% US</u>	<u>% Non-US</u>	<u>Total %</u>
Cash/Fixed	4.5%	0%	4.5%
Marketable Equities	31.3%	21.8%	53.1%
Alternatives			
Marketable ⁽²⁾	15.1%	8.0%	23.1%
Non-Marketable ⁽³⁾	12.2%	6.6%	18.8%
Other	<u>.5%</u>	<u>0%</u>	<u>.5%</u>
Total	63.6%	36.4%	100.0%

⁽²⁾ Includes equity, credit and macro strategies

⁽³⁾ Includes private equity, venture capital, private real estate and distressed strategies.

The “*Annual Report of the Investment Committee*” for the fiscal year ended June 30, 2007 is available on the College’s website at www.grinnell.edu/offices/investment/.



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RESPONSE TO QUESTION 7

Please explain how you determine what is considered part of the university endowment. In other words, how is your endowment defined?

The College defines and accounts for its endowment consistent with the GAAP definition utilized when the College's audited financial statements were prepared on a fund accounting basis (prior to 1996). As such, the endowment includes true endowment, term endowment and quasi-endowment funds. Despite the transition to net asset reporting for external (audited) purposes, the College has continued to satisfy its fiduciary responsibilities with respect to endowment funds via the continued use of fund accounting. Reporting to NACUBO has been consistently completed utilizing the same definition.

Are there any other long term investments that are not included in the endowment as reported to NACUBO? If so, what are they and what are their values?

Endowment assets represent more than 95% of total College investment assets as of June 30, 2007. The College has one other pool of long-term investment assets consisting of annuity funds of \$16.1 million which represent less than 1% of total investment assets. Annuity funds are reported to NACUBO as a category separate from endowment. Annuity and life income funds represent assets transferred to the College subject to life income interests established by the donor and for which the College serves as trustee. The College has a remainder interest in these assets.

The balance of the College's investment assets (less than 4%) are classified as operating funds pursuant to the *Investment Policy*. Operating funds consist of financial resources available to satisfy the College's daily cash requirements (including capital project commitments). These funds are invested to provide safety of principal and maintain liquidity to match expected liabilities.



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RESPONSE TO QUESTION 8

What has been the cost of management of the endowment year-by-year for the last ten years?

Direct investment costs, calculated as a % of average (beginning/ending) endowment market value, are as follows:

	Fiscal Year - Reported in Basis Points									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Internal staff ⁽¹⁾	0	0	0	0	0	3	3	4	5	4
Custody/Performance	1	1	1	1	1	1	1	1	1	2
Marketable equity manager fees ⁽²⁾	6	4	4	7	8	33	64	55	42	44
Other direct costs (professional fees, software services, UBIT, etc.)	0	0	0	1	1	2	2	3	8	7
Total direct investment costs	7	5	5	9	10	39	70	63	56	57

(1) Prior to 2003, all internal staff costs were included in the operating budget.

(2) Prior to April, 2003, a significant part of the marketable equity allocation was invested in a mutual fund (no direct costs).

The College formally established an allocation to alternative investments in 2000. Fees associated with these alternative investments are paid within the respective investment structure and are not accumulated within the College's accounting system (i.e. not included in the above direct costs). Management fees typically range from 1.0% to 2.5% annually and are based upon either the total amount of capital committed to the investment vehicle or the amount of capital actually invested by the investment vehicle. These fees generally decline following the end of a fund's investment period. Carried interest (incentive fees) for the general partner of a fund range from 20% to 30% of net profit and normally include a "high water mark". In addition, the College's private equity, private real estate, and distressed investments have preferred return provisions (typically 8%).



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RESPONSE TO QUESTION 9

What was the payout (both in dollars and percentage) from the endowment year-by-year for the last ten years? What is the targeted payout (in percentage) from the endowment year-by-year for the last ten years?

Endowment Payout
(in thousands)

Fiscal Year	Payout (\$)	Payout % ⁽¹⁾	Targeted Payout % ⁽¹⁾
1998	\$23,321	4.6%	4.5%
1999	\$28,260	4.5%	4.5%
2000	\$35,600	4.5%	4.5%
2001	\$40,500	4.5%	4.5%
2002	\$42,000	4.4%	4.5%
2003	\$43,640	4.5%	4.5%
2004	\$44,393	4.4%	4.5%
2005	\$45,400	4.25%	4.25%
2006	\$49,155	4.25%	4.25%
2007	\$50,795	4.0%	4.0%

⁽¹⁾ As a percentage of the 12-quarter moving average endowment market value.

As referenced in Question 5, the *Endowment Spending Policy* was last reviewed and approved by the Board of Trustees on April 30, 2004. As part of this policy, the spending rate transitioned from 4.5% (FY 2004 and prior) to 4.25% (FY 2005 and 2006) to 4.0% (FY 2007 and thereafter).



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RESPONSE TO QUESTION 9 *(continued from previous page)*

If either the actual and/or targeted payout is below 5%, please explain how this meets the needs of the current student body.

The *Endowment Spending Policy* was determined based upon significant discussion and analysis amongst the Board of Trustees, its Investment and Budget Committees, and the administration. Key factors considered in setting the policy included the College's investment strategy and related return expectations, higher education inflation, the modest level of new gifts to the endowment, relevant academic studies and various return simulations, and the heavy reliance on the endowment (more than 50% and amongst the highest of all liberal arts colleges) to the College's operating budget. All of these factors are balanced with the articulated mission of the endowment (Question 5) while seeking to encourage fiscal discipline and strategic planning. Implicit in the policy is our desire to accommodate periods of economic or capital market turbulence without cutting programs or people.

We believe this policy, the Campus Budget Steering Committee which includes faculty, staff and students and an engaged Trustee Budget Committee collectively allocate resources in a manner which prioritizes and serves well the needs of current and future generations of students. For example, the FY 2007 allocation to scholarships and grants (Question 2) exceeded \$22.4 million and approximately 80% was provided from unrestricted resources, the vast majority of which is unrestricted endowment support (see below). This resulted in an average institutional grant award of more than \$16,000. The College's tuition discount rate (scholarships and grants as a percentage of tuition and mandatory fees) exceeds 50% (Question 2).

The Board of Trustees recently approved the College's operating budget for FY 2009 and it includes an allocation to scholarships and grants of \$30 million (including federal sources).

What were the top 10 major expenditures from the endowment last year?

Unrestricted support	68.4%
Scholarships	8.2%
Professorships	7.2%
Other restricted support	6.0%
Instruction (excluding professorships)	3.1%
Student services	3.0%
Library	1.9%
Institutional support	1.4%
Academic support	.5%
Prizes	.3%
Facilities	< .1%



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RESPONSE TO QUESTION 10

How much of the endowment is subject to permanent spending restrictions or limitations set by the original donor?

31.6% of the endowment market value at June 30, 2007, or \$542,485,000, is subject to permanent spending restrictions set by the donor. This includes both original corpus and accumulated gains and losses – i.e. fair market value of permanently restricted funds.

Of the portion subject to permanent limitations, what percentage is restricted for need-based scholarships? What portion is restricted for undergraduate financial aid?

25.9% of the College's endowment that is subject to permanent limitations is restricted for scholarships. The endowment includes 268 individual funds restricted for scholarships of which need is one of the criteria.

Please provide the top five types of restrictions on the endowment by category.

The top five types of restrictions within endowment by category are scholarships, professorships, instruction (excluding professorships), student services and library.

What percentage of the endowment is subject to significant limitations placed on it due to a decision by the board (or a subcommittee of the board) or a college or university official – such as a set-aside for a specific program?

In April, 2007 the College agreed to match funding from the Andrew W. Mellon Foundation for support of post-doctoral fellows at Grinnell. To date the College has restricted \$500,000 (or .1% of the endowment).

Please provide the investment return to the endowment year-by-year for the last ten years.

Investment returns are net of all fees and investment costs (Question 8).

<u>Fiscal Year</u>	
1998	38.0%
1999	2.6%
2000	-12.2%
2001	24.8%
2002	10.1%
2003	7.8%
2004	20.1%
2005	10.7%
2006	9.3%
2007	20.3%



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RESPONSE TO QUESTION 11

Please explain the fee arrangement to investment advisors. How is the fee and compensation measured and determined? What is the process to review reasonableness of the fee and compensation and what comparables are used? Who reviews and approves the fee? Who pays the fee (the endowment, general funds)?

The College has no external investment advisors beyond those described in Question 8.

Fees by asset allocation category are as follows:

- Cash/fixed income is managed internally by investment office staff.
- Marketable equity manager fees average from 75 basis points to 140 basis points annually (calculated as a percentage of assets under management).
- Alternative investment manager fees are as described in Question 8.

External advisor fees are reviewed as part of the pre-investment due diligence process. Fees are evaluated for reasonableness by comparison to other managers executing similar strategies. Comparative data includes those managers which are or have invested on the College's behalf, managers evaluated but not selected, and available industry or market data bases.

All external managers selected (including investments made via partnerships or similar structures) are approved by the Investment Committee based upon a recommendation by the Treasurer. Fees are one of the many relevant attributes considered.

All management fees (internal and external) are charged directly to the endowment. Endowment performance is measured net of all investment costs, including management fees.



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RESPONSE TO QUESTION 11 *(continued from previous page)*

Please explain what relationship, if any, exists between endowment size and/or growth and the compensation given to the college or university president and the endowment manager. Please list what endowment-related bonuses, if any, either the college or university president or the investment manager has received year-by-year for the last ten years.

Endowment size and/or growth are not factors in the determination of compensation for the President. The President has not received an endowment related bonus over the past ten years.

Endowment size is a factor in determination of the compensation for the Treasurer. As described in Question 5, the Treasurer is both the chief financial officer and chief investment officer. The Treasurer has been awarded the following bonuses over the past ten fiscal years based upon his long-term performance in these combined roles. The majority of these bonuses are deferred.

1998	\$0
1999	\$0
2000	\$0
2001	\$30,000
2002	\$55,260
2003	\$55,256
2004	\$58,019
2005	\$61,210
2006	\$100,000
2007	\$60,000