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Report to Congressional Committees

February 2010

POSTSECONDARY EDUCATION

College and University Endowments Have Shown Long-Term Growth, While Size, Restrictions, and Distributions Vary

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GAO-10-393

February 2010

GAO Highlights

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Highlights of GAO-10-393, a report to congressional committees

POSTSECONDARY EDUCATION

College and University Endowments Have Shown Long-Term Growth, While Size, Restrictions, and Distributions Vary

Why GAO Did This Study

The nation's 4-year not-for-profit colleges and universities collectively held more than $400 billion in endowments in 2008. Some institutions' large endowments coupled with the high and growing cost of college have led to questions about institutions' use of endowments. This mandated report describes (1) the size and change in value of endowments over the last 20 years, (2) the extent and manner to which endowment funds are restricted for financial aid and other purposes, and (3) institutions' distribution of endowment assets. GAO obtained and analyzed data on college and university endowments from the Department of Education and other sources. Because industry-wide data were not available on endowment restrictions and distributions, GAO selected 10 colleges and universities for case studies. The case-study institutions were selected to include a mix of public, private, large, small, and minority-serving institutions. Information from these schools cannot be generalized to all U.S. colleges and universities.

What GAO Recommends

GAO is not making any recommendations in this report. Officials at the schools GAO selected as case studies were asked to review information in this report concerning their institutions. The Department of Education also provided technical comments on GAO's characterization of Department of Education data. GAO incorporated these technical comments as appropriate.

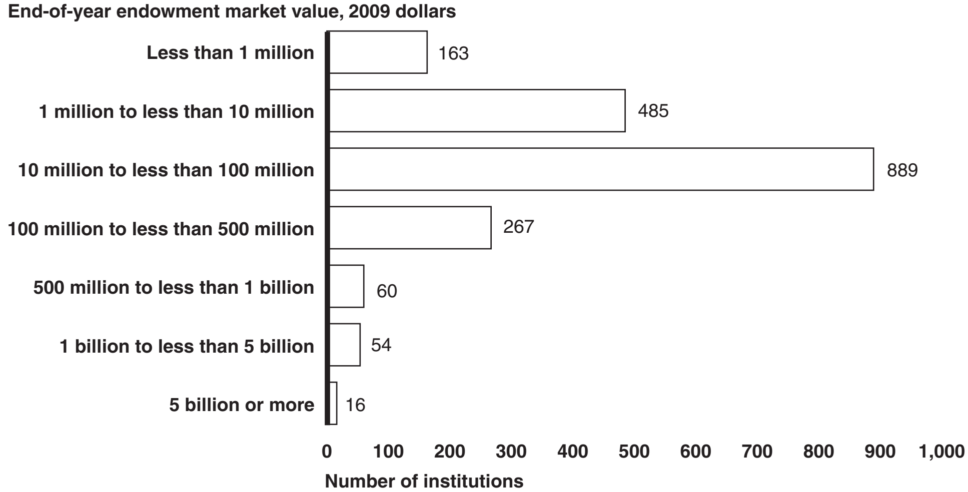
View GAO-10-393 or key components.
For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

What GAO Found

As of 2008, most 4-year postsecondary schools in the United States had endowments of less than $100 million, while only 70 had endowments of $1 billion or more, as shown in the figure below. Among types of institutions, private schools tended to have larger endowments than public schools, while schools with high minority enrollment tended to have smaller endowments than other schools. Total inflation-adjusted endowments held by U.S. colleges and universities grew from just over $100 billion in 1989 to more than $400 billion in 2008, the most recent year for which national data were available. Case-study schools' endowments declined by an average of more than 27 percent from 2007 to 2009, adjusted for inflation. Despite these recent losses, endowments at case-study schools showed average, inflation-adjusted long-term growth of 6.2 percent per year since 1989. Most endowment growth at case-study schools was from investment earnings.

U.S. Postsecondary Institution Endowment Assets, 2008

End-of-year endowment market value, 2009 dollars



Source: GAO analysis of Department of Education data.

Most endowment assets at case-study schools were restricted by donors. Some restrictions are broadly-worded, designating funds to be used for financial aid, for example, while others are very specific, such as funding for a scholarship for students from a particular area. Schools have some ability to modify restrictions when a restriction outlives its purpose. At case-study schools, funds specifically restricted for financial aid ranged from about 12 percent to nearly 70 percent of endowment assets in 2009. Officials noted that other funds may also be used for financial aid.

Case-study institutions had mechanisms to smooth the effects of market fluctuations and ensure a reliable stream of funding for operations, such as basing distribution targets on the endowment's market values for multiple years instead of just the most recent year. Over the past 20 years, inflation-adjusted distributions from these schools have shown steady growth.

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Abbreviations

CPI	Consumer Price Index
CU	University of Colorado
CUF	University of Colorado Foundation
FASB	Financial Accounting Standards Board
FTE	full-time equivalent
GASB	Governmental Accounting Standards Board
HMC	Harvard Management Company
IPEDS	Integrated Postsecondary Education Data System
LTF	Long-Term Fund
PHF	Permanent Health Fund
PUF	Permanent University Fund
SIF	Separately Invested Funds
UK	University of Kentucky
UPMIFA	Uniform Prudent Management of Institutional Funds Act
UT	University of Texas
UVA	University of Virginia

United States Government Accountability Office
Washington, DC 20548

February 23, 2010

The Honorable Tom Harkin
Chairman
The Honorable Michael B. Enzi
Ranking Member
Committee on Health, Education, Labor, and Pensions
United States Senate

The Honorable George Miller
Chairman
The Honorable John P. Kline
Ranking Member
Committee on Education and Labor
House of Representatives

U.S. colleges and universities hold hundreds of billions of dollars in endowments. In congressional hearings and in academic literature, some have argued that some college and university endowments have grown very large without a concurrent increase in the use of endowment proceeds to reduce the cost of attending those schools. Others have argued that it is the duty of institutions with endowments of any size to balance the needs of students today with the need to preserve endowments for students in the future, so schools should be prudent in making decisions about endowment distributions, even in years that endowment investments performed very well. The topic of college affordability continues to be an issue of great concern and many are concerned that increases in the cost of college may be discouraging large numbers of individuals, particularly minority and low income individuals, from pursuing higher education. This mandated report provides information about endowments that will help inform policymakers and others as they consider college and university endowment issues.

The Higher Education Opportunity Act[1] requires us to describe university endowments. The objectives of this report are to describe: (1) what available data show about the size and change in the value of endowments over the last 20 years; (2) the extent and manner in which the funds in such endowments are restricted at selected institutions, including

[1]Pub. L. No. 110-315 (2008).

restrictions for financial aid; and (3) selected postsecondary education institutions' policies and practices for distributing endowment assets.

To obtain this information, we analyzed information collected from not-for-profit private and public 4-year postsecondary educational institutions by the Department of Education[2] and reviewed documents and interviewed officials at 10 selected colleges and universities. We used a case-study methodology because information needed to address our second and third objectives was only available from records kept by individual colleges and universities. Throughout this report, when we refer to years, we are referring to schools' fiscal years, as reported in their annual financial statements and in their responses to Department of Education surveys.[3] When we discuss private institutions, we are referring to nonprofit private colleges and universities. Dollar amounts for years prior to 2009 are adjusted for inflation and presented in 2009 dollars using the Consumer Price Index (CPI). Detailed information about our methodology can be found in appendix I. We conducted our work from June 2009 through February 2010 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for the findings and conclusions in this product.

Background

Endowments are defined as institutional funds that, under the terms of a gift agreement, can not be entirely spent by the institution on a current basis. Typically, donors establish endowments to create a stable source of income for an institution, which invests the principal or original amount of the endowment gift and spends the earnings to support its operations. Donors can establish an endowment as either a true endowment—a fund whose principal cannot be spent by the institution, or as a term endowment—a fund whose principal may be spent after the passage of a

[2]The Department of Education collects information on endowments and other matters from postsecondary educational institutions that participate in federal student aid programs.

[3]The fiscal year for seven of our ten case-study schools runs from July 1 to June 30. The fiscal year for two other schools runs from September 1 to August 31, and for one other school from June 1 to May 31.

certain amount of time or the occurrence of a certain event. True and term endowments are collectively referred to as donor-restricted endowments.

In addition, institutions can establish quasi-endowments, also known as board-designated endowments.[4] Institutions may create quasi-endowments when officials (such as the institution's board of directors) decide to move nonendowment funds, such as a gift or a bequest to the institution, into the institution's endowment for investment and spending purposes. The institution can reverse the decision to create quasi-endowments and spend those funds in their entirety at any point in time. Institutions can include quasi-endowments with true and term endowment funds when reporting their total endowment, and the Department of Education and the National Association of College and University Business Officers both ask that colleges and universities include quasi-endowment funds in the endowment totals they report in response to their surveys.[5]

When donors establish an endowment, they can either restrict the earnings to be spent on a specific purpose—scholarships or faculty compensation, for example—or they can allow the institution to spend endowment earnings for any purpose. When an institution establishes a quasi-endowment, it may also include a designation that the fund be restricted for a particular purpose, or the fund may have been originally given to the institution with a purpose restriction, which would remain in effect after its designation as an endowment. In addition to purpose restrictions, endowments can be restricted in other ways, such as requirements to reinvest the earnings back into the endowment until it reaches a certain size, or requirements to delay the spending of earnings for some period of time.

[4]In addition to true, term, and quasi-endowment funds, institutions may also include in their endowments funds held in trust by others, which are assets held and administered by external parties such as a foundation; and life income funds, which are assets donated to the institution with terms requiring that the institution pay a portion of the investment income to the donor until the donor dies, at which point the institution gains complete ownership of the assets.

[5]The Uniform Prudent Management of Institutional Funds Act—the model law most states have enacted to govern the management and use of endowments—does not apply to quasi-endowment funds. However, because institutions invest and spend these funds alongside true and term endowments, and include them in their reported endowment amounts, we have included them in our analysis.

Individual funds established by donors, as well as funds an institution designates as endowments, are typically pooled for investment and management purposes, and are referred to collectively as an institution's endowment.[6] Institutions may manage the investment of endowment funds internally through an appointed investment committee, for example, or externally through an investment management company, or through a combination of internal and external managers. Regardless of the party managing endowment investments, institutions pay management fees for this service. Pooled endowment funds each own a number of shares in the pool in proportion with their size, and receive a periodic distribution per share, based on the distribution rate set by the institution. These distributions are paid to the holder of the endowment fund—such as the department or program for which the fund is restricted—for spending in accordance with the terms of the gift agreement. Administrators track the fund holder's spending of these distributions to ensure they are being spent in a timely manner and within any donor-imposed restrictions.

Endowments change in value over time through several inflows and outflows of assets, generally as shown in figure 1.

Figure 1: Notional Depiction of Endowment Inflows and Outflows

Market value, beginning-of-year
+ New gifts
+ Interest and dividend income
+ Appreciation
- Management fees
- Distributions

$\left.\begin{array}{l}\text{+ Interest and dividend income}\\ \text{+ Appreciation}\end{array}\right\}$ **Investment earnings**

Market value, end-of-year

Source: GAO.

Under federal law, colleges and universities are generally exempt from taxes on endowment earnings, and donors may deduct gifts to

[6] Endowments may also include assets that are not pooled, such as real estate or land, trusts held by others, life income funds, or other funds that are not pooled because of donor restrictions that they be separately invested or because of the nature of the underlying assets. See apps. II through XI for more detailed descriptions of different endowment structures.

endowments for tax purposes.[7] State laws set guidelines for how colleges and universities must invest and distribute endowment funds. Finally, in accounting for and reporting on endowments, schools must follow generally accepted accounting standards as a requirement of their annual financial audits.

When reporting on their endowments, accounting standards require schools to classify endowment assets according to how they are restricted. Private schools classify the original gift amount that must be held in perpetuity by the school as permanently restricted, and public schools report such assets as restricted nonexpendable assets. Endowment assets that the institution can spend but that are subject to restrictions on how or when they may be used are classified as temporarily restricted assets by private schools and restricted expendable assets by public schools. Endowment assets that are not subject to restrictions for how and when they may be used are classified as unrestricted assets by both private and public schools.

[7] Internal Revenue Code, Sec. 170. When making charitable contributions to qualified organizations, a tax deduction is generally available for those charitable contributions for taxpayers who itemize tax deductions on their tax return, provided, in most cases, the total tax deduction on the taxpayer's tax return does not exceed one half of the taxpayer's adjusted gross income. Excess tax deductions for charitable contributions may be carried forward to future tax returns for 5 tax years.

Endowments Vary Greatly in Size and Grew during the Past 20 Years despite Occasional Declines

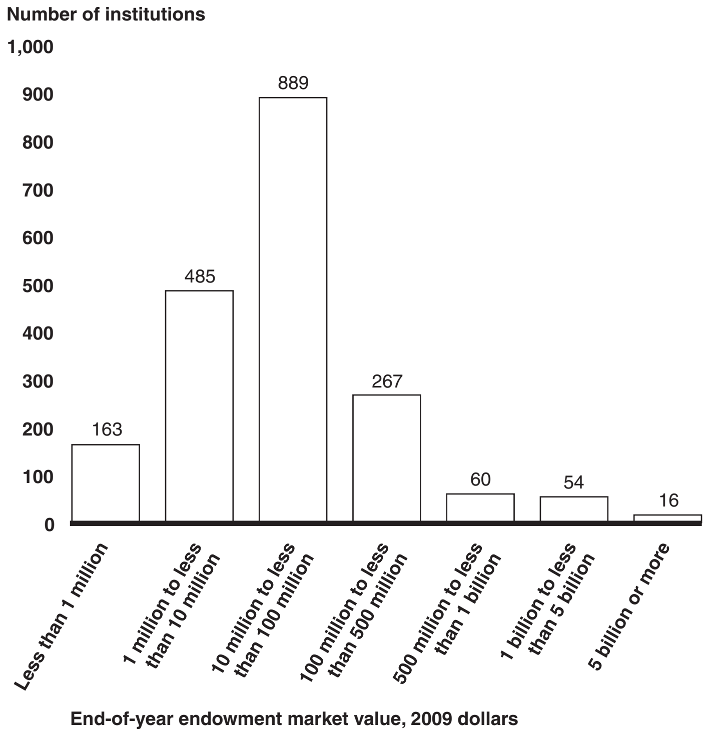
Endowment Size Varies among Institutions, with Many Small and a Few Very Large Ones

U.S. institutions of higher education held a total of more than $400 billion in endowment assets in 2008, the most recent year for which national data were available.[8] Endowments for these institutions ranged in size from several thousand dollars to tens of billions of dollars, with a median endowment size of just over $21 million. Within this range, the large majority of institutions had endowments of less than $100 million, while 70 of the nearly 2,000 U.S. colleges and universities had endowments worth $1 billion or more, as shown in figure 2.[9]

[8]Throughout this report, when we refer to endowment values, we are referring to the fair market value as of fiscal year end. In accordance with FASB Statement 157 and GASB Statement 31, institutions report endowment assets at their fair value. The Statements say that the fair value of an investment is the price that would be paid in a current transaction between willing participants.

[9]We limited our analysis of higher education institutions to not-for-profit private and public 4-year colleges and universities in the United States.

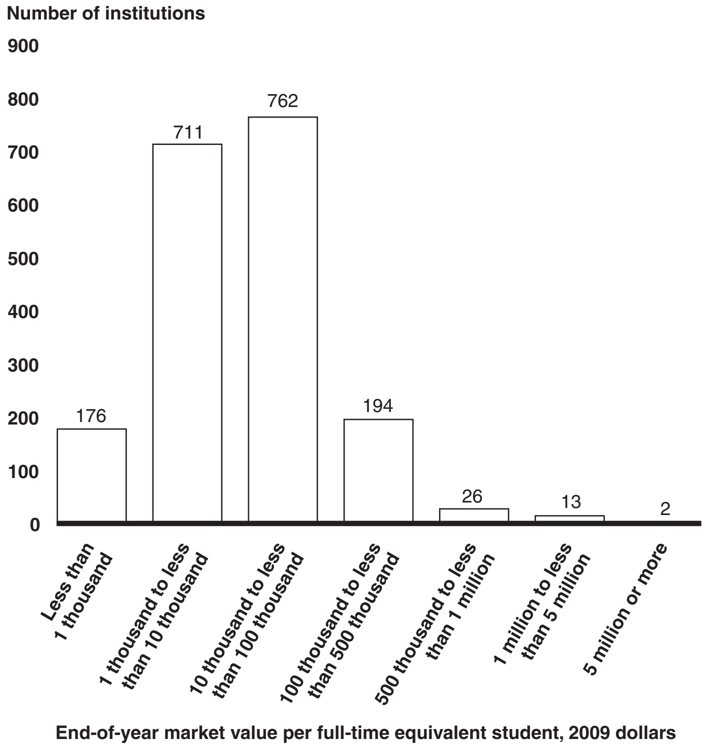
Figure 2: Number of U.S. Institutions of Higher Education by Total Endowment Assets, 2008



Source: GAO analysis of Department of Education data.

In most cases, schools with relatively large total endowments also have relatively large endowments per student. As seen below in figure 3, most schools have relatively smaller endowments per student, and a few have much larger endowments per student. However, some schools with large total endowments may have much smaller endowments per student relative to other schools, and vice versa. For instance, the University of Central Florida's total endowment of $113 million was in the top 15 percent in the country in 2008, while its endowment per student of $2,780 was in the bottom 25 percent. Similarly, the total endowment for University of Texas system was the 4th largest in the country in 2008, but was the 118th largest per student. In contrast, Berea College's total endowment was ranked 63rd in the country by total size, but 17th by assets per student in 2008.

Figure 3: Number of U.S. Institutions of Higher Education by Endowment Assets per Student, 2008



Source: GAO analysis of Department of Education data.

Among different types of institutions, private colleges and universities tend to have larger endowments than public ones. For instance, private institutions made up about two-thirds of U.S. higher education institutions in 2008, but accounted for more than three-quarters of total endowment assets at all U.S. institutions. Per student, the difference between private and public institution endowments is even more pronounced; the median endowment per full-time-equivalent (FTE) student was $19,072 at private colleges and universities and $3,105 at public institutions in 2008.[10]

Research universities tend to have much larger total endowments than liberal arts colleges, although on a per-student basis median endowment sizes are more similar. In 2008, for example, the median endowment size

[10]We calculated numbers of FTE students based on fall enrollment of full-time and part-time graduates and undergraduates. See app. I for further information.

for research universities—$219 million—was more than 10 times the size of the median endowment value of $20 million for liberal arts colleges.[11] However, the median endowment per student at research universities of $16,024 was smaller than that of liberal arts colleges, which was $17,955.

Institutions with high minority enrollment also show a difference in endowment size when compared to other schools. The endowments of schools with at least 50 percent minority enrollment, both in total and per-student, are about one-third of the size of endowments at schools with less than 50 percent minority enrollment. For instance, the median endowment for schools with at least 50 percent minority enrollment is approximately $9 million, while at schools with less than 50 percent minority enrollment, the median is nearly $27 million.

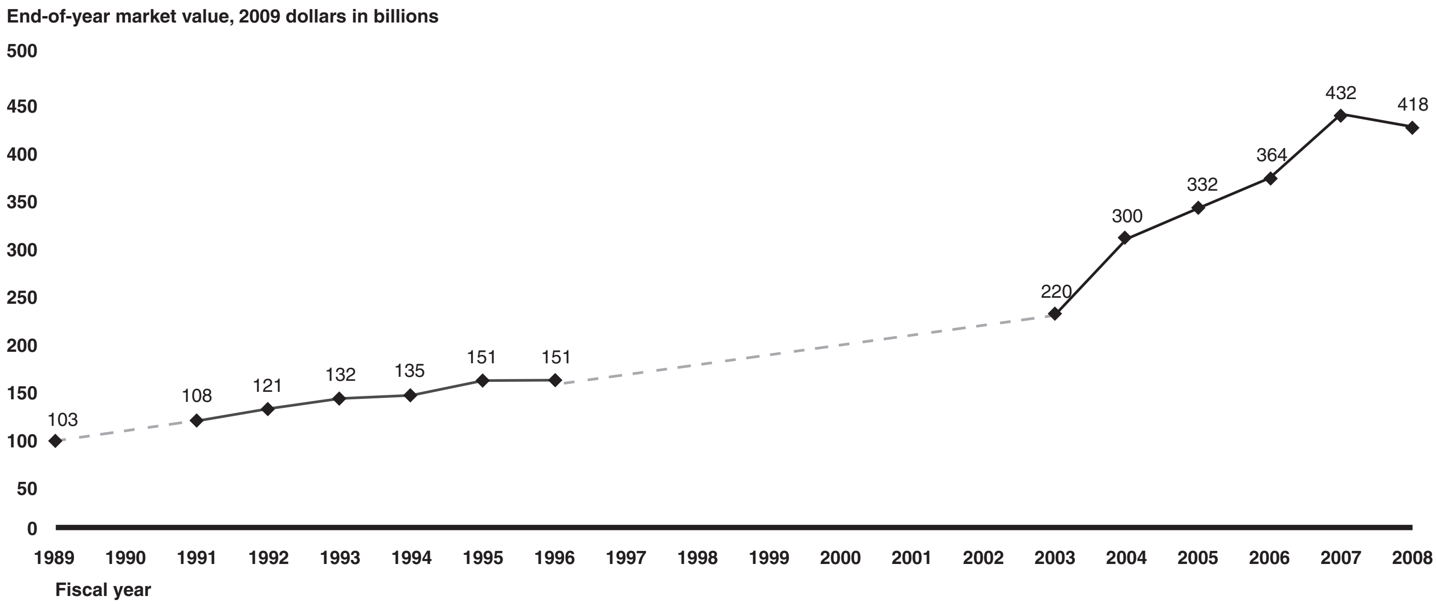
Endowments Have Grown since 1989 despite Declines in Some Years

Endowments at U.S. institutions of higher education have shown substantial growth since 1989, despite some periods when endowment values declined. Nationally, total inflation-adjusted endowment assets held by U.S. colleges and universities grew from just over $100 billion in 1989 to about $432 billion in 2007, with a decrease to about $418 billion in 2008,[12] the most recent year for which national data were available, as shown in figure 4.

[11] We based our classifications of research universities and liberal arts colleges on the Basic Carnegie Classification, developed by the Carnegie Commission on Higher Education in 1970 and updated in 2005. See app. 1 for further information.

[12] All market value figures are as reported by institutions to the Department of Education as of the end of their fiscal year.

Figure 4: Total Endowment Assets at U.S. Institutions of Higher Education, 1989 through 2008



Source: GAO analysis of Department of Education data.

Notes: The Department of Education did not have endowment data for any schools in 1990 and 1997-1999 and for private schools from 2000-2002.

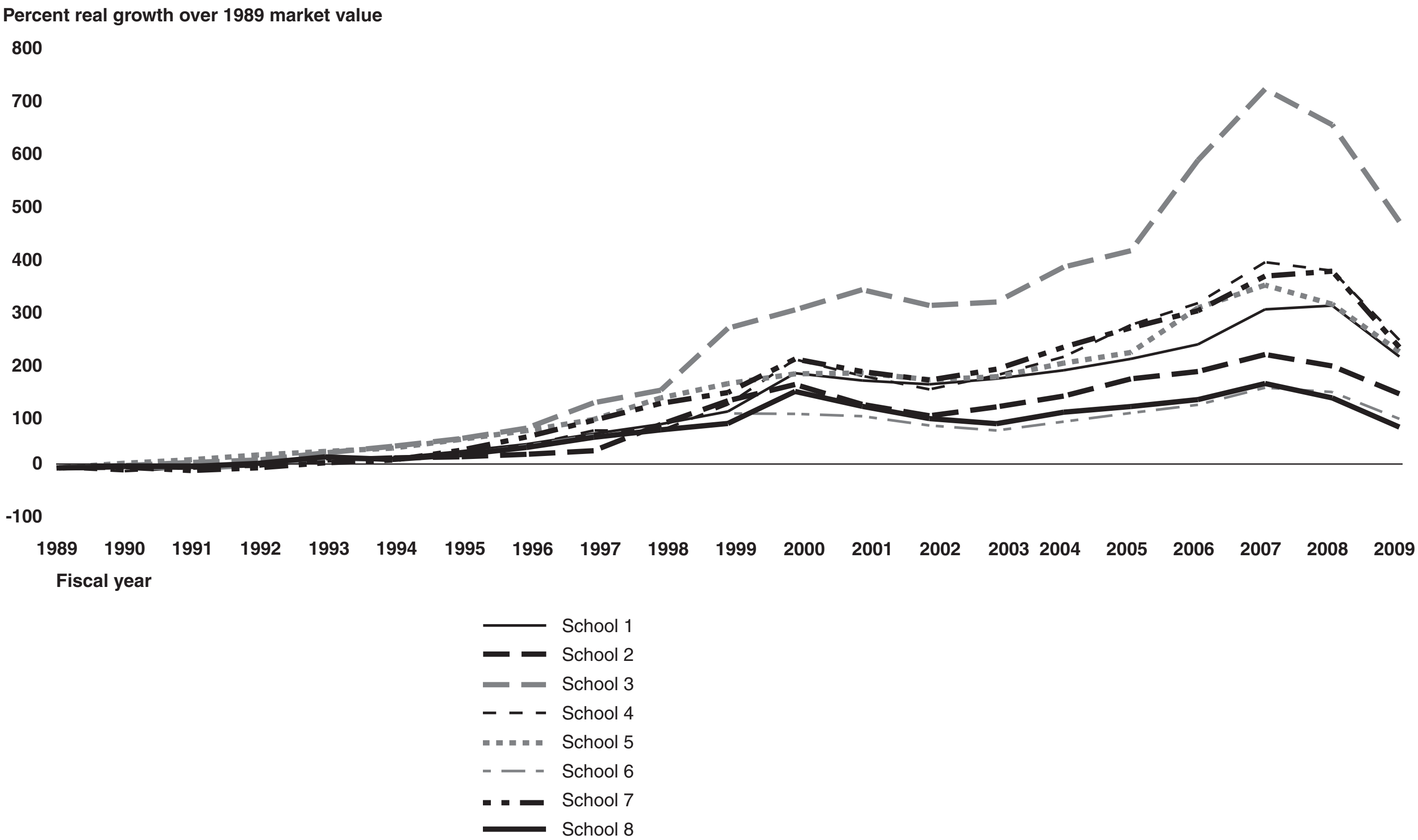
Although this graph presents 20 data points for total endowment assets (including 7 missing years), it captures only 19 years of growth. This is because the first value—total endowment assets as of the end of 1989—is equivalent to the beginning-of-year value for 1990. Therefore, the growth represented in the graph is from the beginning of 1990 through the end of 2008.

Although data on college and university endowments in 2009 are not available nationally, data from our case-study schools show that the recession has meant substantial endowment losses in 2009. Eight of our case-study schools had data on market values for the 1989-2009 period. Data from those schools show that, despite recent losses, endowments at those eight schools showed substantial overall growth from 1989 to 2009. The eight schools had combined endowment market values in 2009 dollars of $18.7 billion in 1989, $77.7 billion in 2007, and $56.0 billion in 2009.[13] Although the real values of the endowments at these schools declined by an average of more than 27 percent from 2007 to 2009, they showed an average rate of growth of 6.2 percent per year over the 1989-2009 period, after accounting for inflation. Figure 5 shows the inflation-adjusted

[13]All of these market value amounts are in inflation-adjusted 2009 dollars based on what was reported in the institutions' accounting reports as of the end of their fiscal years.

percent growth of endowments over their 1989 market values for the eight case-study institutions for which complete data were available.

Figure 5: Percent Change in Endowments at Eight Case-Study Institutions, 1989 through 2009



Source: GAO analysis of case-study institution data.

Notes: Percent growth was calculated using endowment market values in 2009 dollars.

Although this graph presents 21 data points, it captures only 20 years of growth. This is because the first value—percent growth as of the end of 1989—is equivalent to the beginning-of-year value for 1990. Therefore, the growth represented in the graph is from the beginning of 1990 through the end of 2009.

Only six of our case-study schools had data that permitted an analysis of what went into the change in endowment market value. Those data show that, since 1989, the largest contributing factor to the growth of endowments at the six schools was investment earnings. The change in value for these endowments—which includes investment earnings or losses,[14] new contributions, distributions, and any other additions to or subtractions from the endowments such as management fees—totaled $29.6 billion from 1989 through 2009 (in 2009 dollars). Available data from these institutions showed that the large majority of this growth came from investment earnings; over the period, in 2009 dollars these endowments received less than $9.4 billion in new gifts, but had investment earnings of $64.8 billion, despite some years of substantial investment losses.[15]

Finally, data from our case-study institutions suggest that the institutions have not only preserved, but increased, the purchasing power of their endowment funds since 1989. Officials at case-study institutions, as well as the schools' investment policies, indicated that a major consideration in investing their endowment funds is protecting the purchasing power of endowment gifts by achieving rates of investment earnings that are greater than endowments' distribution rates plus inflation. For example, officials at one case-study institution said that they generally target a rate of return for their endowment of 8.1 percent per year, which is calculated by adding a planned distribution rate of 4.75 percent plus 3 percentage points for inflation and .35 percentage points for management fees. From 1989 through 2009, the average annual inflation rate for consumer prices generally was 2.9 percent per year,[16] while the average rate of inflation in the costs of higher education was 3.8 percent per year.[17] Available data from our case-study schools showed that long-term rates of return (after management fees) were greater than distribution rates plus inflation for the seven institutions for which we had data going back to 1989, using either inflation in consumer prices overall or inflation in the costs of higher education specifically. For example, at one school, the average annual distribution rate from 1989 through 2009 was 4.9 percent per year, while during this time the school's endowment earned an average annual rate of return on its investments of 10.1 percent per year.

[14]Throughout this report, when we refer to investment earnings, we are including realized appreciation, unrealized appreciation, and investment yields such as dividends and rents.

[15]Net growth in the endowments is less than investment earnings plus new gifts because of distributions, management fees, and other outflows of money from the endowments.

[16]This rate is based on the Consumer Price Index. See app. I.

[17]This rate is based on the Higher Education Price Index, an inflation index designed for institutions of higher education by the Commonfund Institute, an investment management and research organization for nonprofit organizations. The Higher Education Price Index is based on a fixed basket of goods purchased by colleges and universities, including faculty and administrative salaries, supplies and materials, and utilities.

Distributions from Endowment Funds Are Typically Subject to Restrictions

When donors establish an endowment at a college or university, they have the choice of leaving decisions about how to distribute the earnings generated by their gift up to the institution or designating how the funds may be used. The Department of Education does not collect information from all schools about endowment restrictions, so we developed information on endowment restrictions from our case-study schools. Data from case-study schools show that the distribution of most of their endowment assets is restricted for a particular purpose by the terms the donors stipulated when they made their donations. Officials at the schools we visited told us that it is unusual to receive an endowment without some sort of designation from the donor about how the endowment earnings are to be used.

Some restrictions are broadly worded, designating funds to be used for financial aid, for example. Another sort of broad restriction would be an endowment for a department within a college to use in any way it sees fit. This is a restriction in that only the specific department can use the proceeds from the endowment, but how to use those funds is up to the school to decide. Other restrictions are quite specific, such as funding for a scholarship for students from a particular community. In an example from our case studies, a donor in Texas gave funds specifically to plant and maintain trees on a school campus.

Regardless of restrictions for how the earnings on an endowment can be spent, the original gift amount of all endowments is typically subject to the restriction that it be held and not spent by the institution.[18] Data from our case-study institutions show that, of total endowment assets, a minority of endowment dollars is restricted in this way. For instance, on average, 39.4 percent of the endowment assets at our case-study schools in 2009 were subject to the restriction that they be held in perpetuity.

State policies governing public colleges and universities can influence endowment restrictions. For example, the University of Texas system is restricted by state law in how it may spend endowment money. The largest of its four major endowment funds—the Permanent University Fund—was established by the Texas Constitution, which restricts distributions from the fund to paying the debt for capital projects such as building

[18]Endowments may be established so that the original gift amount is held in perpetuity, or the donor may stipulate that the original gift amount be held for a period of time or until an event occurs. When that period ends or the event occurs, the institution is free to spend the original gift.

construction or land acquisition.[19] Another of the institution's major endowment funds—the Permanent Health Fund—is restricted by the Texas Education Code to be used for purposes that benefit public health, such as medical research, treatment programs, or health education. The state of Kentucky has a program to strengthen the research capabilities of its universities by adding state funds to endowments for faculty positions. University of Kentucky officials told us that this has encouraged donors to designate their endowments for faculty positions, which has meant that a large portion of the institution's endowment is dedicated to chairs and professorships.

Prior to accepting an endowment, officials at some of the schools we visited told us that they work with potential donors to revise restrictions the officials believe would be difficult to abide by. Officials from one school also said that their institution would turn down a gift that came with restrictions that they believe would be too restrictive or would not contribute to the mission of the institution.

Once an institution accepts an endowment, officials we spoke to said that they are careful to abide by donors' wishes, but that they also have some ability to negotiate or modify restrictions when a restriction outlives its purpose and the university needs to revise the terms of the endowment. Nine of the ten schools we visited utilize gift agreements that include standard terms giving the schools flexibility to modify restrictions when the endowed funds become unusable under the original restrictions. Schools can also negotiate restrictions with donors or their descendants after the gift has been made. On rare occasions schools may go to court to ask for changes to endowment restrictions. The following are examples of endowment revisions from some of our case-study schools:

- Howard University had an endowment that was restricted to providing aid to high-school students from Birmingham, Alabama. Officials told us that because the university does not always receive applications from qualified students from Birmingham, the endowment would sometimes go unused. Howard officials asked the donor to broaden the restriction to include all Alabama students, and the donor agreed.

[19]This restriction applies to distributions at all University of Texas campuses except University of Texas–Austin, which may use Permanent University Fund distributions to pay for operating expenses as well.

- At Smith College, school officials told us that a donor established a fund to pay for books, newspapers, and magazines for students in one of the college's dormitories. However, the fund eventually earned more than could possibly be distributed for this purpose, so the school took legal action to loosen the restriction so that income from the fund could be used for students in all of its dormitories.

Not all restrictions are the result of donor intent. As noted previously, when institutions turn nonendowment funds into quasi-endowment funds, they may also restrict the funds to a particular purpose, though the institution is not legally bound by such a self-designated restriction. For example, Berea College has a policy of designating all bequests to the college as quasi-endowment funds restricted for financial aid.

Officials we spoke to said that the way that endowment funds are restricted governs how those funds are used once they are distributed from the endowment. School officials said that they generally consider all spending to be education-related because it furthers the educational mission of the institution. To the extent that endowment funds are distributed for purposes that are not directly related to financial aid, those funds may still provide benefits to students by improving education quality for a given cost of attendance. An endowment made for a faculty position, for example, means that students receive the teaching and other benefits that the new faculty member provides, but a portion of their tuition and fees does not have to go to pay additional tuition and fees for that person.

Among the schools we visited where data were available, the percentage of funds specifically restricted for financial aid—and the distributions for financial aid from those funds—varied substantially. For example, funds restricted for financial aid ranged from about 12 percent to about 68 percent of endowment assets at case-study schools in 2009. The distributions from such funds were as high as about 73 percent of endowment distributions at one school and about 51 percent of distributions at another school in 2009. At several of the other schools we visited, distributions from funds restricted to financial aid were a smaller component of endowment distributions—between 10 and 23 percent at five of our case-study schools in 2009. Officials at the schools we visited noted that distributions from funds not restricted to financial aid may still be used for financial aid, such as when funds may be used for any purpose by a particular department of the school. However, they also said that their accounting systems did not precisely identify such distributions.[20]

Colleges and Universities Establish Their Own Policies Governing Annual Endowment Distributions

Although the use of endowment funds is generally restricted, institutions have to decide how much to distribute from the endowment each year. The Department of Education does not collect information from all schools about endowment distributions, so we developed information on such distributions from our case-study schools. Officials at the schools we visited told us that two important considerations went into their policies governing endowment distributions. First, they said that they need to protect the purchasing power of the endowments so that both students today and students in the future can benefit from the endowment. They said that they are careful not to distribute more from the endowment, over time, than the investment returns they realize, minus inflation and management fees. Second, officials said that they need to avoid large fluctuations in distributions from year to year. Officials at several schools said that, even though investment returns can vary greatly from year to year, institutions of higher education need reasonably stable budgets to fulfill their missions, so it would be unreasonable to let a single year's investment gains or losses be the only factor influencing endowment distributions. One official said, for example, that the school could not tell academic departments to lay off personnel one year and hire them back the next, or tell the financial aid office to reduce scholarship funds for students partway through their undergraduate years.

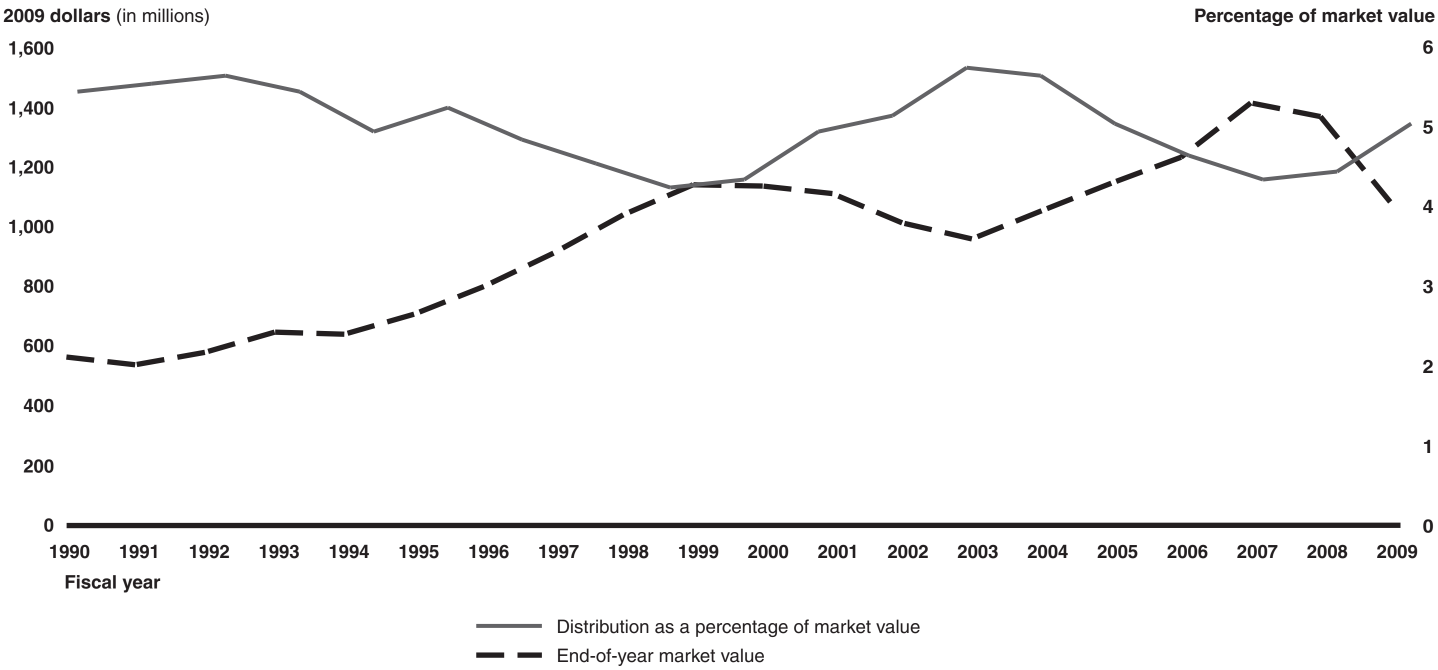
At the schools we visited, officials created mechanisms to smooth the effects of market fluctuations and ensure a reliable stream of funding for the units within the institution that use endowment funds. These sometimes involved basing distribution policies on the endowment's market values for multiple years instead of just the most recent year. For example, one school's policy is that the distribution rate for the coming year should be 5 percent of the endowment's average market value over 3 years. At another school, the policy averages market values for each quarter of the prior 3 years to further smooth market fluctuations. At another school, officials calculate a percentage increase in endowment distributions based on the higher education inflation rate over the prior 10 years. Officials at the schools we visited noted that these policies and

[20] Case-study schools used different terminology to describe financial aid. Some referred to such aid as "financial aid," while others used terms such as "scholarships" or "grant aid."

formulas can be revised by the school when necessary. For example, in response to the decline in endowment market values that came with the current economic downturn, several schools have increased their endowment distribution rate. Another school has changed its smoothing formula to include a slightly lower distribution rate and a 60-month average of market values instead of a 36-month average.

For budgeting purposes, schools determine their target distribution rate and the distribution amounts that their distribution formula or policy dictates for the coming year, but officials told us that they may not accurately predict how the market value of the endowment will change during the year. The market value of the endowment is influenced by investment gains or losses during that year, as well as new endowment gifts. Unless the target distribution percentage determined by the school before the year begins precisely predicts the changes in market value for the year, the actual percentage distributed will be larger or smaller than what was planned before the year began. In years of greater-than-expected returns, distribution percentages will be smaller than planned, and in years with smaller-than-predicted gains (or losses), the distribution percentage will be higher. Figure 6 shows how actual distribution rates and market values fluctuate in opposite directions at one of our case-study schools.

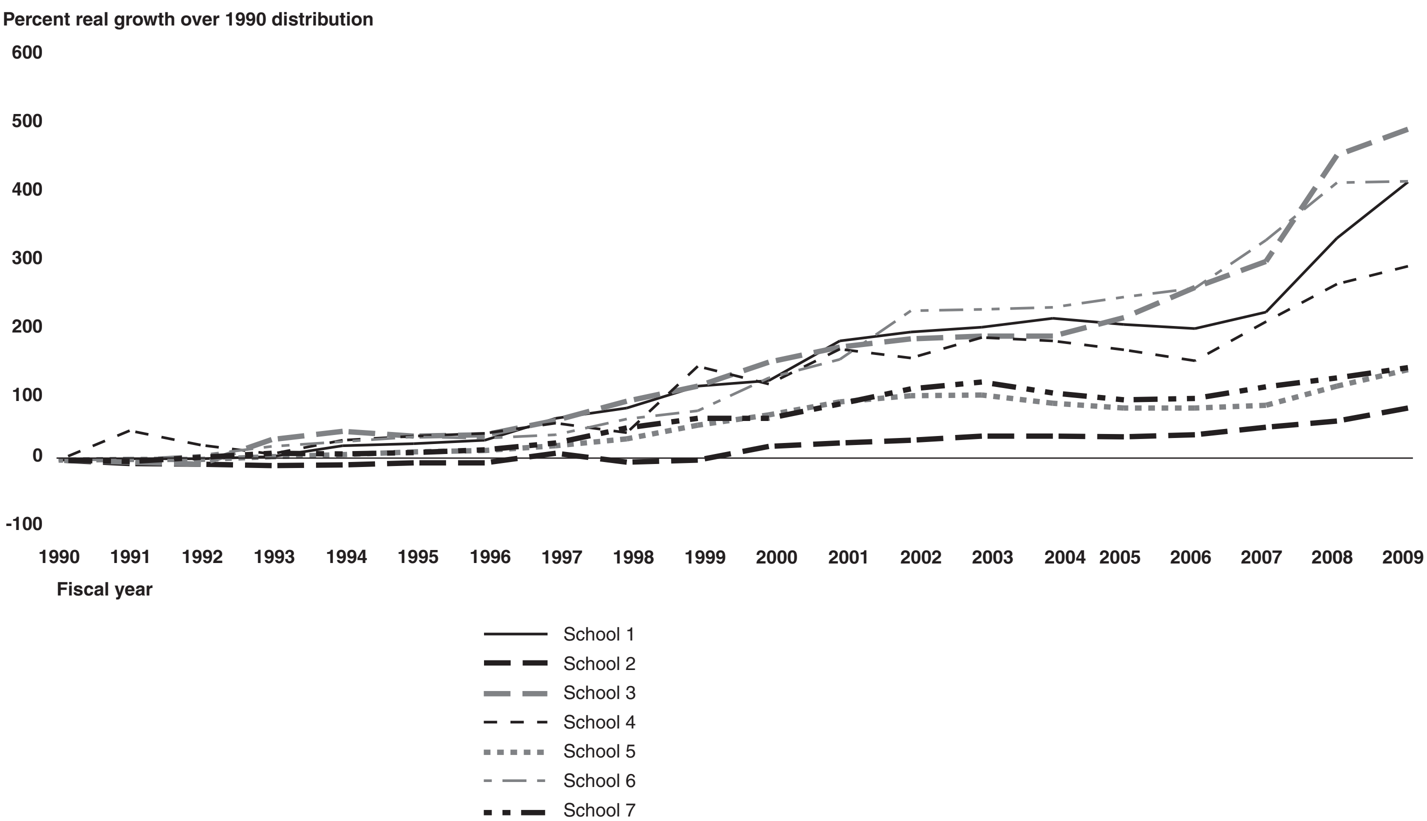
Figure 6: Endowment Market Values in 2009 Dollars and Distribution Rates, 1990 through 2009



Source: GAO analysis of case-study institution data.

For the years in which our case-study schools had data available, actual distribution rates fluctuated. We received distribution data from 1990 through 2009 from seven schools, which reported distribution rates between 3.0 and 7.5 percent of year-end endowment market values, with most schools in most years falling between 4.0 and 6.0 percent. During this period, the inflation-adjusted dollar value of distributions from the endowments increased steadily. Percentage change in endowment distributions for seven case-study schools is shown in figure 7.

Figure 7: Percent Change in Endowment Distributions at Seven Case Study Institutions, 1990 through 2009



Source: GAO analysis of case-study institution data.

Distribution in a given year is not necessarily the same as spending because the money is not always spent in the same year it is taken from the endowment and distributed to a department of the school. University officials told us that departments sometimes put off spending endowment distributions for several years, until they have sufficient funds to fulfill the donors' intended purpose. For example, a department may "save" its endowment distributions for several years until it accumulates enough to purchase an expensive piece of equipment.

Appendixes II-XI provide details on endowment distributions and other information about our 10 case-study colleges and universities.

We will send copies of this report to the Secretary of Education and other interested parties. This report will also be available at no charge on GAO's Web site at http://www.gao.gov. If you or your staffs have any questions about this report, please contact me at (202) 512-9110 or brostekm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix XII.

Michael Brostek
Director, Tax Issues
Strategic Issues Team

Appendix I: Objectives, Scope, and Methodology

This appendix provides information on the scope of work and the methodology used to examine (1) what available data show about the size and change in the value of endowments over the last 20 years; (2) the extent and manner in which the funds in such endowments are restricted at selected institutions, including restrictions for financial aid; and (3) selected postsecondary education institutions' policies and practices for distributing endowment assets.

We used a case-study methodology in combination with analysis of national data because some of the information needed to address our study objectives was only available from records kept by individual colleges and universities. In particular, information on endowment restrictions and distributions was not available nationally. The primary selection criteria for our 10 case-study institutions were endowment size and endowment size per full-time-equivalent student. Secondary criteria included institutional characteristics such as whether the institution was public or private, a national university or liberal arts college, or added geographical diversity. We also considered if the institution had a unique educational mission such as serving a minority population. We selected institutions with a range of endowment sizes and the other criteria discussed above. The institutions are not representative of postsecondary institutions in general or of any particular type or size of institution.

We gathered case-study data from publicly available sources such as the institutions' annual financial reports and the National Association of College and University Business Officers Endowment Study, which is a voluntary survey of member institutions. Where available, we also used schools' answers to the Common Data Set—standardized questions developed by the higher education community and publishers such as the College Board, Peterson's, and U.S. News & World Report. In addition, we analyzed data requested directly from the institutions. Finally, we asked officials at case-study institutions to verify these data and obtained other information from them through structured interviews.

To determine the size and change in the value of endowments since 1989, we computed the annual median and range of total endowment assets,

assets per full-time-equivalent student,[1] and the annual change in endowment value for postsecondary institutions for fiscal years 1989 through 2008 using data from the Integrated Postsecondary Education Data System (IPEDS) sponsored by the Department of Education.[2] IPEDS gathers information from the postsecondary institutions that participate in federal student financial aid programs. We limited our analysis to not-for-profit private and public 4-year postsecondary educational institutions; we did not include 2-year institutions or for-profit institutions because, in the IPEDS data, for-profit schools are not asked to provide endowment information and relatively few 2-year schools had endowments as compared to 4-year schools. In addition, for those 2-year schools that had endowments, the values of the endowments were very small and not comparable to those of 4-year institutions. We also analyzed data from IPEDS to report on endowment size by type of institution, such as public and private schools, research universities and liberal arts colleges, and institutions with at least 50 percent minority enrollment.[3] To include 2009 in our analysis of endowment size and change since 1989 and to provide details on various components of changes in value such as investment

[1]Some of our case-study institutions used different methods for calculating full-time enrollment numbers, and many of these methods are inconsistent from Integrated Postsecondary Education Data System (IPEDS) calculations for full-time enrollment. Where there were differences, they were not large enough to materially affect our findings. For IPEDS data, we calculated institutions' full-time enrollment numbers based on fall enrollment of full-time and part-time graduates and undergraduates, and for case study institutions, we used the full-time enrollment numbers they provided. For five institutions, these numbers were based on fall enrollment of graduates and undergraduates, and for the remaining institutions they were based on average enrollment of fall and spring semester graduates and undergraduates, with several institutions including summer students as well.

[2]IPEDS data for 2009 were not available when we conducted our analysis. In addition, IPEDS did not have publicly available endowment data for any schools in 1990 and 1997-1999, and for private schools from 2000 through 2002.

Fiscal years refer to schools' fiscal years, as reported in their annual financial statements and in their responses to IPEDS surveys. The fiscal year for seven of our ten case-study schools runs from July 1 to June 30. The fiscal year for two other schools runs from September 1 to August 31 and for one other school from June 1 to May 31.

[3]In analyzing institutions by type, we used the 2005 IPEDS update of institutions' Basic Carnegie Classification, the traditional classification framework developed by the Carnegie Commission on Higher Education in 1970. For research universities, we included schools with the following classifications: Research Universities (very high research activity), Research Universities (high research activity), and Doctoral/Research Universities. For liberal arts colleges, we included schools with the following classifications: Baccalaureate Colleges—Arts & Sciences, Baccalaureate Colleges—Diverse Fields, and Baccalaureate/Associate's Colleges (institutions offering both 2- and 4-year degrees).

earnings and new contributions, we analyzed data from our 10 case-study institutions.[4]

Except where noted, all dollar values have been adjusted for inflation to constant 2009 dollars using the Consumer Price Index (CPI). We adjusted dollar values using CPI instead of the Higher Education Price Index, an alternative inflation adjustment specific to postsecondary education. In making this choice, we calculated dollar values using both indexes and found that the choice of index did not affect our conclusions. We therefore chose to use CPI as it may be more familiar to readers than the industry-specific index.

To determine the extent and manner in which the funds in endowments are restricted at selected institutions, including restrictions for financial aid, and to determine institutions' policies and practices for distributing endowment assets, including distributions for financial aid and education, we obtained and analyzed data from the 10 institutions' financial documents, other publicly-available institutional publications, and other data we requested from the institutions. In addition, we conducted structured interviews with officials at the case-study institutions to verify previously collected data and to obtain further information on endowment restrictions and distributions.

For all three objectives, we reviewed state law regarding the management and use of endowments and federal law regarding the taxation of endowments. We also reviewed accounting standards established by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) that provide guidance on accounting for and reporting on the size, growth, restrictions, and uses of endowments.

Our use of IPEDS data in this review is subject to some limitations. First, data for some years are not publicly available from IPEDS, and the Department of Education made changes to IPEDS reporting standards during the period we reviewed. Also, although institutions are requested to provide data for all related foundations and other affiliated

[4]Although the period from 1989 through 2009 includes 21 data points on endowment market values, it captures only 20 years of changes in value. This is because the first market value data point—market value as of the end of 1989—is equivalent to the beginning-of-year value for 1990. Therefore, the change in value captured in these data is the 20 years from the beginning of 1990 through the end of 2009.

organizations, IPEDS may not contain data for endowments held in related foundations for the benefit of some schools, such as the University of Colorado Foundation. Also, in regards to both IPEDS and case-study institution financial data, some accounting standards changed over the period of our review, and there were differences in accounting standards between private institutions, which follow FASB standards, and public institutions, which typically follow GASB standards. The data we report generally reflect these differences in accounting standards. For instance, schools and their auditors determine and agree on what entities' funds—including endowment funds—should be included in their financial reports in accordance with FASB and GASB standards. Except where noted, we included the endowment funds of those entities that the schools and their auditors determined should be included for purposes of their financial reports. Officials from the Department of Education said that differences in accounting standards would not materially affect our findings and officials at the schools we visited did not indicate that the differences would have a material effect on the reported size, distributions, or uses of endowments over the period of our review. With regard to endowment restrictions, differing accounting standards and state laws affect the restriction classification of schools' endowment assets, which is reflected in our reported data on restrictions. For instance, in Massachusetts—which has enacted a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) governing the management and use of endowments at schools in the state—schools must classify all earnings on endowments as temporarily restricted assets until appropriated for expenditure by the school. In contrast, schools in Kentucky—which has not enacted a version of UPMIFA—may classify such earnings as unrestricted if there are no donor restrictions on the use of the earnings. We did not quantify the affect of these differences on our reported data regarding endowment restrictions.

Case-study institution financial data were also not available from all of the schools for all of the years under review. Financial data at our case-study institutions also differed somewhat due to the varying structure and organization of their endowments. We reviewed these data to ensure that the data we used were as consistent as possible over time, that definitions were consistent between institutions, and that any differences did not materially affect our findings. The following are examples of reporting differences among our case-study institutions:

- Institutions differ in whether they report endowment distributions net of reinvestments of unspent funds back into the endowment. Where possible we had institutions report distributions net of reinvestments, and where they did not, officials said that reinvestments were small enough to not substantially alter the size of the distributions.

- Institutions differ in whether they include funds held in trust by others or life income funds in their endowment data. We included such assets based on the data that our case-study institutions were able to provide. At several of our case-study schools such funds are excluded, and for those schools where they are included, they are a small portion of the total endowment.

In cases of inconsistencies beyond those discussed above, we have included explanatory notes. We did not independently verify IPEDS data or the information provided by our case-study institutions from their audited financial statements and accounting systems.[5] We reviewed both IPEDS and case-study institution data for reasonableness and consistency and determined that the data were sufficiently reliable for our purposes. Where we have used data subject to limitations, we note them in the text of this report.

We provided a draft version of our characterization of IPEDS data to the Department of Education. Department of Education officials provided technical comments which we incorporated as appropriate. We also asked officials at the 10 colleges and universities we selected for our case studies to review information in this report concerning their institutions. Officials from all 10 schools provided technical comments, which we incorporated as appropriate.

We conducted our work from June 2009 through February 2010 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for the findings and conclusions in this product.

[5]Where data were provided from institutions' accounting systems and were not available in public documents such as financial statements, we verified that data from these accounting systems were subject to the annual audits required to issue audited financial statements.

Appendix II: Berea College Case Study

Berea College is a private liberal arts institution admitting students with limited family financial resources who are primarily from the Southern Appalachian Mountain region. Berea only admits students who have significant economic need. The college was founded in 1855 and is located in Berea, Kentucky. Berea's total enrollment for the fall 2008 semester was approximately 1,500 full-time-equivalent (FTE) students.

The college provides every student a 4-year scholarship that, combined with other forms of financial aid, covers all of the school's tuition—$24,500 in the 2008-09 school year. This scholarship includes a Labor Grant through the college's Labor Program, which has long been an integral component of Berea's educational program. Under the program, all full-time students are required to work at various jobs at the college for between 10 and 15 hours per week and receive a $4,000 labor grant as part of their financial aid from the college. Students are also paid for their work (between $3.80 and $6.25 per hour in 2008-09) and can request to work additional hours under the program. With fees and room and board, the total cost of attendance at Berea was $31,134 in 2008-09. All Berea students receive need-based financial aid; the average award in 2008-09 from all nonloan sources—including financial aid from Berea, federal and state grants, and other scholarships—was $27,903 for undergraduate students.[1]

At just over $1 billion in 2009 dollars, Berea's endowment placed the college in the top 4 percent of schools by total endowment size and in the top 2 percent by endowment per FTE student in 2008.[2] Berea's endowment fell to $791 million in 2009. Further data on Berea's endowment are in table 1 below.

[1]The average need-based financial aid award is an average for full-time undergraduates.

[2]Fiscal year 2008 was the most recent year for which national data were available. Except where noted, all dollar values have been adjusted for inflation to constant 2009 dollars using the Consumer Price Index.

Table 1: Berea College—Endowment Facts, 2009

Structure and management	Berea's endowment is managed by external investment managers and consists of approximately 4,500 individual funds of which approximately 2,500 are donor-restricted funds used to provide funding for cost of education, direct student aid, and various academic support programs.
Market value as of June 30, 2009	$791,210,000[a]
Market value per FTE student	$521,562
Distribution	$50,548,000[a]
Distribution as a percentage of beginning-of-year market value	4.9
Share of operating expenses funded by distribution (percent)	73.1[b]

Source: GAO analysis of Berea College data.

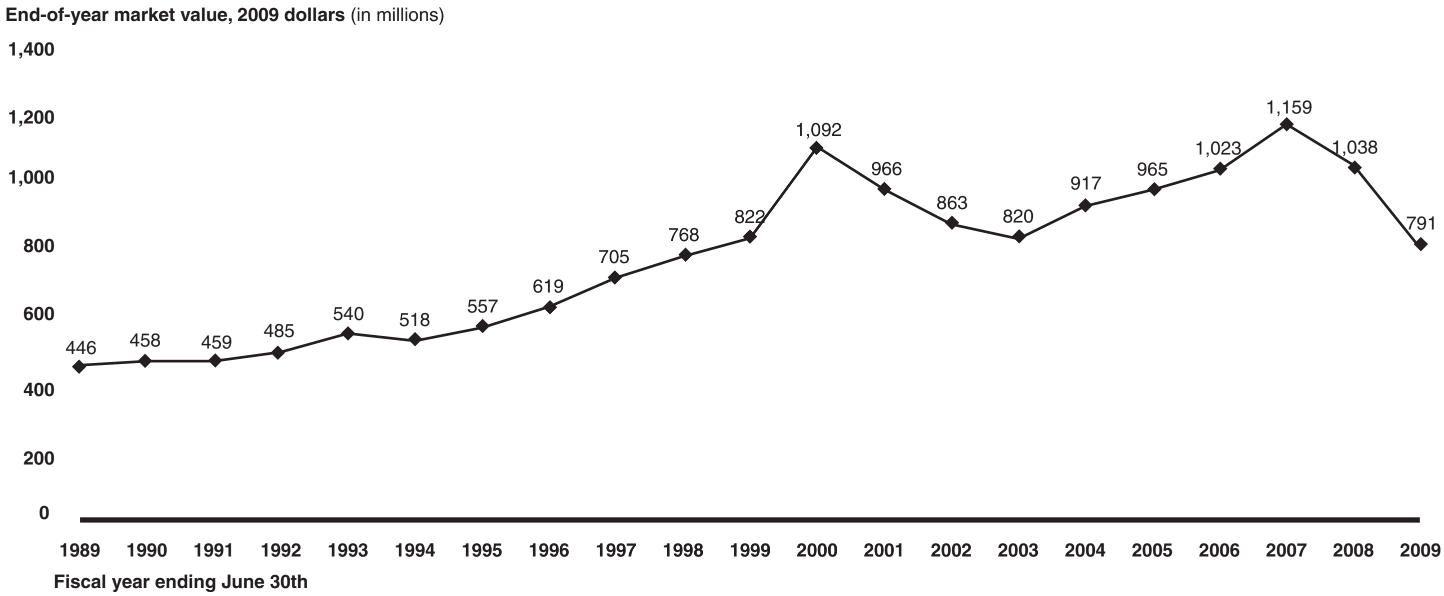
[a]Rounded to the nearest thousand.

[b]Institutions with similar endowment distributions may differ substantially in the share of their operating expenses funded by those distributions when there are large differences in the types of operating expenses at an institution. At some institutions, for example, operating expenses included hospital services that constituted a significant portion of total operating expenses, while at other institutions operating expenses included only education-related expenses such as faculty compensation and building maintenance.

Since 1989, the average annual inflation-adjusted change in the market value of Berea's endowment was a 3.6 percent increase.[3] As seen in figure 8 below, after accounting for inflation, the real value of Berea's endowment has grown from $446 million to $791 million in 2009 dollars over the period despite losses in some years.

[3]As discussed previously, the change in endowment market value is a function of investment returns, new gifts, distributions, and any other inflows or outflows of money.

Figure 8: Berea College Endowment Market Value in 2009 Dollars, 1989 through 2009



Source: GAO analysis of Berea financial data.

Note: Although this graph presents 21 data points, it captures only 20 years of growth. This is because the first value—market value as of the end of 1989—is equivalent to the beginning-of-year value for 1990. Therefore, the growth represented in the graph is from the beginning of 1990 through the end of 2009.

Slightly over one-quarter of Berea's endowment in 2009 was permanently restricted. This amount, made up of the original gift amount of donor-restricted funds, can never be spent. Twenty-nine percent of Berea's endowment assets was temporarily restricted or unrestricted earnings on donor-restricted endowment funds. The remainder of the endowment, about 44 percent, was quasi-endowment funds that have been created mostly by unrestricted bequests designated as quasi-endowment by the Board of Trustees and can be spent with Board approval.

Berea uses a large portion of the proceeds from its quasi-endowment funds for tuition replacement. The college follows a Board policy of designating all unrestricted bequests as quasi-endowment funds. Berea financial data showed that assets restricted for this purpose constitute approximately $345.7 million of the endowment. Table 2 details Berea's six most common purpose restrictions.

Table 2: Berea College—Endowment Restrictions by Purpose, 2009

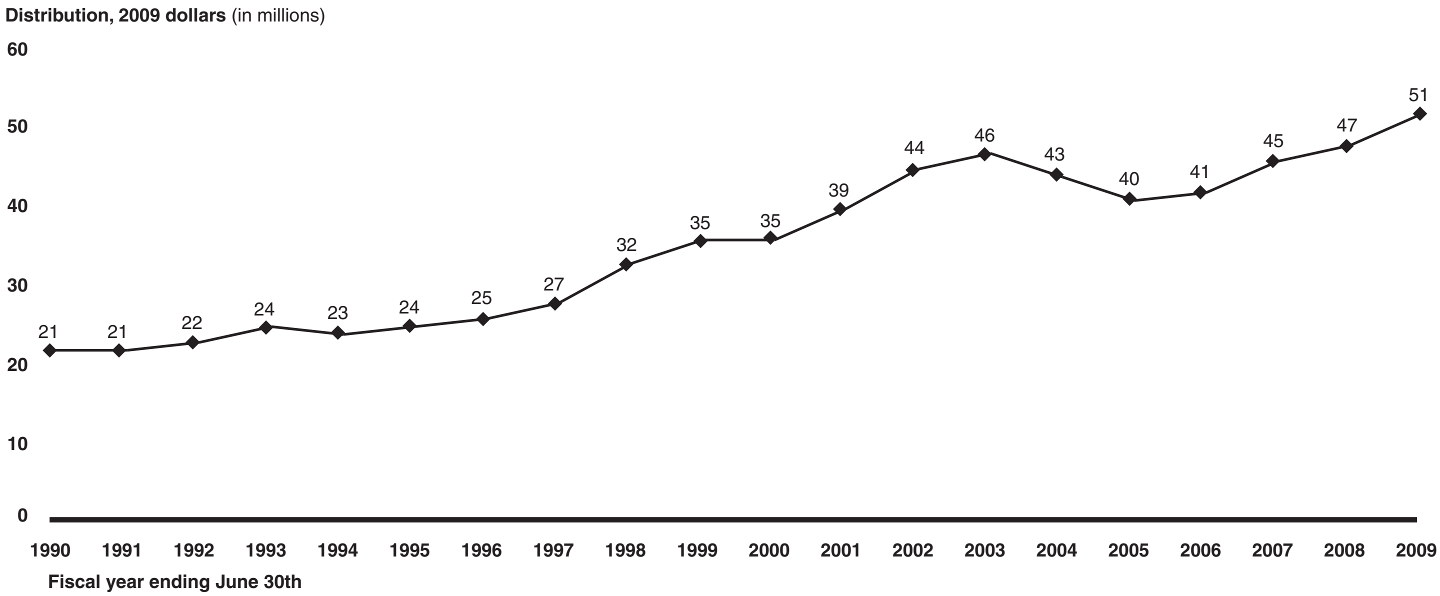
Purpose of restriction	Percent of endowment assets
Financial aid	68
Debt service and capital projects	12
Operating budget reserve and capital projects	9
Campus Christian Center and Convocations	2
Appalachian Outreach Program	1
Other purpose restriction	9
Total	**100**

Source: GAO analysis of Berea financial data.

Note: Percentages do not sum because of rounding.

Berea calculates the annual target distribution for its long-term pooled investments as 5 percent of the moving average of market values over the prior 12 quarters. Over the past 20 years, Berea's actual distributions from its endowment have averaged 4.7 percent of the beginning-of-year endowment market value, ranging from a high of 5.4 percent in 2003 to a low of 3.7 percent in 2001. As shown below in figure 9, annual distributions increased steadily over most of the period in real dollars, peaking at approximately $51 million in 2009.

Figure 9: Berea College Endowment Distributions in 2009 Dollars, 1990 through 2009



Source: GAO analysis of Berea financial data.

Of Berea's 2009 endowment distribution of nearly \$51 million, approximately \$37 million—about 73 percent—was distributed from funds restricted or designated for financial aid.

Appendix III: Harvard University Case Study

Harvard University is a private research university, established in 1636 and located in Cambridge, Massachusetts. Total enrollment at Harvard was approximately 19,348 full-time-equivalent (FTE) students for the 2008-09 school year. Harvard's total undergraduate cost of attendance for the 2008-09 school year was $47,215, and the average need-based financial aid award from all nonloan sources for those undergraduates receiving awards was $36,850.[1]

At over $37 billion in 2009 dollars, Harvard's endowment placed the school at the top of all U.S. higher education institutions by total endowment size and in the top 1 percent of schools by endowment per FTE student in 2008.[2] Harvard's endowment fell to $26 billion in 2009. Further data on Harvard's endowment are in table 3 below.

Table 3: Harvard University—Endowment Facts, 2009

Structure and management	Harvard's endowment is made up of approximately 11,600 individual funds that are pooled and invested in a General Investment Account managed by the Harvard Management Company (HMC), a wholly owned subsidiary of Harvard established to manage its investments. HMC uses a hybrid model of internal and external management teams.[a]
Market value as of June 30, 2009	$26,035,389,000[b]
Market value per student	$1,345,637
Distribution	$1,655,910,000[b]
Distribution as a percentage of beginning-of-year market value	4.5
Share of operating expenses funded by distribution (percent)	44.1[c]

Source: GAO analysis of Harvard University data.

[a]In addition to funds pooled in the General Investment Account, Harvard held approximately $612 million of pledge balances and interests in trusts held by others in 2009, which constituted around 2 percent of total endowment assets. These amounts are included in our analyses.

[b]Rounded to the nearest thousand.

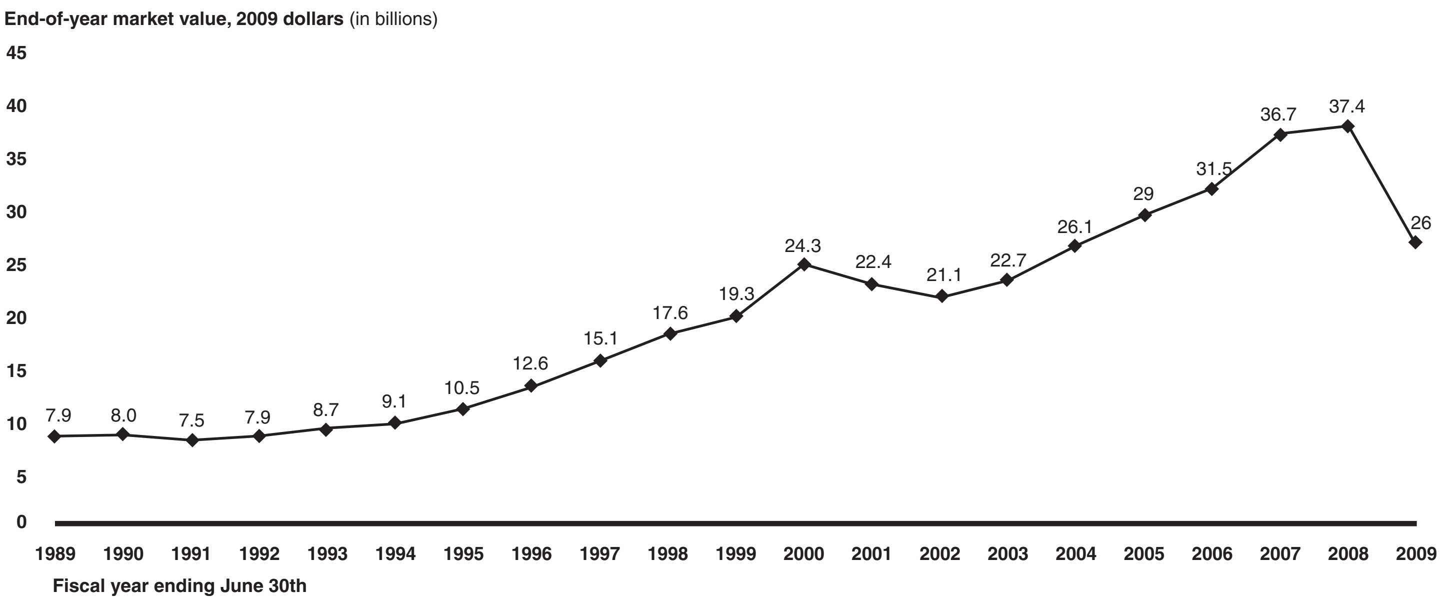
[1]The total cost of attendance includes tuition, room, board, and required fees. In addition, the average need-based financial aid award is an average for full-time undergraduates who applied for, qualified for, and received need-based aid from any nonloan source, including federal and state grants, financial aid from Harvard, and outside scholarships.

[2]Fiscal year 2008 was the most recent year for which national data were available. Except where noted, all dollar values have been adjusted for inflation to constant 2009 dollars using the Consumer Price Index.

[c]Institutions with similar endowment distributions may differ substantially in the share of their operating expenses funded by those distributions when there are large differences in the types of operating expenses at an institution. At some institutions, for example, operating expenses included hospital services that constitute a significant portion of total operating expenses, while at other institutions operating expenses included only education-related expenses such as faculty compensation and building maintenance.

Over the past 20 years, the average annual inflation-adjusted change in the market value of Harvard's endowment was a 6.9 percent increase.[3] As seen in figure 10 below, after accounting for inflation, the real value of Harvard's endowment has grown from approximately $8 billion to $26 billion over the period despite periodic losses, including losses in 2009.

Figure 10: Harvard University Endowment Market Value in 2009 Dollars, 1989 through 2009



Source: GAO analysis of Harvard University financial data.

Note: Although this graph presents 21 data points, it captures only 20 years of growth. This is because the first value—market value as of the end of 1989—is equivalent to the beginning-of-year value for 1990. Therefore, the growth represented in the graph is from the beginning of 1990 through the end of 2009.

Eighteen percent of Harvard's endowment in 2009 was permanently restricted. This amount, made up of the original gift amount of donor-restricted funds, can never be spent. Fifty-seven percent of the endowment

[3]As discussed previously, the change in endowment market value is a function of investment returns, new gifts, distributions, and any other inflows or outflows of money.

was earnings on donor-restricted endowment funds and was classified as temporarily restricted. The remaining 25 percent of the endowment was quasi-endowment funds that do not have to be permanently held and can be spent by the school in accordance with donor stipulations for spending purpose.

Harvard officials said the large majority of endowment funds are restricted for a particular purpose by their donor, and data show that faculty support and financial aid are the most common purpose restrictions. Table 4 details the top seven categories of purpose restrictions.

Table 4: Harvard University—Endowment Restrictions by Purpose, 2009

Purpose of restriction	Percent of endowment assets[a]
Faculty support	28
Financial aid	18
Other	11
Teaching and research	8
Program initiatives	4
Libraries and collections	3
University, school and departmental funds otherwise unrestricted[b]	28
Total	**100**

Source: GAO analysis of Harvard data.

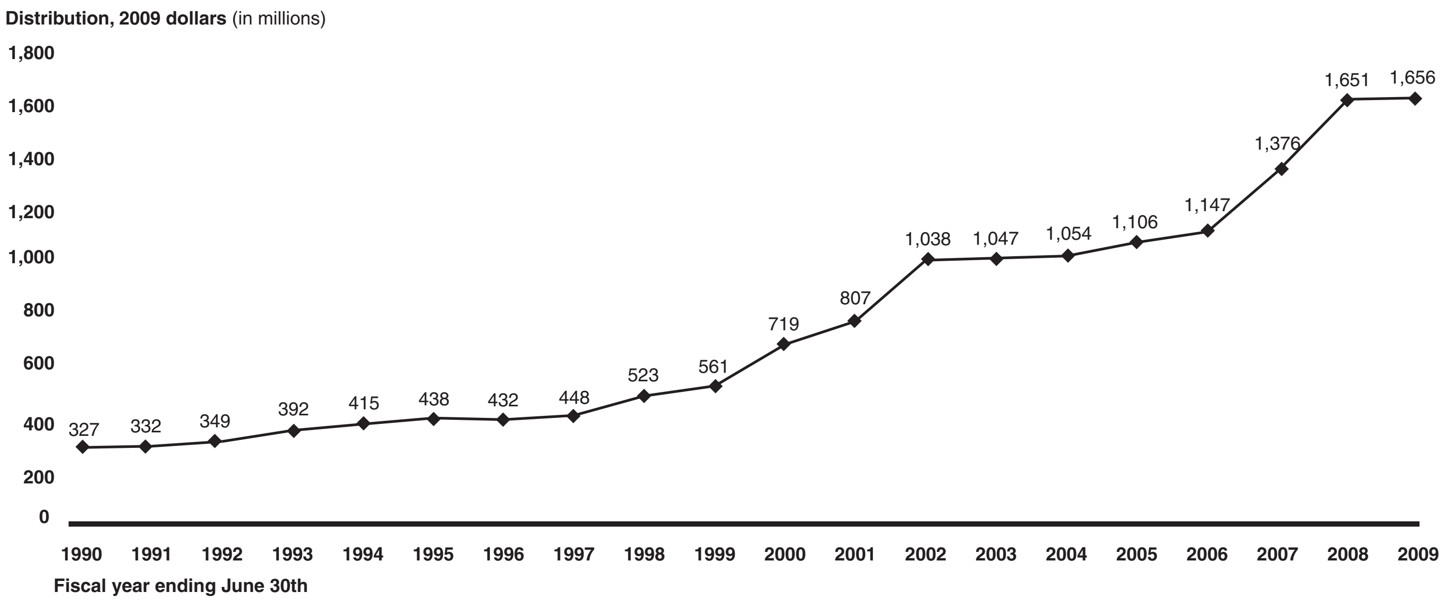
[a]For this table, endowment assets include true endowments and quasi-endowments, but not pledge balances or interests in trusts held by others.

[b]These funds are restricted generally to schools or departments within the university but are otherwise unrestricted for spending purpose, according to a Harvard official.

According to officials, Harvard targets an endowment distribution rate in the range of 5.0 to 5.5 percent of market value, while also factoring in the need to "smooth" annual investment gains and losses so that they can be distributed for operations over several years and allow for budgeting stability. Although Harvard officials said that they do not adhere to a strict distribution formula, they do consider what they referred to as a "70/30 formula" in planning their distributions. Under this formula, the distribution is calculated as 70 percent of the prior year's distribution amount adjusted for inflation, and 30 percent of the targeted rate as a percentage of the projected end-of-year market value for the current year. Over the past 20 years, Harvard's actual endowment distributions have averaged 4.3 percent of the beginning-of-year endowment market value, ranging from a low of 3.2 percent in 1999 to a high of 5.1 percent in 2003.

As shown below in figure 11, annual distributions increased steadily over most of the period in real dollars, peaking at nearly $1.7 billion in 2009.

Figure 11: Harvard University Endowment Distributions in 2009 Dollars, 1990 through 2009



Source: GAO analysis of Harvard University financial data.

Of Harvard's 2009 endowment distribution, approximately $231 million, or 14 percent, was distributed from funds restricted for financial aid. In addition to this amount, a Harvard official said that other endowment distributions from unrestricted funds went toward financial aid, although they were unable to provide specific data on this.

Appendix IV: Howard University Case Study

Howard University is a private university founded in 1867 and located in Washington, D.C. As a historically African-American university, Howard places particular emphasis upon educational opportunities for black students. While the university is private, about 35 percent of the university's budget is financed through a federal appropriation. The total full-time-equivalent (FTE) student enrollment for the 2008-09 school year was 9,501 students, and the cost of attendance for a full-time undergraduate for the 2009-10 school year was $28,972.[1] Howard University reports that financial aid to undergraduate students averaged $16,990 in 2009.

At nearly $484 million in 2009 dollars, Howard's endowment placed the university in the top 5 percent of schools by total endowment size and in the top 15 percent by endowment per student in 2008.[2] Further data on Howard's endowment are in table 5 below. Information about Howard's operating expenses, endowment restrictions, and endowment distributions for 2009 was not available at the time of our study.

[1]The total cost of attendance includes tuition, room, board, and required fees. In addition, the average need-based grant award is an average for full-time undergraduates who applied for, qualified for, and received need-based aid from any source. Information about Howard's cost of attendance for a full-time undergraduate and average need-based financial aid award from all nonloan sources was not available for 2009.

[2]Fiscal year 2008 was the most recent year for which national data were available. Except where noted, all dollar values have been adjusted for inflation to constant 2009 dollars using the Consumer Price Index.

Table 5: Howard University—Endowment Facts, 2007 and 2008

Structure and management	Howard University's endowment funds are pooled for investing purposes and externally managed by an investment company chosen by the Board of Trustees. Officials told us that these funds do not include any funds held by the Howard University Hospital, or any external foundations.
Market value as of June 30, 2008 (in 2009 dollars)	$483,834,000[a]
Market value per student, 2008 (in 2009 dollars)	$50,924
Distribution, 2007 (in 2009 dollars)	$9,222,000[a]
Distribution as a percentage of beginning-of-year market value, 2007	2.6
Share of operating expenses funded by endowment distribution, 2007 (percent)	1.1

Source: GAO analysis of Howard data

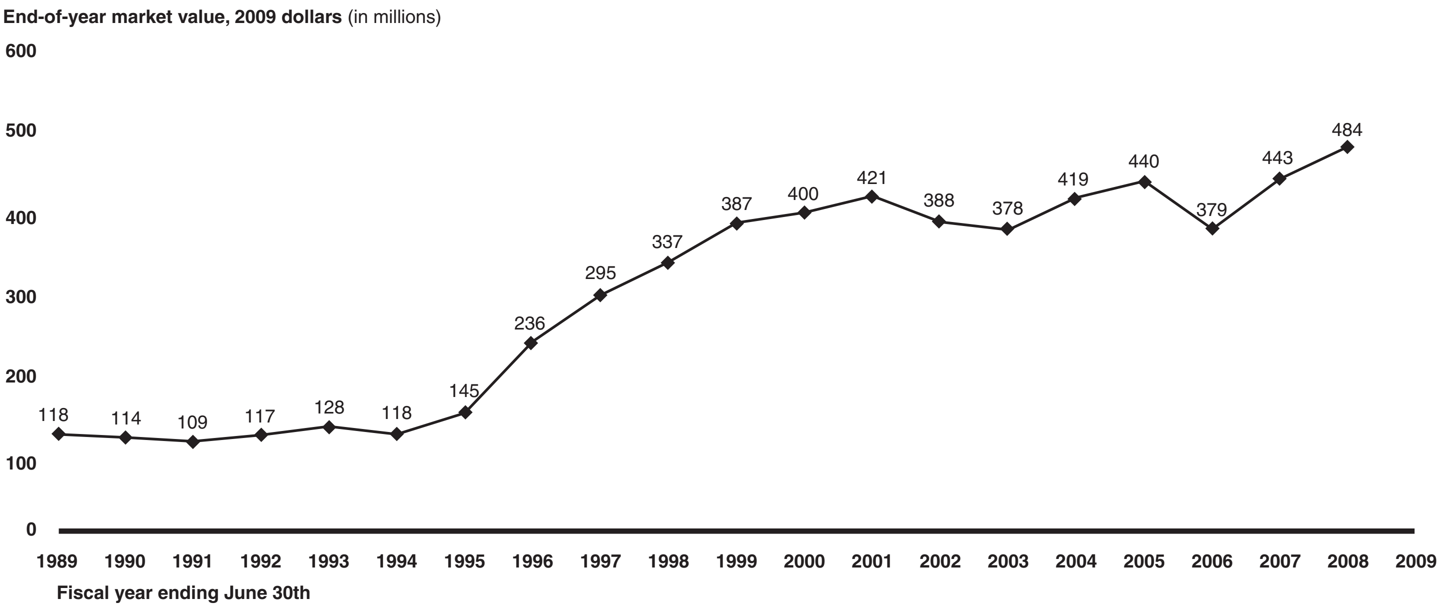
[a]Rounded to the nearest thousand.

[c]Institutions with similar endowment distributions may differ substantially in the share of their operating expenses funded by those distributions when there are large differences in the types of operating expenses at an institution. At some institutions, for example, operating expenses included hospital services that constituted a significant portion of total operating expenses, while at other institutions operating expenses included only education-related expenses such as faculty compensation and building maintenance.

From 1989 to 2008, the average annual inflation-adjusted change in the market value of Howard's endowment was an 8.6 percent increase.[3] As seen in figure 12 below, after accounting for inflation, the real value of Howard's endowment grew from $118 million to $484 million over the period despite losses in some years. Information about Howard's endowment market value for 2009 was not available at the time of our study.

[3]As discussed previously, the change in endowment market value is a function of investment returns, new gifts, distributions, and any other inflows or outflows of money.

Figure 12: Howard University Endowment Market Value in 2009 Dollars, 1989 through 2008



Source: GAO analysis Howard financial data.

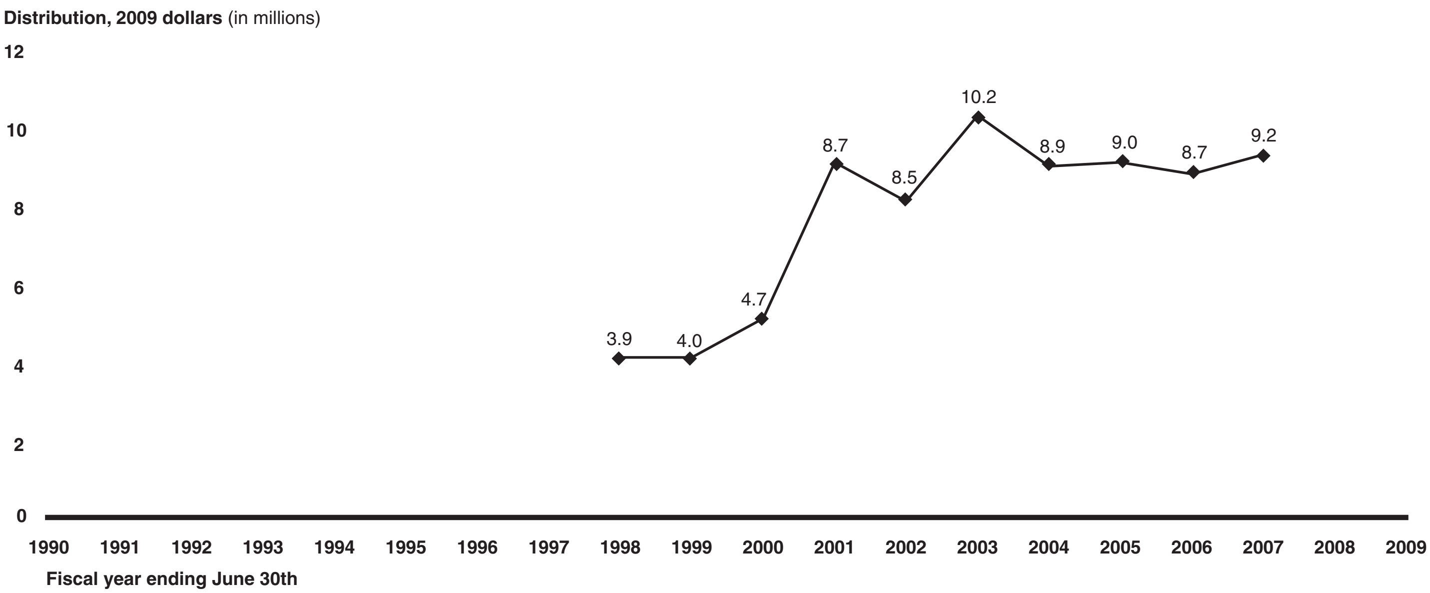
Note: Although this graph presents 20 data points, it captures only 19 years of growth. This is because the first value—market value as of the end of 1989—is equivalent to the beginning-of-year value for 1990. Therefore, the growth represented in the graph is from the beginning of 1990 through the end of 2008.

Approximately 14 percent of Howard's endowment in 2007 was permanently restricted. This amount, consisting of the original gift amount of donor-restricted funds, can never be spent. 86 percent of the endowment was temporarily restricted or unrestricted earnings on donor-restricted endowment funds.

Howard officials said the large majority of funds are restricted for a particular purpose by their donor. In 2007, the most recent year of available data, the five major categories of restricted endowments were scholarships, professorships, fellowships, academic support, and lectures. Further information about these purpose restrictions was not available at the time of our study.

According to its spending policy, Howard University sets a limit on the annual target distribution for its pooled endowment of 5 percent of the 3-year moving average of the endowment's total market value, with the most recent year removed. In the 10 years from 1998 to 2007, Howard's actual distributions from its endowment averaged 2 percent of the beginning-of-year endowment market value, ranging from a low of 1.2 percent in 1999 to a high of 2.7 percent in 2003. As shown below in figure 13, annual distributions increased in real dollars from nearly $4 million in 1998 to just over $9 million in 2007. Information on Howard's endowment distributions for 1989 through 1997, 2008, and 2009 was not available at the time of our study.

Figure 13: Howard University Endowment Distributions in 2009 Dollars, 1998 through 2007



Source: GAO analysis of Howard financial data.

Of Howard's 2007 endowment distribution of $9.2 million in 2009 dollars, approximately $6.4 million—about 70 percent—was distributed for spending on scholarships. The amount Howard distributed for scholarships in 2009 was not available at the time of our study.

Appendix V: Smith College Case Study

Smith College is a private liberal arts college, founded in 1871 and located in Northampton, Massachusetts. Total enrollment at Smith was approximately 3,000 full-time-equivalent (FTE) students for the 2008-09 school year. Smith admits only women at the undergraduate level and admits men and women into its graduate programs. Smith's total undergraduate cost of attendance for the 2008-09 school year was $48,108, and the average need-based financial aid award from all nonloan sources for those undergraduates receiving awards was $29,403.[1]

At nearly $1.4 billion in 2009 dollars, Smith's endowment placed the college in the top 3 percent of schools by total endowment size and in the top 3 percent by endowment per FTE student in 2008.[2] Smith's endowment fell to slightly under $1.1 billion in 2009. Further data on Smith's endowment are in table 6 below.

[1]The total cost of attendance includes tuition, room, board, and required fees. In addition, the average need-based financial aid award is an average for full-time undergraduates who applied for, qualified for, and received need-based aid from any nonloan source, including federal and state grants, financial aid from Smith, and outside scholarships.

[2]Fiscal year 2008 was the most recent year for which national data were available. Except where noted, all dollar values have been adjusted for inflation to constant 2009 dollars using the Consumer Price Index.

Table 6: Smith College—Endowment Facts, 2009

Structure and management	Smith has a single, centralized endowment made up of approximately 1,900 individual funds. Nearly all of the funds are pooled for investing purposes and managed by an external investment company, according to officials.[a]
Market value as of June 30, 2009	$1,096,322,000[b]
Market value per FTE student	$353,766
Distribution	$67,900,000[b]
Distribution as a percentage of beginning-of-year market value	5.0
Share of operating expenses funded by distribution (percent)	33.4[c]

Source: GAO analysis of Smith data.

[a]In addition to Smith's pooled funds, officials said that the endowment in 2009 included approximately $13 million to $14 million in assets held in trusts by others and approximately $2 million in assets held by Smith that were separately invested due to a donor restriction on investment. According to officials, Smith did not include the assets held in trusts by others in its reported endowment amounts prior to 1996.

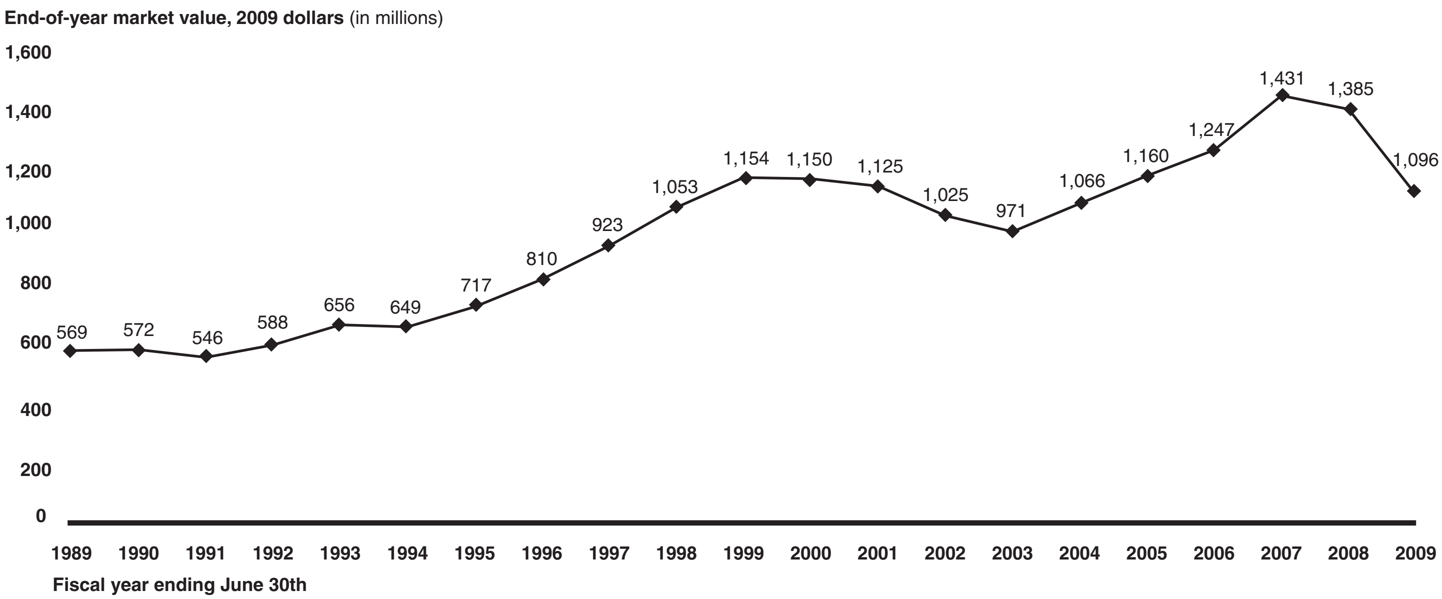
[b]Rounded to the nearest thousand.

[c]Institutions with similar endowment distributions may differ substantially in the share of their operating expenses funded by those distributions when there are large differences in the types of operating expenses at an institution. At some institutions, for example, operating expenses included hospital services that constituted a significant portion of total operating expenses, while at other institutions operating expenses included only education-related expenses such as faculty compensation and building maintenance.

Over the past 20 years, the average annual inflation-adjusted change in the market value of Smith's endowment was a 3.8 percent increase.[3] As seen in figure 14 below, after accounting for inflation, the real value of Smith's endowment has grown from $672 million to $1.1 billion over the period despite periodic losses, particularly in the most recent year.

[3]As discussed previously, the change in endowment market value is a function of investment returns, new gifts, distributions, and any other inflows or outflows of money.

Figure 14: Smith College Endowment Market Value in 2009 Dollars, 1989 through 2009



Source: GAO analysis of Smith financial data.

Note: Although this graph presents 21 data points, it captures only 20 years of growth. This is because the first value—market value as of the end of 1989—is equivalent to the beginning-of-year value for 1990. Therefore, the growth represented in the graph is from the beginning of 1990 through the end of 2009.

Around one-quarter of Smith's endowment in 2009 was permanently restricted. This amount, consisting of the original gift amount of donor-restricted funds, can never be spent. Forty-six percent of the endowment was temporarily restricted earnings on donor-restricted endowment funds. The remaining 28 percent of the endowment was quasi-endowment funds that can be spent at any time by the school.

Smith officials said that scholarships and faculty compensation are the two most common restrictions on the use of endowment earnings. Smith financial data showed that funds restricted for these purposes constitute more than half of the endowment. Table 7 below details the top six categories of restrictions for spending purpose.

Table 7: Smith College—Endowment Restrictions by Purpose, 2009

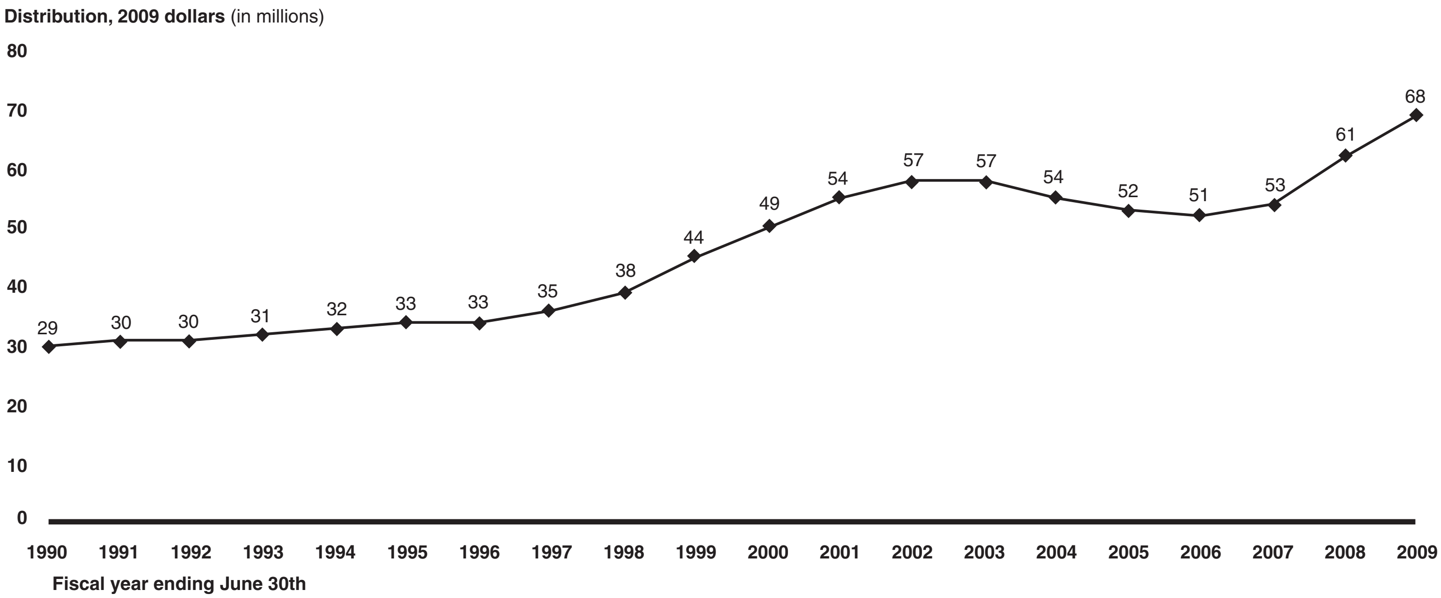
Purpose of restriction	Percent of endowment assets
Undergraduate grant aid	33
Faculty compensation	20
Operation and maintenance of facilities	6
Libraries	3
Faculty research support	3
Other purpose or no purpose restriction	35
Total	**100**

Source: GAO analysis of Smith data.

Smith determines the annual target distribution for its pooled endowment by adding 4 percent to the prior year's distribution, provided that the resulting amount is within 4 and 6 percent of the endowment market value as of December 31st of the prior year.[4] If the distribution falls outside of that range, Smith may decide to increase or decrease the 4 percent inflation factor. Over the past 20 years, Smith's actual distributions from its endowment have averaged 4.9 percent of the beginning-of-year endowment market value, ranging from a low of 4.2 percent in 1998 to a high of 5.7 percent in 2003. As shown below in figure 15, annual distributions increased steadily over most of the period in real dollars, peaking at approximately $68 million in 2009.

[4]Prior to 2006, Smith calculated its target distribution as 5.25 percent of a 12-quarter rolling average of market values. According to officials, Smith changed the formula to better balance the risk of real decline in endowment value and to smooth the effects of market volatility on the operating budget.

Figure 15: Smith College Endowment Distributions in 2009 Dollars, 1990 through 2009



Source: GAO analysis of Smith financial data.

Of Smith's 2009 endowment distribution, approximately one-third—$22.5 million—was distributed from funds restricted for undergraduate grant aid. In addition, officials said that endowment distributions directly assisted students through graduate scholarships, internships, student work, student prizes, and emergency financial assistance, but they did not provide specific data on this.

Appendix VI: St. Mary's University Case Study

St. Mary's University is a Catholic, Marianist, private liberal arts institution located in San Antonio, Texas. The school was founded in 1852. The university's total enrollment for the 2008-09 school year was approximately 3,600 full-time-equivalent (FTE) students. The cost of attendance for a full-time undergraduate for the 2008-09 school year was $28,966 and the average need-based financial aid award from all nonloan sources for those undergraduates receiving awards was $12,451.[1]

At $149 million in 2009 dollars, the endowment of St. Mary's placed the university in the top 20 percent of schools by total endowment size and in the top 40 percent by endowment per FTE student in 2008.[2] The endowment of St. Mary's fell to $116 million in 2009. Further data on St. Mary's University's endowment are in table 8 below.

Table 8: St. Mary's University—Endowment Facts, 2009

Structure and management	St. Mary's has a single centralized endowment that is invested with several external fund managers, is overseen by an investment committee appointed by the Board of Trustees, and monitored by an external investment consultant. The endowment consists of approximately 270 individual funds established mainly for the use of scholarships, professorships, and endowed chairs, according to officials.
Market value as of May 31, 2009	$116,475,000[a]
Market value per FTE student	$32,299
Distribution	$5,603,000[a]
Distribution as a percentage of beginning-of-year market value	3.8
Share of operating expenses funded by distribution (percent)	7.0[b]

Source: GAO analysis of St. Mary's data.

[a]Rounded to the nearest thousand.

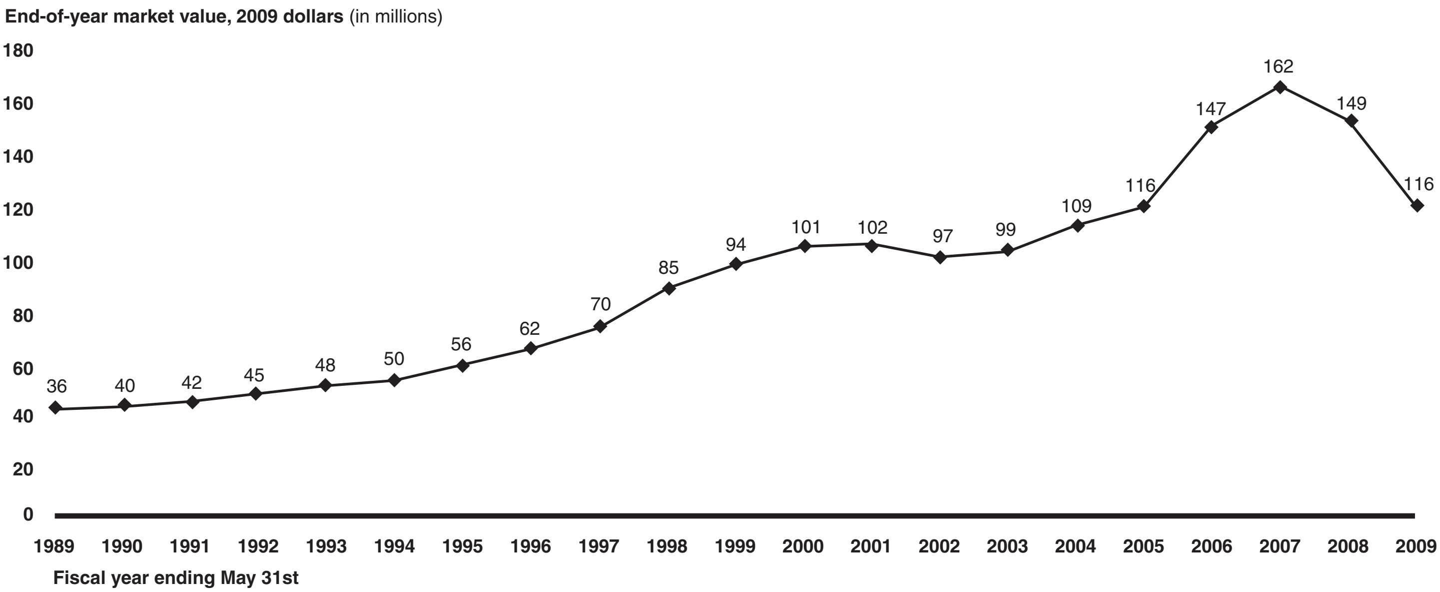
[b]Institutions with similar endowment distributions may differ substantially in the share of their operating expenses funded by those distributions when there are large differences in the types of operating expenses at an institution. At some institutions, for example, operating expenses included hospital services that constituted a significant portion of total operating expenses, while at other institutions operating expenses included only education-related expenses such as faculty compensation and building maintenance.

[1]The total cost of attendance includes tuition, room, board, and required fees. In addition, the average need-based financial aid award is an average for full-time undergraduates who applied for, qualified for, and received need-based aid from any nonloan source, including federal and state grants, financial aid from St. Mary's, and outside scholarships.

[2]Fiscal year 2008 was the most recent year for which national data were available. Except where noted, all dollar values have been adjusted for inflation to constant 2009 dollars using the Consumer Price Index.

Over the past 20 years, the average annual inflation-adjusted change in the market value of the endowment of St. Mary's was a 6.5 percent increase.[3] As seen in figure 16 below, after accounting for inflation, the real value of St. Mary's University's endowment has grown from $36 million to $116 million over the period, despite recent declines.

Figure 16: St. Mary's University Endowment Market Value in 2009 Dollars, 1989 through 2009



Source: GAO analysis of St. Mary's financial data.

Note: Although this graph presents 21 data points, it captures only 20 years of growth. This is because the first value—market value as of the end of 1989—is equivalent to the beginning-of-year value for 1990. Therefore, the growth represented in the graph is from the beginning of 1990 through the end of 2009.

Approximately half of the endowment of St. Mary's in 2009 was permanently restricted. This amount, consisting of the original gift amount of donor-restricted funds, can never be spent. Just over 16 percent of the endowment was temporarily restricted or unrestricted earnings on donor-restricted endowment funds. The remaining one-third of the endowment was quasi-endowment funds that do not have to be permanently held and can be spent by the school at the discretion of the Board of Trustees.

[3]As discussed previously, the change in endowment market value is a function of investment returns, new gifts, distributions, and any other inflows or outflows of money.

St. Mary's officials said that most endowment gifts are restricted for a specific purpose and data from the school show that scholarships are the most common purpose restriction. Table 9 below details the top five categories of these purpose restrictions.

Table 9: St. Mary's University—Endowment Restrictions by Purpose, 2009

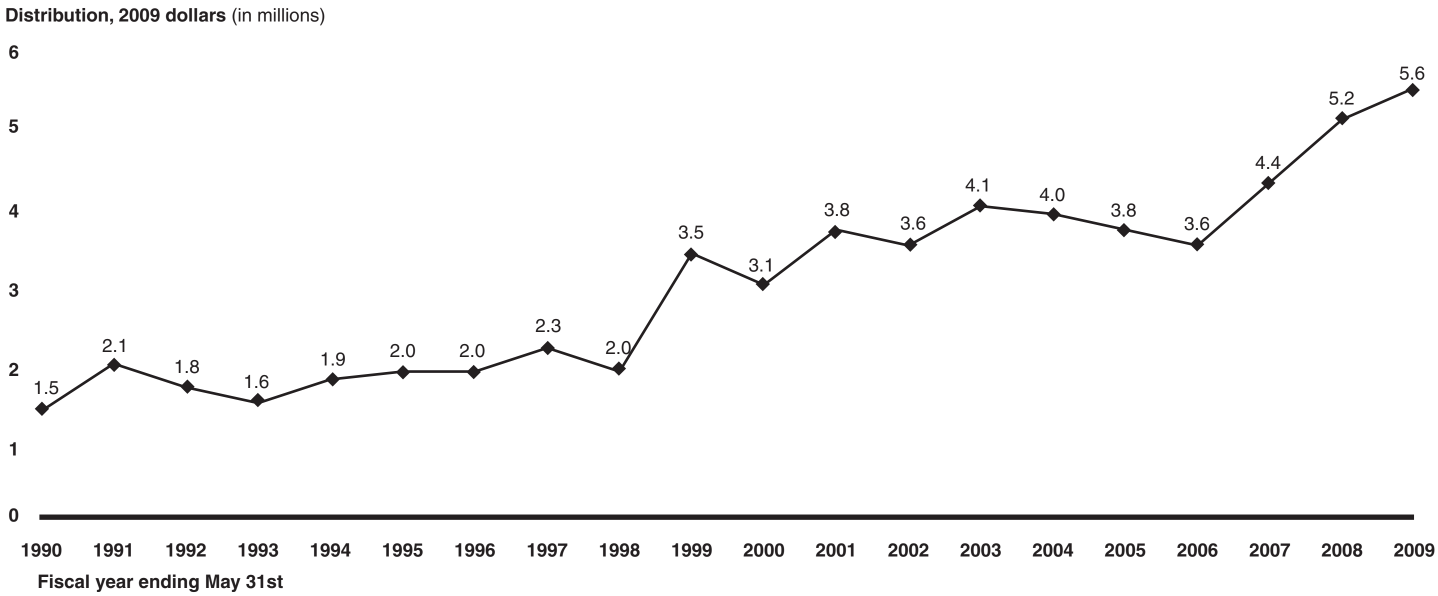
Purpose of restriction	Percent of endowment assets
Scholarships	45
Professor compensation and supporting expenses	21
Bill Greehey School of Business programs	19
Institutional support – operating expenses	7
Other purpose restriction	8
Total	**100**

Source: GAO analysis of St. Mary's data.

The St. Mary's University endowment distribution policy is to target a distribution rate of up to 4.75 percent of the three-year moving average of total market value.[4] Within this constraint, St. Mary's considers general factors such as its operating needs and preserving the purchasing power of the endowment when determining its annual distribution. Over the past 20 years, actual distributions by St. Mary's from its endowment have averaged 3.8 percent of the beginning-of-year endowment market value, ranging from a high of 5.6 percent in 1991 to a low of 3.0 percent in 1998. As shown below in figure 17, annual distributions increased over most of the period in real dollars, peaking at approximately $5.5 million in 2009.

[4]For gifts of $5 million or more, the donor may request a higher spending percentage or different market value average for calculating the distribution, or both, provided the use is within the mission of the university and the donor acknowledges the potential risks of loss of future purchasing power.

Figure 17: St. Mary's University Endowment Distributions in 2009 Dollars, 1990 through 2009



Source: GAO analysis of St. Mary's University financial data.

Of St. Mary's University's total endowment distribution in 2009, just over half—$3.4 million—was distributed for spending on scholarships, the largest of any of the university's endowment spending categories.[5]

[5]This percentage is based on the total distribution from the endowment, before accounting for any reinvestments of unspent funds. In 2009, this total distribution was $6.7 million, while the distribution net of these reinvestments was $5.6 million, as shown in table 8 above.

Appendix VII: Stanford University Case Study

Stanford University is a private research university founded in California in 1885. Total enrollment at Stanford was approximately 14,815 full-time-equivalent (FTE) students for the 2008-09 school year. Stanford's total undergraduate cost of attendance for the 2008-09 school year was $49,344, and the average need-based financial aid award from all nonloan sources for those undergraduates receiving awards was $36,419.[1]

At nearly $17.5 billion in 2009 dollars, Stanford's endowment placed the university in the top 1 percent of schools by both total endowment size and endowment per FTE student in 2008.[2] Stanford's endowment fell to $12.6 billion in 2009. Further data on Stanford's endowment are in table 10 below.

Table 10: Stanford University—Endowment Facts, 2009

Structure and management	According to university officials, Stanford's endowment consists of approximately 6,500 individual funds. Nearly all of the funds are pooled for investment purposes. The Stanford Management Company was established in 1991, as a division of the University, to manage Stanford's investments. It determines overall asset allocation and selects third party managers within each asset class to make individual security investment decisions.
Market value as of August 31, 2009	$12,619,094,000
Market value per FTE student	$851,778
Distribution	$956,518,000[a]
Distribution as a percentage of beginning-of-year market value	5.6
Share of operating expenses funded by distribution (percent)	31[b]

Source: GAO analysis of Stanford data.

[a]Rounded to the nearest thousand.

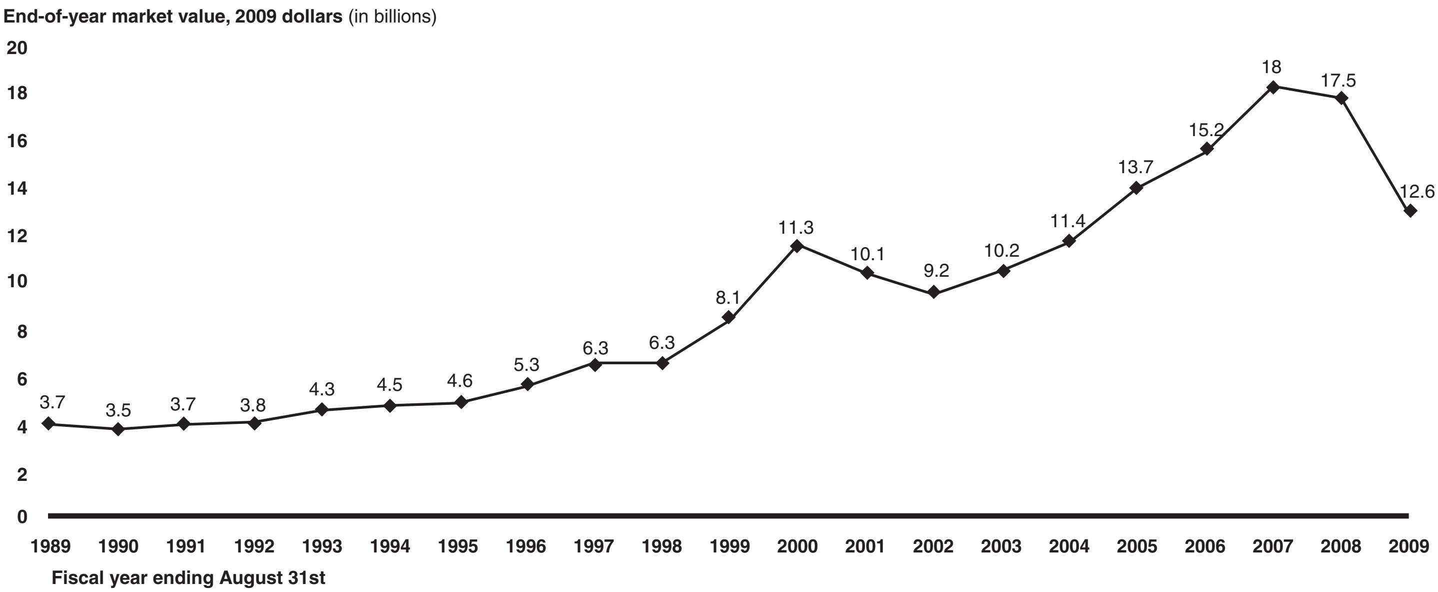
[b]Institutions with similar endowment distributions may differ substantially in the share of their operating expenses funded by those distributions when there are large differences in the types of operating expenses at an institution. At some institutions, for example, operating expenses included hospital services that constituted a significant portion of total operating expenses, while at other institutions operating expenses included only education-related expenses such as faculty compensation and building maintenance.

[1]The total cost of attendance includes tuition, room, board, and required fees. In addition, the average need-based financial aid award is an average for full-time undergraduates who applied for, qualified for, and received need-based aid from any nonloan source, including federal and state grants, financial aid from Stanford, and outside scholarships.

[2]Fiscal year 2008 was the most recent year for which national data were available. Except where noted, all dollar values have been adjusted for inflation to constant 2009 dollars using the Consumer Price Index.

Since 1989, the average annual inflation-adjusted change in the market value of Stanford's endowment was a 7.4 percent increase.[3] As seen in figure 18 below, after accounting for inflation, the real value of Stanford's endowment has grown from $3.7 billion to $12.6 billion over the period despite losses, particularly in the most recent year.

Figure 18: Stanford University Endowment Market Value in 2009 Dollars, 1989 through 2009



Source: GAO analysis of Stanford University financial data.

Note: Although this graph presents 21 data points, it captures only 20 years of growth. This is because the first value—market value as of the end of 1989—is equivalent to the beginning-of-year value for 1990. Therefore, the growth represented in the graph is from the beginning of 1990 through the end of 2009.

About one-third of Stanford's endowment in 2009 was permanently restricted. This amount, consisting of the original gift amount of donor-restricted funds, can never be spent. Almost 30 percent of the endowment was temporarily restricted or unrestricted earnings on donor-restricted endowment funds. The remainder of the endowment, about 37 percent of the endowment, was quasi-endowment funds that can be spent with the approval of the Board of Trustees in accordance with donor stipulations for spending purpose.

[3]As discussed previously, the change in endowment market value is a function of investment returns, new gifts, distributions, and any other inflows or outflows of money.

Stanford officials said that the large majority of the gifts it receives are restricted for a particular purpose by the donor. Table 11 details the top categories of these purpose restrictions for endowment funds.

Table 11: Stanford University—Endowment Restrictions by Purpose, 2009

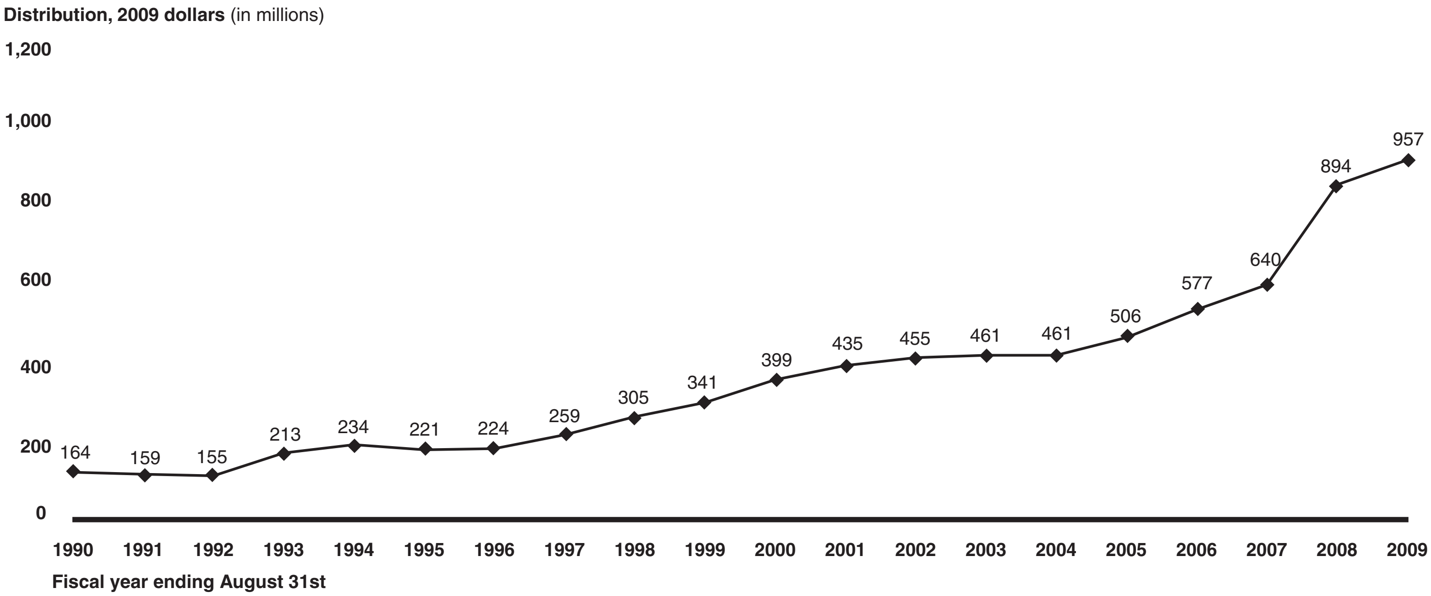
Purpose of restriction	Percent of endowment assets
Instruction and research	28
Faculty chair support	17
Graduate aid	12
Undergraduate aid	10
Other or miscellaneous	11
Not restricted for purpose	23
Total	**100**

Source: GAO analysis of Stanford data.

Note: Percentages do not sum to 100 due to rounding.

Stanford officials told us that the school determines the annual distribution for its endowment in advance of each fiscal year (for budget purposes) by using a combination of the current year's distribution rate and a target rate. The distribution is reviewed and approved by the Board of Trustees. The university sets the disbursement rate by placing a 70% weight on the current year's distribution rate and a 30% weight on the target rate. Over the past 20 years, Stanford's actual endowment distributions have averaged 4.9 percent of the beginning-of-year endowment market value, ranging from a low of 4 percent in 2001 to a high of 5.8 percent in 1993. As shown below in figure 19, annual distributions increased steadily over most of the period in real dollars, peaking at approximately $957 million in 2009.

Figure 19: Stanford University Endowment Distributions in 2009 Dollars, 1990 through 2009



Source: GAO analysis of Stanford University financial data.

Of Stanford's 2009 endowment distribution of $957 million, approximately $224 million—about 23 percent—was distributed from funds restricted for undergraduate grant aid and for graduate and postdoctoral grants and stipends. In addition to this amount, officials said that some amount of endowment distributions from unrestricted funds and from restricted instructional and research support funds went toward financial aid, but they were unable to provide specific data on this.

Appendix VIII: University of Colorado Case Study

The University of Colorado (CU) is a public teaching and research institution founded in Boulder, Colorado, in 1876. CU has four campuses: the University of Colorado at Boulder, the University of Colorado at Denver, the University of Colorado Anschutz Medical Campus, and the University of Colorado at Colorado Springs. Total enrollment at CU was approximately 46,638 full-time-equivalent (FTE) students for the 2008-09 school year. For the 2008-09 school year at the University of Colorado at Boulder (the largest institution in the system), the total undergraduate cost of attendance was $36,625 for out-of-state students and $17,138 for in-state students, and the average need-based financial aid award from all nonloan sources for those undergraduates receiving awards was $6,729.[1]

CU has both an endowment that it owns directly as well as an associated foundation, the University of Colorado Foundation (CUF), which has a separate, much larger endowment that benefits CU. In 2008, the combined CU and CUF endowments were $784 million in 2009 dollars, placing CU in the top 4 percent of schools by total endowment size and in the top 40 percent by endowment per FTE student.[2] The combined endowments declined to $635 million in 2009. Our analysis focuses mostly on the foundation's endowment because it accounts for over 90 percent of the combined endowment. Some data regarding CU endowment distributions were not available to us at the time of our study, nor were data on either the CU or CUF endowment values prior to 2000. Available data on CU's and CUF's endowments are in table 12.

[1]The total cost of attendance includes tuition, room, board, and required fees. In addition, the average need-based financial aid award is an average for full-time undergraduates who applied for, qualified for, and received need-based aid from any nonloan source, including federal and state grants, financial aid from CU or CUF, and outside scholarships.

[2]Fiscal year 2008 was the most recent year for which national data were available. Except where noted, all dollar values have been adjusted for inflation to constant 2009 dollars using the Consumer Price Index.

Table 12: CU and CUF—Endowment Facts, 2009

Structure and management	CU manages a few endowments which primarily include externally managed trusts. CUF is responsible for managing endowment funds and other gifts that benefit CU. These include endowments given directly to the CUF as well as the majority of endowments owned by the university.	
	CU	**CUF**
Market Value as of June 30, 2009	$41,968,000[a]	$593,304,000[a]
Market Value per FTE Student	$900	$12,721
Distribution	Not available	$23,042,000
Distribution as a Percentage of Beginning-of-Year Market Value	Not available	3.2
Share of operating expenses funded by distribution (percent)	Not available	1.1[b]

Source: GAO analysis of CU and CUF data.

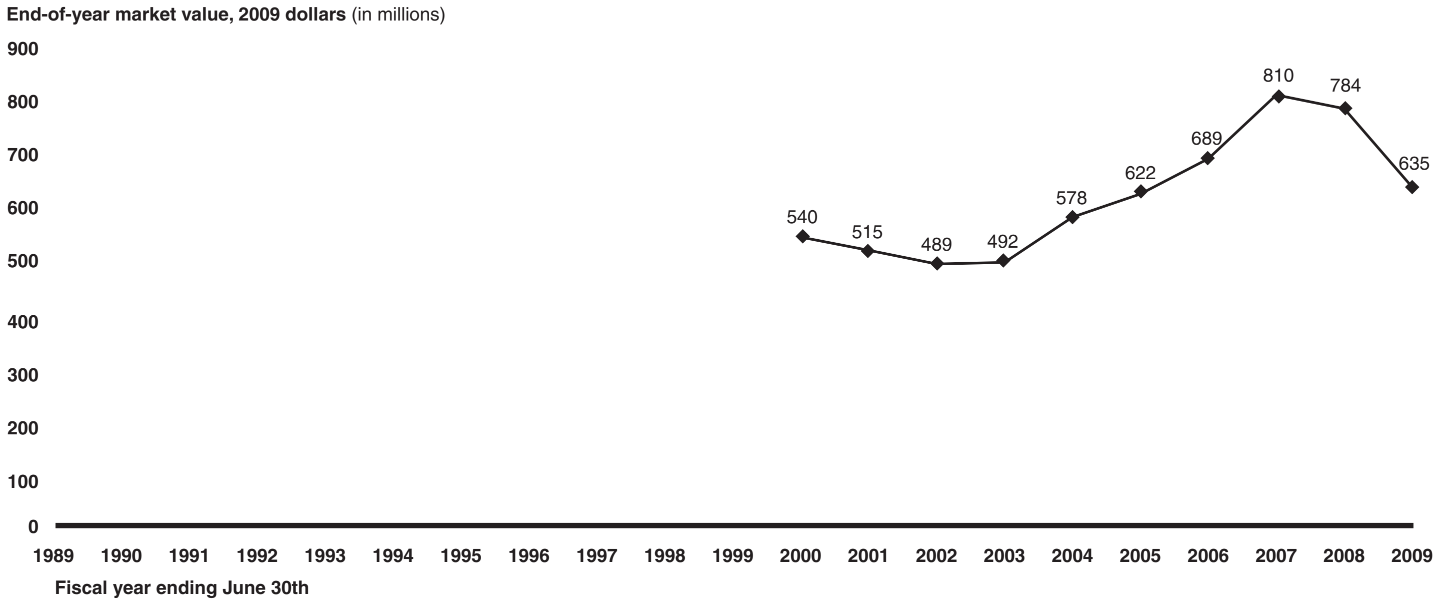
[a]Rounded to the nearest thousand.

[b]This calculation uses the operating expenses of CU, since CU is the entity whose operations the distribution supports. Institutions with similar endowment distributions may differ substantially in the share of their operating expenses funded by those distributions when there are large differences in the types of operating expenses at an institution. At some institutions, for example, operating expenses included hospital services that constituted a significant portion of total operating expenses, while at other institutions operating expenses included only education-related expenses such as faculty compensation and building maintenance.

Since 2000, the average annual inflation-adjusted change in the market value of the combined CU and CUF endowments was a 2.5 percent increase.[3] As seen in figure 20 below, after accounting for inflation, the real value of the combined endowments has grown from $540 million to $635 million over the past 10 years despite declines in some years, including 2008 and 2009.

[3]As discussed previously, the change in endowment market value is a function of investment returns, new gifts, distributions, and any other inflows or outflows of money.

Figure 20: University of Colorado and University of Colorado Foundation Endowment Market Value in 2009 Dollars, 2000 through 09



Source: GAO analysis of CU and CUF financial data.

Notes: Data on endowment market value were not available for fiscal years 1989 through 1999.

Although this graph presents 10 data points, it captures only 9 years of growth. This is because the first value—market value as of the end of 2000—is equivalent to the beginning-of-year value for 2001. Therefore, the growth represented in the graph is from the beginning of 2001 through the end of 2009.

Almost 53 percent of CUF's endowment in 2009 was permanently restricted. This amount, consisting of the original gift amount of donor-restricted funds, can never be spent. Twelve percent of the endowment was temporarily restricted earnings on donor-restricted endowment funds. The remaining 35 percent of the endowment was quasi-endowment funds that do not have to be permanently held and can be spent by the school in accordance with donor stipulations for spending purpose.

Faculty positions and financial aid are the two most common designations for donor restrictions, and CUF financial data showed that assets restricted for these purposes comprise about two-thirds of the endowment. Table 13 below details the top categories of restrictions for spending purpose.

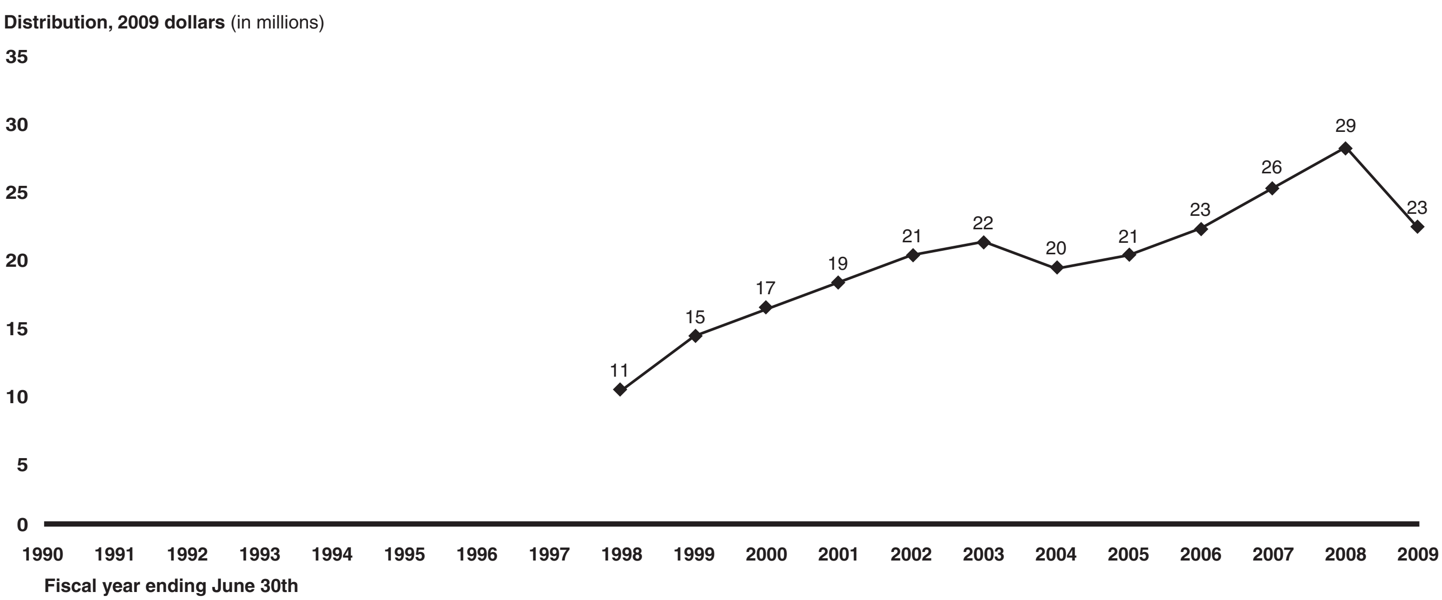
Table 13: University of Colorado Foundation—Endowment Restrictions by Purpose, 2009

Purpose of restriction	Percent of endowment assets
Professorships and Chairs	32
Financial Aid	28
Academic	15
Research	11
Other Purpose	14
Total	**100**

Source: GAO analysis of CUF data.

The CUF's policy is to set an annual target distribution rate as the greater of 4 percent of the current market value of the endowment, or 4.5 percent of the endowment's trailing 36-month average fair market value. Over the past 9 years, CUF's actual distributions from its endowment have averaged 4.1 percent of the beginning-of-year endowment market value, ranging from a low of 3.2 percent in 2009 to a high of 4.8 percent in 2003. As shown below in figure 21, annual distributions increased in real dollars in most years, peaking at approximately $29 million in 2008.

Figure 21: University of Colorado Foundation Endowment Distributions in 2009 Dollars, 1998 through 2009



Source: GAO analysis of CU and CUF financial data.

According to officials, spending from the endowment in 2009 was $26.8 million, including the $23 million distributed from CUF in 2009 plus money from prior years. Of this, $8.7 million—or 33 percent—was from funds restricted for financial aid. In addition to this amount, officials said that some endowment distributions from unrestricted funds went toward financial aid, but they were unable to provide specific data on this.

Appendix IX: University of Kentucky Case Study

The University of Kentucky (UK) is a public university founded in 1865. The university's total fall enrollment for the 2008-09 school year was approximately 24,500 full-time-equivalent (FTE) students. For the 2008-09 school year, the total undergraduate cost of attendance was $24,669 for out-of-state students and $16,521 for in-state students, and the average need-based financial aid award from all nonloan sources for those undergraduates receiving awards was $5,118.[1]

At more than $884 million in 2009 dollars, UK's endowment placed the institution in the top 4 percent of schools by total endowment size and in the top 40 percent by endowment per FTE student in 2008.[2] The UK endowment declined to about $668 million in 2009. Since the late 1990s, over $200 million was added by the state of Kentucky to the UK endowment under an endowment match program. The program matches state money, up to the amount appropriated in each year's state budget, with private gifts to fund endowed chairs, professorships, fellowships, and scholarships. It was developed by the state of Kentucky to encourage private investment in public higher education and is used specifically by UK to expand its research agenda.[3] Further data on the endowment are in table 14 below.

[1]The total cost of attendance includes tuition, room, board, and required fees. In addition, the average need-based financial aid award is an average for full-time undergraduates who applied for, qualified for, and received need-based aid from any nonloan source, including federal and state grants, financial aid from UK, and outside scholarships.

[2]Fiscal year 2008 was the most recent year for which national data were available. Except where noted, all dollar values have been adjusted for inflation to constant 2009 dollars using the Consumer Price Index.

[3]The Kentucky Postsecondary Education Improvement Act was passed in 1997 and created six trust funds, including the Research Challenge Trust Fund. The funds provide for strategic investment at the University of Kentucky, University of Louisville, and Kentucky's six regional universities.

Table 14: University of Kentucky—Endowment Facts, 2009

Structure and management	UK has one centralized endowment, which is pooled for investment purposes and managed by an external investment company. According to officials, the UK endowment is made up of 1,950 funds.
Market value as of June 30, 2009	$668,008,000[a]
Market value per FTE student	$27,210
Distribution	$44,169,000[a]
Distribution as a percentage of beginning-of-year market value	5.1
Share of operating expenses funded by distribution (percent)	2.2[b]

Source: GAO analysis of University of Kentucky data.

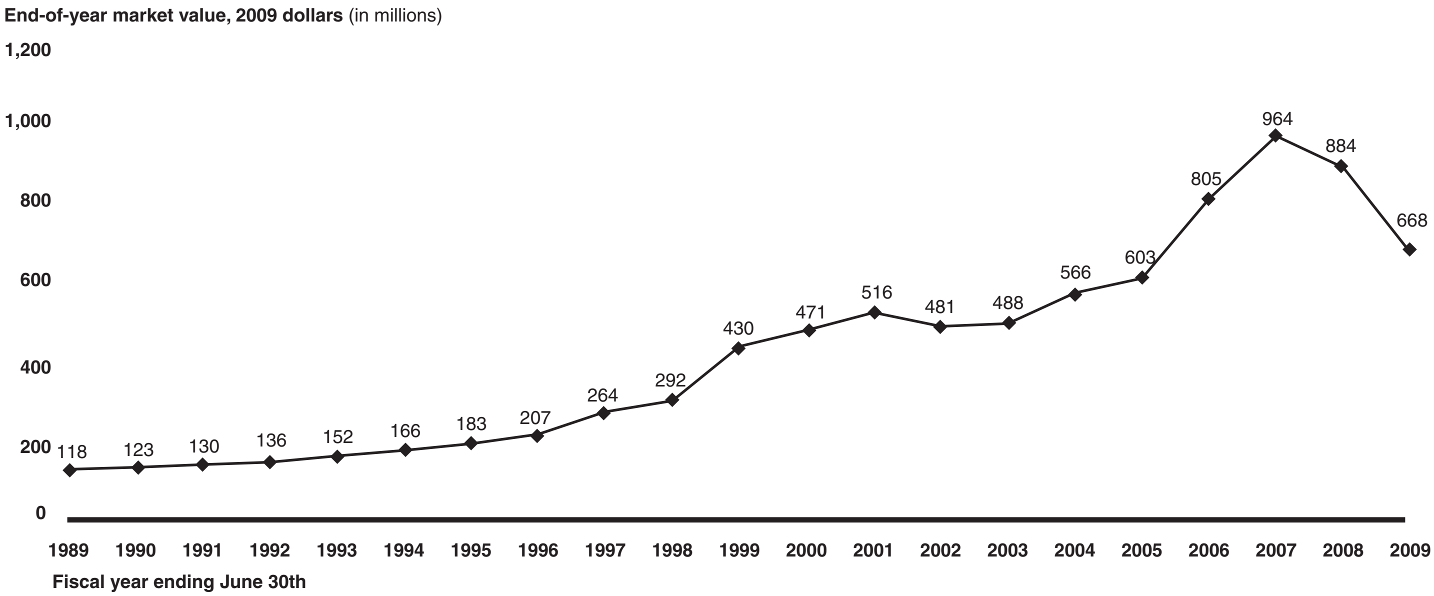
[a]Rounded to the nearest thousand.

[b]Institutions with similar endowment distributions may differ substantially in the share of their operating expenses funded by those distributions when there are large differences in the types of operating expenses at an institution. At some institutions, for example, operating expenses included hospital services that constituted a significant portion of total operating expenses, while at other institutions operating expenses included only education-related expenses such as faculty compensation and building maintenance.

Since 1989, the average annual inflation-adjusted change in the market value of UK's endowment was a 10.1 percent increase.[4] As seen in figure 22 below, after accounting for inflation, the real value of the endowment has grown from $123 million in 1990 to $668 million in 2009, despite recent losses.

[4]As discussed previously, the change in endowment market value is a function of investment returns, new gifts, distributions, and any other inflows or outflows of money.

Figure 22: University of Kentucky, Endowment Market Value in 2009 Dollars, 1989 through 2009



Source: GAO analysis of UK financial data.

Note: Although this graph presents 21 data points, it captures only 20 years of growth. This is because the first value—market value as of the end of 1989—is equivalent to the beginning-of-year value for 1990. Therefore, the growth represented in the graph is from the beginning of 1990 through the end of 2009.

Nearly two-thirds of UK's endowment in 2009 was classified as restricted nonexpendable assets. This amount, consisting of the original gift amount of donor-restricted funds, can never be spent. Nearly 6 percent of the endowment was restricted expendable earnings on donor-restricted endowment funds. The remaining 30 percent of the endowment was quasi-endowment funds that do not have to be permanently held and can be spent by the school in accordance with donor stipulations for spending purpose.

UK officials said that most of UK's endowment funds are restricted for a particular purpose by their donor. A common purpose restriction is for faculty positions such as endowed chairs. Table 15 below details the top categories of these purpose restrictions.

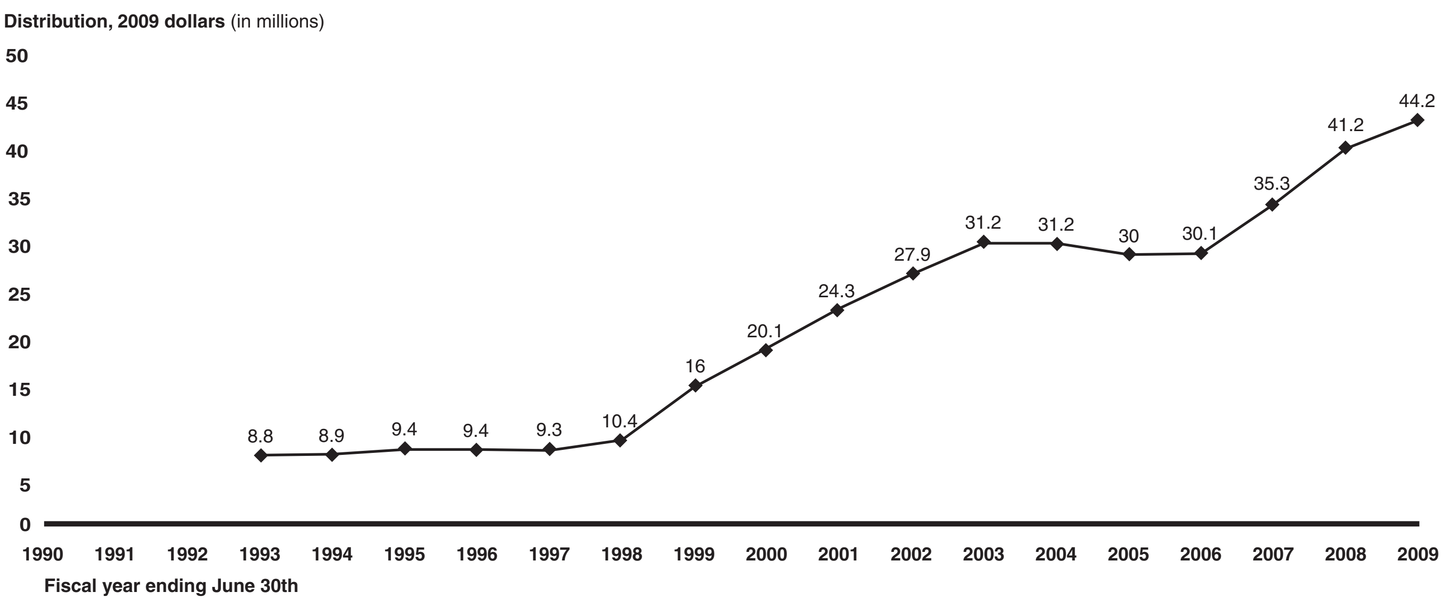
Table 15: University of Kentucky—Endowment Restrictions by Purpose, 2009

Purpose of restriction	Percent of endowment assets
Scholarships and fellowships	19
Chairs, professorships, lectureships	28
Enrichments	13
Other purpose or no purpose restriction	40
Total	**100**

Source: GAO analysis of University of Kentucky data.

UK currently calculates the annual target distribution for its long-term pooled investments as 4.5 percent of the average market value of the endowment over the preceding 36 months. Over the past 18 years, UK's actual distributions from its endowment have averaged 5.4 percent of the beginning-of-year endowment market value, ranging from a high of 6.7 percent in 1993 to a low of 4.0 percent in 1998. As shown below in figure 23, annual distributions increased steadily over most of the period in real dollars, peaking at approximately $44 million in 2009.

Figure 23: University of Kentucky Endowment Distributions in 2009 Dollars, 1993 through 2009



Source: GAO analysis of UK financial data.

Note: Data on endowment distributions were not available for fiscal years 1989 through 1992.

About $5.4 million of UK's actual endowment spending in 2009 of about $27.7 million was from endowment funds restricted for scholarships and fellowships. In addition to this amount, officials said that some endowment distributions from unrestricted funds went toward financial aid, but they were unable to provide specific data on this.

Appendix X: University of Texas System Case Study

Established by the Texas Constitution in 1876, The University of Texas (UT) system is a public university system consisting of nine academic and six health institutions. Among these are major research universities such as UT Austin, the UT system's flagship institution founded in 1883, and newer and smaller universities such as UT Permian Basin and UT Tyler, and medical centers for research, education, and patient care. Total enrollment for the UT system during the 2008-09 school year was more than 150,000 full-time-equivalent (FTE) students. For the 2008-09 school year at UT Austin, the total undergraduate cost of attendance was $37,312 for out-of-state students and $17,754 for in-state students, and the average need-based financial aid award from all nonloan sources for those undergraduates receiving awards was $7,617.[1]

The UT system endowment is made up of several different groups of endowment funds, which vary in how they were established, how they are invested and distributed, and what restrictions govern their use.[2] At nearly $15 billion in 2009 dollars in total, the endowment placed the UT system in the top 1 percent of schools by total endowment size and in the top 15 percent of schools by endowment per student in 2008.[3] The UT system endowment fell to $12.2 billion in 2009. Further data on the endowment are in table 16.

[1]The total cost of attendance includes tuition, room, board, and required fees. In addition, the average need-based financial aid award is an average for full-time undergraduates who applied for, qualified for, and received need-based aid from any nonloan source, including federal and state grants, financial aid from UT, and outside scholarships.

[2]Throughout this report, we refer to the UT System endowment in its entirety—that is, as the sum of the four major funds, as well as life income and annuity funds. See note a on table 16 below for further details.

[3]Fiscal year 2008 was the most recent year for which national data were available. Except where noted, all dollar values have been adjusted for inflation to constant 2009 dollars using the Consumer Price Index.

Table 16: University of Texas System—Endowment Facts, 2009

Structure and management	The following are the four major endowment funds held by the UT system[a]: Permanent University Fund (PUF): The largest of the UT system's four major funds, the PUF was established in the Texas Constitution, which dictates how the fund is to be managed and spent. PUF assets include both land and investments, and the fund provides income from its investments and from the leasing and mining of its land. PUF assets constitute 57 percent of the UT system's endowment. Permanent Health Fund (PHF): The PHF is a state-established fund that was created with proceeds from the state's litigation against the tobacco industry and is to be used for the benefit of public health. PHF assets constitute 6 percent of the UT system's endowment. Long-Term Fund (LTF): The LTF is an amalgamation of nearly 9,000 individual donor funds, similar to pooled endowment funds at other schools. LTF assets constitute 35 percent of the UT system's endowment. Separately Invested Funds (SIF): The SIF is a group of donor funds that, due to donor restrictions or the nature of the underlying assets, cannot be pooled with other funds in the LTF. SIF assets constitute 3 percent of the UT system's endowment. To improve the management of the UT system endowment, the system in 1996 formed the University of Texas Investment Management Company as a separate, nonprofit corporation to manage and invest these four major funds.
Market value as of August 31, 2009	$12,229,254,000[b]
Market value per FTE student	$80,910
Distribution	$638,400,000[b]
Distribution as a percentage of beginning-of-year market value	4.3
Share of operating expenses funded by distribution (percent)	5.4[c]

Source: GAO analysis of University of Texas system data.

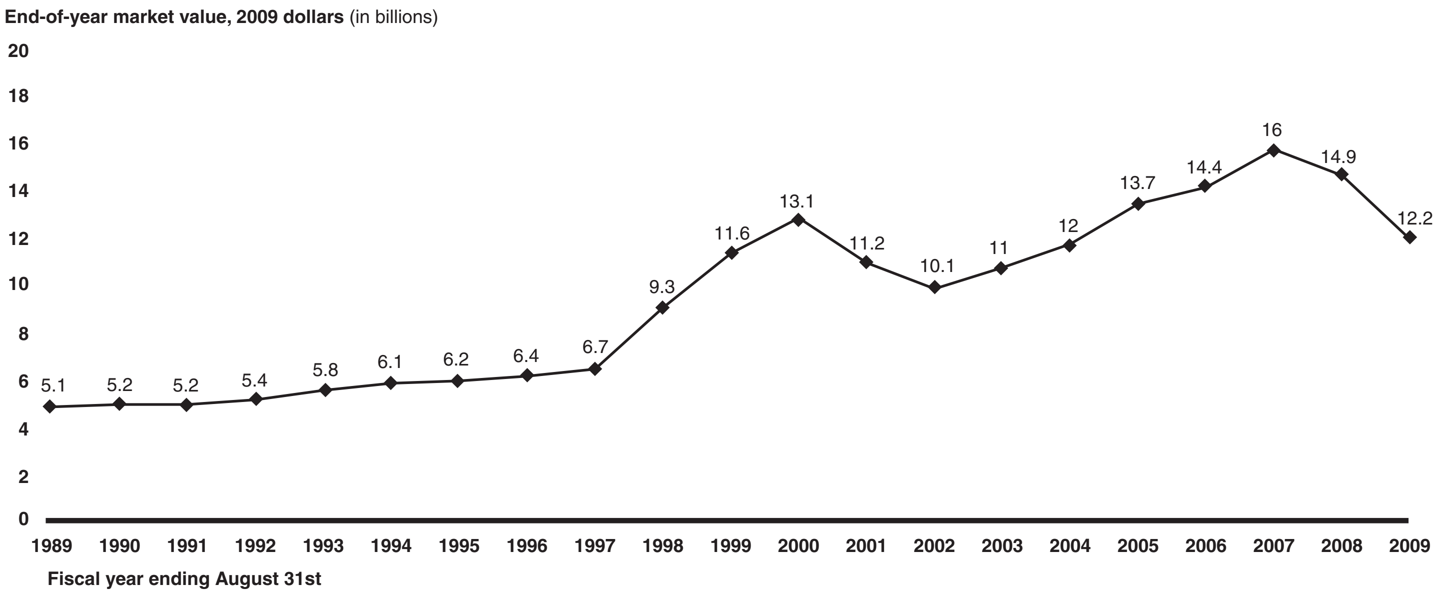
[a]In addition to the four major endowment funds listed, the UT system held approximately $16 million of life income and annuity funds, comprising approximately 0.1 percent of its total endowment assets in 2009. These funds are included in the total market values reported here, although distributions from these funds are not included in the UT system's reported distribution amounts. Also, portions of both the PUF and PHF benefit the Texas A&M University system and other institutions outside of the UT system. We have excluded these portions of the PUF and PHF from all analyses.

[b]Rounded to the nearest thousand.

[c]Institutions with similar endowment distributions may differ substantially in the share of their operating expenses funded by those distributions when there are large differences in the types of operating expenses at an institution. At some institutions, for example, operating expenses included hospital services that constituted a significant portion of total operating expenses, while at other institutions operating expenses included only education-related expenses such as faculty compensation and building maintenance.

Over the past 20 years, the average annual inflation-adjusted change in the market value of the UT system's endowment was an 5.2 percent increase.[4] As seen in figure 24 below, after accounting for inflation, the real value of the endowment has grown from $5.2 billion to $12.2 billion over the period, despite periodic losses.

Figure 24: University of Texas System Endowment Market Value in 2009 Dollars, 1989 through 2009



Source: GAO analysis of University of Texas System financial data.

Note: Although this graph presents 21 data points, it captures only 20 years of growth. This is because the first value—market value as of the end of 1989—is equivalent to the beginning-of-year value for 1990. Therefore, the growth represented in the graph is from the beginning of 1990 through the end of 2009.

Nearly two-thirds of the UT system endowment in 2009 was classified as restricted nonexpendable assets. This amount, consisting of the original gift amount of donor-restricted funds, can never be spent. One-third of the endowment was restricted expendable assets made up primarily of earnings on permanent endowment funds. The remaining 3 percent of the endowment was quasi-endowment funds that do not have to be

[4] As discussed previously, the change in endowment market value is a function of investment returns, new gifts, distributions, and any other inflows or outflows of money.

permanently held and can be spent by the school in accordance with donor stipulations for spending purpose.[5]

Two of the UT system's four major endowment funds—the LTF and SIF—are subject to donor restrictions for spending purpose. These funds—which constituted nearly 38 percent of total UT endowment assets in 2009—were almost entirely restricted for spending purpose, as shown in table 17 below.

Table 17: University of Texas System—LTF and SIF Restrictions by Purpose, 2009

Purpose of restriction	Percent of LTF and SIF endowment assets
Miscellaneous[a]	48
Professorship or chair	35
Scholarship	12
Faculty or graduate fellowship	5
Lectureship	0.4
Unrestricted use of chancellor	0.1
Total	**100**

Source: GAO analysis of University of Texas system data.

Notes: Percentages do not sum to 100 because of rounding.

[a]According to a UT official, miscellaneous purpose restrictions include restrictions for research funds, book funds, program support, or endowments with multiple purposes, such as research funds and program support.

The other two major UT system endowment funds—the PUF and the PHF—are restricted for spending purpose by state law, as follows:

- Permanent University Fund: The Texas Constitution requires that two-thirds of the annual PUF distribution benefit UT system institutions, while the remaining third benefit the Texas A&M University system. The constitution also requires that these distributions be used to pay the debt for capital projects such as building construction or land acquisition at UT institutions, with the exception of UT Austin, which may use some of the distribution to fund its operating expenses.

[5]These percentages are based on the endowment assets reported in the UT System Consolidated Annual Financial Reports, which include portions of the PUF and PHF that benefit non-UT institutions.

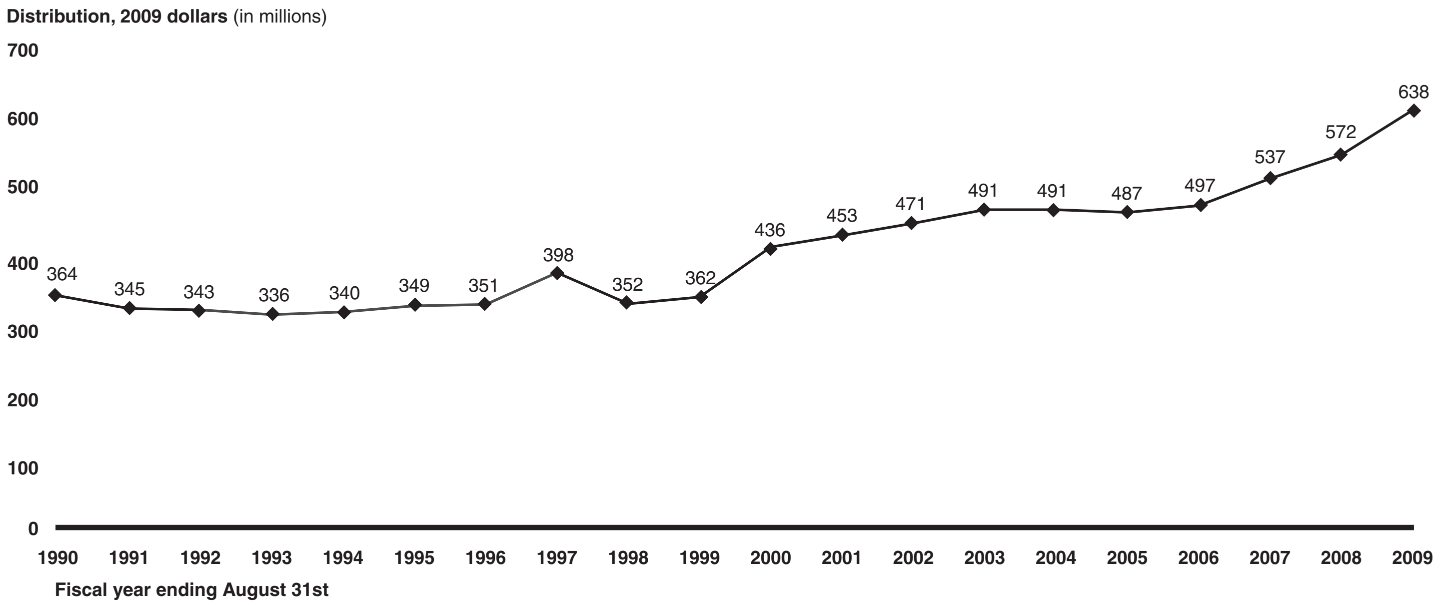
- Permanent Health Fund: The Texas Education Code restricts the spending of PHF distributions to purposes that benefit public health, such as medical research, treatment programs, or health education. The law also specifies which institutions—including several UT system institutions—may receive these distributions.

The UT system determines annual target endowment distributions separately for each of its major funds. For both the LTF and the PHF, the UT system calculates the target distribution by increasing the prior year's distribution by the average inflation rate[6] for the previous 12 quarters, and can adjust the distribution if it falls below 3.5 percent or above 5.5 percent of the average market value over the previous 12 quarters. For the PUF, the UT system distributes an amount equal to 4.75 percent of the average net asset value of the fund over 12 quarters. In years when PUF investment returns exceed the UT system's expectations by a certain threshold, distributions will increase to 5 percent of the average net asset value of the fund.[7] Over the past 20 years, actual distributions from the UT system's endowment have averaged 5.1 percent of the beginning-of-year total endowment market value, ranging from a low of 3.6 percent in 2001 to a high of 7.5 percent in 1990. As shown below in figure 25, annual distributions increased over most of the period in real dollars, peaking at approximately $638 million in 2009.

[6]This calculation is based on Consumer Price Index inflation.

[7]Because the SIF is a group of individual funds that are not pooled and are often of disparate asset classes, distributions are made based on the terms of each individual fund in the group, and not based on a uniform distribution policy, according to UT officials.

Figure 25: University of Texas System Endowment Distributions in 2009 Dollars, 1990 through 2009



Source: GAO analysis of University of Texas System data.

Of the UT system's 2009 endowment distribution, approximately $66 million—or just over 10 percent—was distributed from funds restricted for scholarships. This amount includes distributions from LTF and SIF funds restricted for scholarships, as well as PUF distributions restricted for scholarships at UT Austin. In addition to this amount, officials said that some amount of endowment distributions from PHF funds and from unrestricted funds went toward scholarships, but they were unable to provide specific data on this.[8]

[8] UT system officials also noted that this amount does not capture distributions for work study aid.

Appendix XI: University of Virginia Case Study

The University of Virginia (UVA) is a public research university, established in 1825 and located in Charlottesville, Virginia. The university consists of three divisions—the Academic Division, which is the core academic campus in Charlottesville; the College at Wise, a branch liberal arts college located in Wise, Virginia; and the Medical Center, which provides patient services through a hospital and clinics. Total enrollment at UVA was approximately 21,000 full-time-equivalent (FTE) students for the 2008-09 school year. The total undergraduate cost of attendance was $37,420 for out-of-state students and $17,120 for in-state students, and the average need-based financial aid award from all nonloan sources for those undergraduates receiving awards was $14,486 for the 2008-09 school year.[1]

UVA's combined university system endowment—which includes endowments held by related foundations such as the Darden School Foundation and the Alumni Association Foundation—totaled nearly $3.6 billion as of June 30, 2009. The portion of this endowment held by UVA directly stood at nearly $2.5 billion.[2] In 2008, this directly-held endowment—worth nearly $3.2 billion in 2009 dollars—placed UVA in the top 2 percent of schools by total endowment size and in the top 10 percent by endowment per FTE student.[3] Further data on UVA's endowment are in table 18.

[1]The total cost of attendance includes tuition, room, board, and required fees. In addition, the average need-based financial aid award is an average for full-time undergraduates who applied for, qualified for, and received need-based aid from any nonloan source, including federal and state grants, financial aid from UVA, and outside scholarships.

[2]Throughout the report when we refer to UVA's endowment, including its market value, distribution, and rates of return, we are referring to the portion held and controlled directly by UVA. UVA includes related foundations' endowment assets, which total nearly $1.1 billion, in its reported combined university endowment in accordance with GASB standards because they are for the benefit of the university. In addition, according to officials the endowment held directly by UVA included approximately $50 million in trusts in 2009. We excluded these trusts from our analyses because officials said they typically have binding distribution rates and different rates of return from the main endowment, since they are not pooled together.

[3]Fiscal year 2008 was the most recent year for which national data were available. Except where noted, all dollar values have been adjusted for inflation to constant 2009 dollars using the Consumer Price Index.

Table 18: University of Virginia—Endowment Facts, 2009

Structure and management	The major portion of UVA's endowment is made up of 1,862 individual funds that are pooled for investing purposes, and that support the university's three divisions. The endowment is managed by the University of Virginia Investment Management Company, a related foundation that maintains UVA's investment funds.[a]
Market value as of June 30, 2009	$2,451,859,000[b]
Market value per student	$114,616
Distribution	$163,500,000[b]
Distribution as a percentage of beginning-of-year market value	5.2
Share of operating expenses funded by distribution (percent)	7.6[c]

Source: GAO analysis of University of Virginia data.

[a]According to officials, the endowment held directly by UVA also included $50 million in trusts in 2009, which are managed by the University of Virginia Investment Management Company but are not pooled with the other funds.

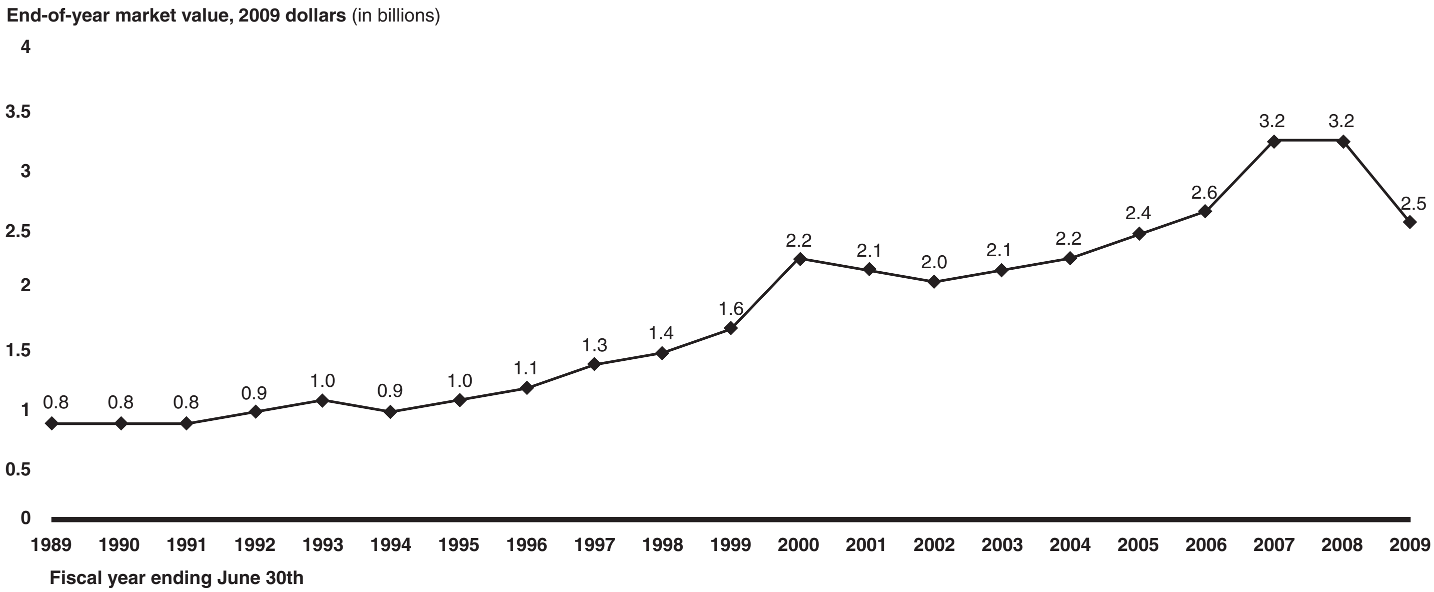
[b]Rounded to the nearest thousand.

[c]Institutions with similar endowment distributions may differ substantially in the share of their operating expenses funded by those distributions when there are large differences in the types of operating expenses at an institution. At some institutions, for example, operating expenses included hospital services that constituted a significant portion of total operating expenses, while at other institutions operating expenses included only education-related expenses such as faculty compensation and building maintenance.

Over the past 20 years, the average annual inflation-adjusted change in the market value of UVA's endowment was a 6.4 percent increase.[4] As seen in figure 26, after accounting for inflation, the real value of UVA's endowment has grown from $800 million to $2.5 billion over the period, despite recent losses.

[4]As discussed previously, the change in endowment market value is a function of investment returns, new gifts, distributions, and any other inflows or outflows of money.

Figure 26: University of Virginia Endowment Market Value in 2009 Dollars, 1989 through 2009



Source: GAO analysis of University of Virginia financial data.

Note: Although this graph presents 21 data points, it captures only 20 years of growth. This is because the first value—market value as of the end of 1989—is equivalent to the beginning-of-year value for 1990. Therefore, the growth represented in the graph is from the beginning of 1990 through the end of 2009.

Approximately nineteen percent of UVA's endowment in 2009 was classified as restricted nonexpendable assets. This amount, consisting of the original gift amount of donor-restricted funds, can never be spent. Nearly 30 percent of the endowment was restricted expendable or unrestricted earnings on donor-restricted endowment funds. The remaining 53 percent of the endowment consisted of quasi-endowment funds that do not have to be permanently held and can be spent by the school in accordance with donor stipulations for spending purpose.[5]

As shown in table 19, slightly more than two-thirds of UVA's endowment—including donor-restricted and quasi-endowment funds—is subject to restrictions for spending purpose. The most common of these restrictions is for instruction, while funds restricted for financial aid comprise the next largest group of funds.

[5]These percentages are based on the endowment amount in UVA's 2009 financial report, which included trusts.

Table 19: University of Virginia—Endowment Restrictions by Purpose, 2009

Purpose of restriction	Percent of endowment assets
Instruction	36
Financial aid	15
Academic support	7
Patient care	5
Research	3
Other purpose	4
Not subject to permanent purpose restrictions	31
Total	**100**

Source: GAO analysis of University of Virginia data.

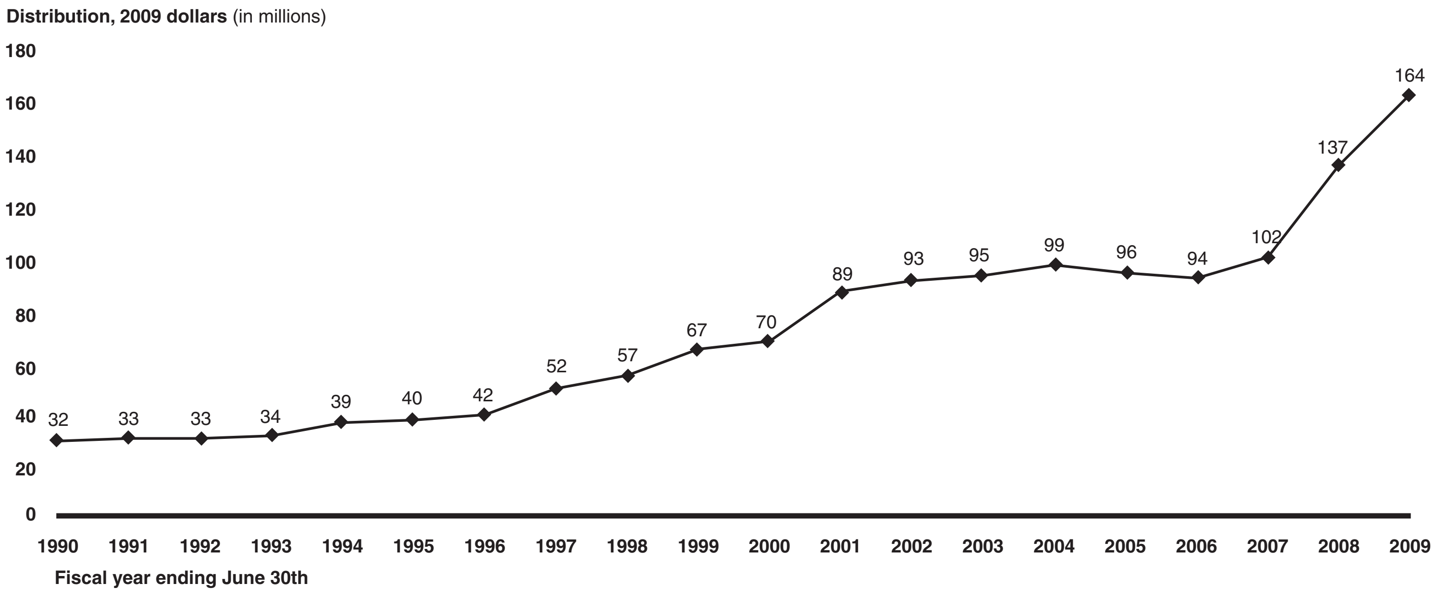
Note: Percentages do not sum because of rounding.

According to officials, UVA currently determines the annual target distribution from its endowment by increasing the prior year's distribution by inflation,[6] provided that the resulting amount is within 4 and 6 percent of the endowment market value.[7] If the resulting distribution amount is above or below these limits, UVA will reset the target rate. For instance, in the face of large gains in the endowment in 2007 that would have caused the distribution to fall below 4 percent of the market value, UVA reset the target rate to 4 percent. Over the past 20 years, UVA's actual endowment distributions have averaged 4.4 percent of the beginning-of-year endowment market value, ranging from a low of 4.0 percent in 1993 and 2007 to a high of 5.2 percent in 2009. As figure 27 shows, annual distributions increased over most of the period in real dollars, peaking at approximately $164 million in 2009.

[6]UVA uses a 10-year average of the Higher Education Price Index, an inflation index designed for institutions of higher education that is based on a fixed basket of goods purchased by colleges and universities, including faculty and administrative salaries, supplies and materials, and utilities.

[7]Although UVA maintained this spending policy for several years, from 2003 to 2005 the university instead distributed a fixed percentage of a 12-quarter moving average of endowment market value. Additionally, after returning to the current policy of increasing the distribution by inflation, UVA has made further changes to the percentages between which the distribution must fall, most recently adjusting them from 3.5 and 5.5 percent to 4 and 6 percent in 2009.

Figure 27: University of Virginia Endowment Distributions in 2009 Dollars, 1990 through 2009



Source: GAO analysis of University of Virginia financial data.

Of UVA's 2009 endowment distribution, \$24.6 million—or approximately 15 percent—was distributed from funds restricted for financial aid. This amount does not include distributions for financial aid from funds not restricted to financial aid. UVA officials provided data showing that in 2009, 26 percent of expenditures funded by endowment distributions, either from the current or prior years, were for financial aid.

Appendix XII: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, David Lewis, Assistant Director; LaKeshia Allen; Nina Chen; Amy Friedlander; Thomas Gilbert; Miles Ingram; John Mingus; Amrita Sen; Sabrina Streagle; Jessica Thomsen; William Trancucci; and Sarah Viranda made key contributions to this report.

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