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February 21, 2008

The Honorable Max Baucus  
The Honorable Charles Grassley  
United States Senate  
Committee on Finance  
219 Dirksen Senate Office Building  
Washington, DC 20510-6200

Dear Senators Baucus and Grassley,

Imagine a place in 1855 slave-holding Kentucky where black children and white children lived and learned together as equals. Imagine a place where "interspersed" of black and white homes, one alternating with the other, created a planned community that was inclusive of all. Imagine a small church open to all who would worship, black and white, and where the pastor preached a gospel of impartial love built upon the two Great Commandments (i.e., to love God and to love neighbor as self). This pastor was abolitionist John G. Fee and the new schools were called Berea after its Christian namesake in Greece. This set of schools was built upon the premise that "God has created of one blood all peoples of the earth" (Acts 17:26). This was the beginning of what in 1866 became Berea College, a unique college in America whose legacy today could be threatened by any federal or state legislation that would instruct us on how best to spend our endowment. Allow me to explain.

Because Berea College and the Berea Schools (all sixteen years of schooling were available until 1968 when Berea became a college only) chose to focus on interracial education in the Appalachian region, it soon became apparent that the funding of these schools would have to be different from their counterparts. The Berea College Catalog of 1866 noted that our schools sought to serve the freed slaves and "poor white mountaineers" of the mid-south. In 1892, the College *stopped charging tuition* and required each student to work for the College. Berea College and schools emphasized learning, labor, and service as the foundation for educating the whole person. This is still our policy today.

Historically, the funding of Berea College and the Berea Schools came from donations, a fledgling endowment, and the hard work of students, faculty and staff. By 1920, the Berea College Board of Trustees decided that the future funding of Berea College would be heavily reliant on its endowment and, consequently, required that every bequest that came to the College be held as endowment. So what has become of these core principles of Berea's mission and funding over the past 152 years?

Today, Berea College provides, from private, state and federal scholarship funds and from our endowment, *a full-tuition scholarship for every one of our more than 1500 students each year*. About 75% of every freshman class comes from 440 counties in the Southern Appalachian region and we have 18% African American students, and about 8% international

students mostly from war-torn or Third World countries. We require every one of our students to work in one of more than 120 campus labor departments for at least ten hours a week (and the average is nearly 15 hours a week). Our highly acclaimed academic programs consist of both B.A. degrees in the liberal arts (i.e., humanities, social sciences, and natural sciences) and B.S. degrees in professional studies (i.e., nursing, agricultural, technology, and education). Moreover, about 44% of Berea's current \$1.1 billion endowment is actually quasi-endowment that we call our "Tuition Replacement Fund" thanks to the 1920 bequest policy that is still in effect. But most important, about 79% of Berea's \$41,143,000 2007-08 educational and general operating budget comes from the income from Berea's endowment. Hence, our concerns that any attempt by external agencies to instruct us on how to spend our endowment income would be a real threat to Berea's unique legacy of access and affordability for needy families and their children. I can give two clear examples.

First, during the 1990s when the stock markets were driving up the gains in college and university endowments, Berea made decisions about endowment spending that will have long-lasting impacts on the quality and future viability of our institutional mission. We had over \$140 million in deferred renovations of our campus facilities (academic, residential, and administrative), with no dollars set aside for these needed renovations. So, we set aside a stream of income from our endowment to begin to fund renovations and to retire both principal and interest on bonds from our newly created Capital and Plant Fund. Since 1994, we have renovated 26 major buildings and smaller spaces at a total expenditure of \$121 million. We had to borrow over \$73 million and coincidentally had our Moody's rating enhanced from Aa to Aaa during that same time period. Likewise, we chose not to put all of the remaining endowment income into our operating budget and instead created a Temporary Capital Emergency Reserve Fund ((TCERF) whose income we could spend each year on one-time capital projects and still have a stream of endowment income to move over into the operating budget during difficult periods of the market. Such a time came in 2000-2003 when our endowment lost more than 20% of its value and we were able to continue funding our programs by moving the TCERF money into our operating budget as needed. Imagine what a different scenario would have occurred if we had been told to spend 5% of each year's annual endowment value or even 5% of a three year rolling average during the 1990s (or a similar period in the future)! We could neither have addressed our distressed physical plant nor protected ourselves against the recession of 2000-03.

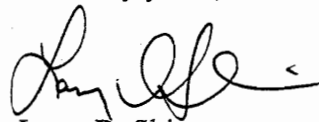
Second, Berea may be unique among higher education institutions in the United States in not having tuition as a funding source and instead depending solely on (1) endowment income, (2) state and federal scholarships that students bring, and (3) annual funds it raises from donors. But Berea is typical of most colleges or universities with large endowments in the increase in the percentage of the annual budget funded by endowment income. For example, in 1980, federal and state scholarship funds (e.g., Pell and KTG) provided 20% of Berea's operating budget income. Today, with the loss of the real-dollar impact of Pell, that percentage is only 10%. In 1980, Berea's annual fund supported 25% of the operating budget while today it provides only 10% of the dollars needed annually for our budget. And in 1980, Berea's endowment income provided 55% of the monies needed for the operating budget and now *we rely on our endowment to fund 79% of our operating budget*. Therefore, we are deeply concerned that an external agency who does not understand the power of our mission to provide a tuition-free collegiate education to needy students and with no understanding of the complexity and fragility of our funding might seek to legislate our endowment spending.

Thus, you will find in the materials that follow the answers from Berea College to the eleven questions asked in your letter of January 25, 2008. What you will not find in those answers is the overall conclusion by those of us at Berea College that our colleges and universities in the United States are so diverse and complex that any attempt by the federal (or state) government to impose particular spending rates on our endowments could have deleterious and even disastrous impact on Berea's uncommon mission that provides access and affordability to young people from families in the bottom one third of college going students in America. With a student population of 1528 this year from families with an average income below \$30,000, and more than 80% eligible for the federal Pell grant, Berea unquestionably serves needy college students. You will also see from our answer to question #9 that our endowment payout over the past ten years has averaged around 4.5% of the annual value of our endowment but has ranged from a low of 3.7% in a very unique "up-year" to 5.44% in a "down-year." We need the flexibility of our endowment spending policy to smooth out Berea's endowment expenditures over more than a one year timeframe and to try to achieve intergenerational equity (i.e., spending for students now such that future students can have about the same quality Berea program and experience).

Therefore, in reading our answers to the questions that you ask, please keep in mind the extraordinary mission of access and affordability Berea College provides to the lowest economic tier of students attending postsecondary education in the United States. Berea's uncommon educational mission has become more and more reliant upon its endowment income while it has strengthened its overall physical plant in times of endowment income plenty and protected its capacity to continue its educational program in times of endowment income shortages. We sincerely hope that you will see Berea's uncommon case as a caution for seeking any kind of federal legislation that would restrict our creativity and flexibility in times of plenty and want.

I stand ready to assist your committee to understand the nuances of how endowment income is used at Berea College and what this suggests about the complexity of endowment use in other colleges and universities in the United States. Obviously, as our mission directs, we at Berea College are eager to find ways to make high quality higher education in America affordable to all students. We also want to be sure that your committee understands the complexity of this topic of which Berea College is only one example.

Sincerely yours,



Larry D. Shinn  
President

Enclosure

# BEREA COLLEGE QUESTIONNAIRE RESPONSE

February 21, 2008

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

Over the last ten years, average fall term degree seeking enrollment at Berea was 1,523 students. We offer undergraduate degrees only. The following chart shows year-by-year student enrollment.

## Degree-Seeking Enrollment – Berea College

1998	1463
1999	1496
2000	1539
2001	1618
2002	1524
2003	1511
2004	1514
2005	1523
2006	1520
2007	1528

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

Through the combination of institutional, federal, state, and third party scholarship and grant assistance, Berea College provides a **full** tuition scholarship to all admitted students. The mean and median annual family income of the students Berea College serves is less than \$30,000. The following chart illustrates the tuition cost (including fees) for each of the last 10 years. Because every student's tuition is fully covered, the "sticker price," mean and median tuition are all zero. Depending on the financial need of the individual (as determined by the FAFSA), however, the amount owed for fees may vary from zero to the full amount.

## Total Tuition Cost @ Berea College

	Tuition Cost	Fees**	Total Tuition and Fees
1998	\$ 14,400	\$ 195	\$ 14,595
1999	\$ 15,700	\$ 199	\$ 15,899
2000	\$ 16,600	\$ 199	\$ 16,799
2001	\$ 17,700	\$ 205	\$ 17,905
2002	\$ 19,900	\$ 507	\$ 20,407
2003	\$ 21,200	\$ 507	\$ 21,707
2004	\$ 21,000	\$ 516	\$ 21,516
2005	\$ 21,600	\$ 516	\$ 22,116
2006	\$ 22,300	\$ 775	\$ 23,075
2007	\$ 23,400	\$ 790	\$ 24,190

\*\*Note - In 2002 a technology fee was initiated, beginning in 2006 a required health insurance charge was included in fees.

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

**Tuition Assistance from Berea College Funds**

	Total College Expenditures
1998	\$ 19,384,682
1999	\$ 21,865,813
2000	\$ 23,586,755
2001	\$ 26,056,229
2002	\$ 27,255,705
2003	\$ 29,206,890
2004	\$ 29,725,128
2005	\$ 30,256,133
2006	\$ 31,273,952
2007	\$ 30,921,248

The foregoing figures represent only Berea College's expenditures for tuition costs and do not include all of the financial assistance provided by the College to students for room and board charges.

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

One hundred percent of Berea students receive College grants for tuition and fees. The average grant assistance per student from Berea is \$20,236 for 2007-08.

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

Berea College requires all admitted students to demonstrate financial need. With few exceptions (for Berea faculty and staff dependants and those who participate in a tuition exchange program) no student is admissible without meeting Berea's financial need criteria. The financial aid criterion which must be met by successful applicants is that their Expected Family Contribution (EFC) must fall within the bottom 1/3<sup>rd</sup> of college bound Free Application for Federal Student Aid (FAFSA) filers nationally. Furthermore, Berea does not package student loans in initial financial aid policies. Consequently, student financial need, as determined by the FAFSA for direct charges (tuition, fees, room and board) are completely covered through scholarship or grant assistance.

Since Berea exclusively recruits needy students, all of our admissions and financial aid publications exhibit the institutional policy on financial aid. Furthermore, our entire admissions budget is directly or indirectly expended on recruiting students with demonstrated financial need. Our annual admissions budget, including salaries and travel-related costs, is over \$1.3 million.

**4) Who determines and decides when tuition increases are necessary? What is the process for making this decision?**

Cost of education (COE), the equivalent of tuition at other schools, is primarily a factor of the College's actual educational and general operating budget expenses and is not a revenue source for Berea College since through the combination of institutional (endowment spendable return), federal, state, and third party scholarship and grant assistance, the College assures all students will pay no out of pocket expenses for cost of education (tuition). The cost of education amount per student is calculated by dividing the total educational and general operating budget expenditures (less development and alumni relation expenditures) by the average FTE enrollment over the most recent three years.

**Does the full Board of Trustees vote on tuition increases?**

The Board of Trustees approves the operating and capital budgets of the College every year. As stated above, cost of education (tuition) is a calculated number based on the budget but is not an out of pocket expense for students.

**Are students, parents and the public provided an opportunity to comment on tuition increases prior to final decisions being made?**

This question is not applicable at Berea College. As demonstrated above, cost of education (tuition) is fully funded and is not an out of pocket cost for our students.

**What role does your university endowment play in providing financial assistance to students?**

Since Berea College does not receive any revenue from students for the cost of education (tuition), the College depends heavily upon its endowment to support its unique mission of service to academically talented and economically needy students from the Appalachian region and beyond. The endowment spendable return funds 79% of the College's educational and general budget. In addition, the endowment provides more than \$2.4 million annually for direct student aid to assist needy students with room and board and other educational expenses.

**5) Please explain how your university's endowment is managed and the role of the Board of Directors?**

The management and investment of Berea College's pooled endowment funds (the "Fund") is directed pursuant to an Investment Policy (the "Policy") established by the

College's Board of Trustees, the execution of which is monitored by the Board's Investment Committee with ultimate oversight and authority being vested in the full Board. By Policy, the College's Investment Program is directly implemented by a Chief Investment Officer, under the control of the Investment Committee and, ultimately, the Board.

Endowment management and supervision involves an ongoing evaluation of manager conduct by the Chief Investment Officer to ensure the reasons a manager was engaged (i.e., key personnel, investment process and performance) remain intact. The Chief Investment Officer delivers regular progress reports to the Investment Committee concerning all aspects of the Investment Program with the Committee reporting to the full Board of Trustees. The Investment Committee meets, in person, at least three times a year, and conducts telephonic meetings as needed. Specific responsibilities are noted below:

### **The Board of Trustees**

The Board of Trustees and its Investment Committee have a legal and fiduciary responsibility to manage the Fund in compliance with the requirements of Kentucky law.

The College makes spending withdrawals from the Fund based on the Policy and an endowment spending formula approved by the full Board. The Board of Trustees has a fiduciary responsibility to comply with the restrictions imposed by the donors of *restricted funds (true endowment funds)* to refrain from expending the principal of such funds and to expend only the income as and if directed by the donor. There are no similar legal requirements limiting the expenditure of the principal and/or income of the Berea College *quasi endowment funds*. The *quasi endowment funds* are, however, subject to the same standards governing investment authority and standard of conduct for investment and management as pertain to true endowment funds.

### **The Investment Committee**

The Investment Committee, within the broad framework of the Policy established by the Board of Trustees, has direct responsibility for the oversight and management of the Fund and for the establishment of investment policies, plans and procedures. The Investment Committee, acting pursuant to authority delegated by the Board of Trustees, has the power to employ or discharge financial agents or advisors, including the Chief Investment Officer referenced above.

Specific responsibilities include:

- ❑ Selecting a Chief Investment Officer to implement the Investment Program under the direction and supervision of the Investment Committee;
- ❑ Developing a written Investment Policy, including objectives of risk and return and guidelines for asset allocation to be submitted to the Board of Trustees for approval;
- ❑ Selecting a master custodian to hold assets of the Fund in safekeeping;
- ❑ Selecting specialist managers to implement various strategies of the Investment Program;

- Monitoring investment performance to ensure the Investment Program is on track and in compliance with the Investment Policy;
- Performing an annual evaluation of the Chief Investment Officer and determining whether a Request for Proposal (“RFP”) is to be issued ;
- Submitting an investment report at each Board of Trustees meeting; and
- Working closely with the Finance Committee of the Board of Trustees to ensure effective communication and coordination with the Investment Committee especially with respect to the investment goals and endowment spending policies of the College.

### **The Vice President for Finance**

The Vice President for Finance is responsible for administrative support of the Investment Committee and for working closely with the Investment Committee and Chief Investment Officer to carry out the Investment Plan.

Specific responsibilities include:

- Carrying out the directions of the Investment Committee and acting as an authorized signatory on behalf of the College when entering into investment agreements and related documents, after appropriate legal review;
- Acting as liaison between Chief Investment Officer, the Office of Financial Affairs, and the Investment Committee;
- Maintaining detailed records for all endowment funds and investments;
- Calculating the unit value of the commingled Fund;
- Supervising receipt and disbursement of monies associated with the Fund;
- Being informed, on a continuing basis, of the activities of the Chief Investment Officer and the Investment Committee;
- Conducting periodic reviews of fees relating to the Chief Investment Officer and investment managers; and
- Executing the rebalancing recommendations of the Chief Investment Officer to rebalance within the investment plan ranges as necessary.

### **The Chief Investment Officer**

The Chief Investment Officer is responsible to the College, for the development, implementation, supervision and reporting of the Investment Program.

Specific responsibilities include:

- Developing a written Investment Plan and assisting the Investment Committee in the periodic review and revision of the Investment Policy;
- Implementing the Investment Plan approved by the Investment Committee;
- Presenting strategic investment alternatives and identifying relative strengths and weaknesses of each alternative;
- Supervising the manager selection process and presenting manager alternatives to the Investment Committee in the form of specific recommendations;
- Performing due diligence and analysis of prospective investment managers recommended by members of the Investment Committee;

- Providing timely due diligence supporting its recommendations and appropriate documentation to the Investment Committee and the Vice President for Finance in order for review before an investment action is requested;
- Negotiating manager fees as well as those of other investment-related vendors involving services such as custody, commission recapture, and securities lending;
- Supervising manager conduct within the context of the Investment Policy and Investment Plan including reallocating assets among managers especially to rebalance the portfolio;
- Supervising investment-related functions of the master custodian including accuracy and timeliness of reporting;
- Responding to requests from the Vice President for Finance including requests to transfer funds from investment portfolios to authorized Berea College bank accounts; and
- Preparing detailed monthly investment reports for the Investment Committee, the President, and the Vice President for Finance and distributing reports in accordance with an annual calendar of report delivery dates based on the Board of Trustees meeting schedule and pre-approved by the Investment Committee.

### **The Master Custodian**

The master custodian, currently a major banking institution with no other relationship or role in relation to the Fund, holds in safekeeping all liquid assets of the Fund in the name of Berea College. Independent managers supervising liquid, publicly-traded investments regardless of location will settle "delivery versus payment" with the master custodian. Illiquid assets, though not held by the master custodian, may be tracked for the purpose of consolidating reports.

Specific responsibilities include:

- Safeguarding all assets under custody;
- Transferring funds from a Berea College account to another pre-designated, pre-approved bank account in the name of Berea College, when properly requested by the Chief Investment Officer and authorized by a Berea College official having appropriate authority;
- Accounting for all stock splits and other corporate actions;
- Producing timely and accurate monthly reports listing all assets held by the Fund and reflecting current pricing for any transactions that have taken place during the reporting period;
- Producing timely and accurate quarterly reports that are in compliance with the requirements of the Association for Investment Management & Research; and
- Responding promptly and accurately to periodic reporting requests from the Chief Investment Officer or the Vice President for Finance;
- Producing monthly performance reports.

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

### **Endowment Spending Policy**

The spendable return for the Fund is calculated based on five percent (5%) of the prior twelve (12) quarter moving average of the market value of the Fund. This income is allocated to the specific pooled endowment funds comprising the Fund based on the respective number of units assigned to each specific funds.

Spendable income for long term investment funds outside of the Fund, which are not included in the investment pool and which are separately invested due to donor restrictions, or being outside the control of the College, or other similar situations, is the actual income earned by those investments for those respective funds and spent in accordance to the restrictions of those funds.

### **Investment Policy Objectives**

Due to Berea College's great reliance on the Fund to directly support the cost of education and other program needs, the Investment Program seeks three objectives:

1. Preserve the inflation-adjusted value (as measured by the CPI-U Index – non seasonally adjusted) of the Fund.

Although achieving a significant real return requires the acceptance of risk and portfolio volatility, the Berea College Investment Program is diverse and designed such that the likelihood of its market value dropping below its three-year trailing average is low.

2. Produce a total return significantly in excess of inflation in order to support the activities of the College through spendable endowment income.

In order to achieve returns in excess of the sum of inflation and the College's spending policy, the Investment Program emphasizes equity securities. To minimize risk while pursuing these returns, the Investment Program incorporates diversification among and within various asset classes and styles of equity management

3. Achieve competitive returns relative to appropriate benchmarks.

Investment indices and sub-indices are selected to represent asset classes and management styles selected by the Investment Committee during the investment planning and asset allocation process. Independent management firms are selected for each specific assignment based on relevant skill, experience and logic. Each manager is expected to out-perform an appropriate benchmark and/or peer universe over the course of a market cycle

### **What is the mission of your university's endowment?**

The Berea College Endowment Investment Program seeks at least three objectives in order to fund its unique mission of serving academically talented and economically needy students:

1. Preserve the inflation-adjusted value, as defined by the CPI-U through investment performance and prudent spending formulas.
2. Produce a *total return* significantly in excess of inflation as defined by CPI-U (a real return greater than or equal to 5% per annum); and
3. Achieve competitive returns relative to appropriate benchmarks.

Unlike many colleges and universities, Berea's endowment is the centerpiece of the funding strategy for its educational mission of learning, labor and service. In a real sense, Berea's endowment is its "tuition replacement fund." Consequently, Berea's investment strategy must promote both real growth and acceptable levels of risk if the College is to maintain its no tuition policy.

**When was the last time that the university's endowment policy was reviewed?  
When will it next be reviewed?**

Berea's current investment policy was reviewed and approved by the Board of Trustees in May, 2006. The investment policy is reviewed every 2-3 years and will be reviewed again in 2008 or 2009.

**6) Please provide the year-by-year net growth of the university's endowment for the last ten years (in both percentage and dollars).**

Fiscal Year Ending	Net Growth	Net Growth Percent
June 30, 1998	\$56,723,600	10.9%
June 30, 1999	\$51,414,400	8.9%
June 30, 2000	\$231,321,800	36.7%
June 30, 2001	(\$73,039,500)	-8.5%
June 30, 2002	(\$71,740,400)	-9.1%
June 30, 2003	(\$20,710,800)	-2.9%
June 30, 2004	\$99,150,600	14.2%
June 30, 2005	\$66,715,900	8.4%
June 30, 2006	\$87,059,200	10.1%
June 30, 2007	\$153,534,300	16.2%

**What is the amount of donations the endowment has received year-by-year for the last ten years?**

<u>Fiscal Year</u> <u>Ending</u>	<u>Donations</u>	<u>Matured</u> <u>Split Interest</u> <u>Agreements</u> <u>and</u> <u>Other</u> <u>Additions</u>	<u>Total</u> <u>Additions</u>
June 30, 1998	\$8,374,245	\$1,357,252	\$9,731,497
June 30, 1999	\$9,962,318	\$2,015,382	\$11,977,700
June 30, 2000	\$18,260,710	\$1,204,196	\$19,464,906
June 30, 2001	\$11,993,293	\$1,754,349	\$13,747,642
June 30, 2002	\$16,329,077	\$5,671,718	\$22,000,795
June 30, 2003	\$15,795,604	\$1,341,679	\$17,137,283
June 30, 2004	\$18,996,063	\$1,387,657	\$20,383,720
June 30, 2005	\$16,745,745	\$2,260,649	\$19,006,394
June 30, 2006	\$15,452,553	\$2,556,730	\$18,009,283
June 30, 2007	\$19,038,879	\$2,002,759	\$21,041,638

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

Asset allocation as of June 30, 2007:

<u>Asset Class</u>	<u>Percentage</u>
U.S. equities	40.4%
International equities	24.4%
Fixed income	12.1%
Private equity – venture capital	1.1%
Private equity – buyout	0.9%
Private equity – debt funds	0.5%
Private equity – fund of funds	4.3%
Hedge funds	10.9%
Real estate	0.4%
Short-term investments and cash	<u>5.0%</u>
Total	100.0%

As of June 30, 2007 approximately 29.3%, or \$323 million, is invested outside of the United States.

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

Berea College's endowment is composed of the market value of true endowments, term endowments and quasi endowments. In 1920, the Berea College Board of Trustees established a standing policy that all unrestricted bequests received by the College must be treated as true endowment. Thus, the College does not spend unrestricted bequests but instead adds the bequests to the endowment investment pool. As of June 30, 2007, approximately 44% of the market value of the endowment is quasi endowment.

**Are there any other long term investments that are not included in the endowment as reported to NACUBO?**

Yes, Berea College has various split interest agreements such as charitable gift annuities, charitable remainder trusts, lead trusts, pooled income funds, retained life agreements and revocable gift agreements that are not a part of the endowment investment pool. The College also has interests in funds held in trust by others.

**If so, what are they and what are their values?**

Market values as of June 30, 2007

Charitable gift annuities	\$16,931,100
Charitable remainder trusts	11,629,100
Lead trusts	548,900
Pooled income funds	1,102,500
Retained life agreements	330,000
Revocable gift agreements	<u>198,100</u>
Total split interest agreements	\$30,739,700
Funds held in trust by others	\$24,940,500

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

Fiscal Year Ending	Management Fees	Management Fees in Basis Points of Beginning Market Value
June 30, 1998	\$2,241,138	43
June 30, 1999	\$1,756,991	30
June 30, 2000	\$1,954,720	31
June 30, 2001	\$1,675,414	19
June 30, 2002	\$1,414,199	18
June 30, 2003	\$1,344,815	19
June 30, 2004	\$1,603,948	23
June 30, 2005	\$1,746,751	22
June 30, 2006	\$1,916,541	22
June 30, 2007	\$2,165,762	23

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

Fiscal Year Ending	Endowment Payout	Endowment Payout as % of Beginning Market Value
June 30, 1998	\$23,869,182	4.57%
June 30, 1999	\$26,460,631	4.57%
June 30, 2000	\$27,258,763	4.33%
June 30, 2001	\$31,945,336	3.71%
June 30, 2002	\$36,449,472	4.62%
June 30, 2003	\$38,971,681	5.44%
June 30, 2004	\$36,920,131	5.31%
June 30, 2005	\$36,047,931	4.53%
June 30, 2006	\$37,808,996	4.39%
June 30, 2007	\$42,370,702	4.47%

**What is the targeted payout (in percentage) from the endowment year-by-year for the last ten years?**

Over the last ten year period, the annual target or policy spendable return for the commingled long-term pooled endowment investments is calculated based on five percent (5%) of the prior twelve (12) quarter moving average of the market value of the pooled endowment funds. The actual payout is the same as the policy or targeted payout when using the (12) quarter moving average of the market value of the endowment investments.

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

If the payout is calculated as a percentage of the endowment value at one point in time (such as the beginning of a fiscal year noted above) the payout percentage will be lower than 5% when the market values are increasing and greater than 5% when market values are decreasing when using a rolling average formula. In some years the payout was actually greater than 5% of the market value of the endowment at the beginning of the year when the market was declining. The rolling average formula helps smooth the payout over time. This smoothing effect is very important to Berea College since the College must have a reasonably consistent flow of endowment spendable return to sustain the operations of the College, even in years when the market value of the Fund declines.

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

- (1) Cost of education scholarships (tuition) for students
- (2) Direct student aid scholarships for students to assist with room and board and other educational expenses
- (3) Laptop computer program for all students
- (4) International study abroad for students
- (5) Debt service for academic buildings
- (6) Building renovations
- (7) Grants for outside community service organizations
- (8) Chairs and professorships
- (9) Convocations and Christian Center expenditures
- (10) Library expenditures

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

As of June 30, 2007, 56.4% of the College's endowment is true endowment and subject to donor restrictions. However, most of the restrictions relate to providing cost of education (tuition) scholarships for students. The other 43.6% of the College's endowment is quasi and is also primarily used to support cost of education for students.

**Of the portion subject to permanent limitations, what percentage is restricted for need-based scholarships?**

The percentage of true endowment that is restricted for need-based scholarships is 75.6%.

**What portion is restricted for undergraduate financial aid?**

All of the need-based scholarships are restricted for undergraduate financial aid.

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

- (1) Cost of education scholarships (tuition) for students
- (2) Direct student aid scholarships for students to assist with room and board and other educational expenses
- (3) Laptop computer program for all students
- (4) International study abroad for students
- (5) Convocation and Christian Center activities

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

As noted above, in 1920, the Berea College Board of Trustees established a policy that all unrestricted bequests received by the Collège must be treated as true endowment. The quasi endowment is used to provide cost of education (tuition) scholarships for students by supporting the educational and general operating budget. Only the full Board has the authority to place limitations on the use or allocation of such funds.

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

<u>Fiscal Year</u> <u>Ending</u>	<u>Total</u> <u>Return</u>
June 30, 1998	14.1%
June 30, 1999	11.8%
June 30, 2000	39.0%
June 30, 2001	-6.6%
June 30, 2002	-7.5%
June 30, 2003	0.3%
June 30, 2004	16.4%
June 30, 2005	10.8%
June 30, 2006	12.6%
June 30, 2007	18.4%

**11) Please explain the fee arrangement to investment advisors.**

Berea College's outsourced Chief Investment Officer is paid a basis point fee based on the market value of the endowment investments.

**How is the fee and compensation measured and determined?**

The fee is a percentage of the market value of the endowment investments. The composite fee expressed in basis points decreases as the market value of the endowment increases. The fee is paid quarterly.

**What is the process to review reasonableness of the fee and compensation and what comparables are used?**

The Investment Committee periodically compares the fee to various benchmarks that are available.

**Who reviews and approves the fee?**

The Investment Committee approves the Chief Investment Officer contractual arrangements and fees.

**Who pays the fee (the endowment, general funds)?**

The endowment pays the fee.

**Please explain what relationship, if any, exists between endowment size and/or growth and the compensation given to the college or university president and the endowment manager.**

There is no relationship between the endowment size and the compensation of the College's president.

The absolute amount of fees paid to the investment advisor (Chief Investment Officer) will increase as the market value of the endowment increases. However, the composite fee expressed in basis points decreases as the market value of the endowment increases.

**Please list what endowment-related bonuses, if any, either the college or university president or the investment manager has received year-by-year for the last ten years.**

No bonuses have ever been paid.