



UNIVERSITY OF NOTRE DAME

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March 13, 2008

The Honorable Max Baucus, Chairman
U.S. Senate Committee on Finance
511 Hart Senate Office Building
Washington, DC 20510

The Honorable Charles Grassley, Ranking Member
U.S. Senate Committee on Finance
135 Hart Senate Office Building
Washington, DC 20510

Dear Chairman Baucus and Ranking Member Grassley:

I appreciate your work on behalf of the U.S. Congress to better educate members and the public about the efforts of our nation's universities to make college education an affordable and realistic endeavor for all families, regardless of their financial resources. In response to your January 25, 2008, letter on behalf of the U.S. Senate Committee on Finance, I submit the University of Notre Dame's responses to your inquiry.

Since its founding in 1842, Notre Dame has been dedicated to its mission as a Catholic research university. In the words of our founder, Rev. Edward Sorin, C.S.C., we seek to be "one of the greatest sources for doing good in the world." An important component of our Catholic mission is to broaden educational opportunities for students across a full range of socioeconomic backgrounds. Our University's "need blind" admissions policy complements an undergraduate financial aid policy intended to meet the demonstrated financial need of every student.

Financial aid has been Notre Dame's top priority for nearly two decades. Because each student's background varies, we take an individualistic approach to our financial partnership with students and their families. We provide the best possible packages of scholarships, grants, loans and campus employment, and we award the most generous packages to those demonstrating the greatest need. Since the 1999-2000 academic year, we are proud to have met the full demonstrated need of every student desiring a Notre Dame education. Our commitment to the future is equally strong. Within our current capital campaign—which is the largest in the history of Catholic higher education—undergraduate scholarship support represents our largest target goal (\$250 million).

The University's endowment plays the most significant role in providing financial assistance to our students. Nearly one-quarter (23 percent) of Notre Dame's total endowment is restricted or designated to support undergraduate scholarships. A collection of more than 4,500 individual fund accounts, the endowment couples the resources from alumni gifts and other donations with prudent investment stewardship toward the management and support of current and, importantly, future needs of the institution and its students.

The University diligently works to maintain the endowment's health in perpetuity while supporting various current activities. These activities include scholarships and other forms of financial aid, institutional research, academic programs, and faculty and staff salaries – all dedicated to maintaining a world-class institution serving the world's greatest needs and cultivating the mind and heart of every student in the Catholic tradition. As one example of our progress, Notre Dame has advanced from the unranked among national universities 18 years ago to a current ranking of No. 18 in the widely cited *U.S. News and World Report* survey "America's Best Colleges."

Responses to the committee's inquiry are attached and links are noted within the document to provide greater detail and clarity on Notre Dame's policies and public disclosures of financial data. We hope that the insights garnered through this important endeavor will broaden the understanding of policymakers and practitioners, enhancing educational opportunities for future generations. I wish you well in your work.

In Notre Dame,



Rev. John I. Jenkins, C.S.C.
President

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Enclosure

University of Notre Dame
Response to U.S. Senate Committee on Finance Inquiry 1/25/08

Submitted: March 14, 2008

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

Chart 1 below provides fall semester enrollment for the past 10 academic years:

Chart 1

Year	Undergraduate	Graduate & Professional	Total Enrollment
1997-98	7,838	2,437	10,275
1998-99	7,875	2,426	10,301
1999-00	8,014	2,640	10,654
2000-01	8,038	2,762	10,800
2001-02	8,208	2,846	11,054
2002-03	8,261	3,050	11,311
2003-04	8,311	3,104	11,415
2004-05	8,332	3,147	11,479
2005-06	8,275	3,142	11,417
2006-07	8,352	3,251	11,603

2) a) 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.

In Chart 2, the column titled “Total Tuition & Fees” provides the amount charged for undergraduate tuition and fees for the past 10 years (i.e. the sticker price). All undergraduates are charged the same amount of tuition and fees. Chart 2 also shows the tuition and fees paid net of University grant aid for those students on aid (“Net Tuition and Fees Aided”).

Chart 2

Year	Tuition	Fees	Total Tuition & Fees	Net Tuition & Fees Aided
1997-98	\$19,800	\$140	\$19,940	\$10,409
1998-99	20,900	150	21,050	10,786
1999-00	22,030	170	22,200	10,933
2000-01	23,180	177	23,357	11,172
2001-02	24,320	177	24,497	10,867
2002-03	25,510	342	25,852	11,200
2003-04	27,170	442	27,612	11,770
2004-05	29,070	442	29,512	12,489
2005-06	31,100	442	31,542	12,858
2006-07	32,900	507	33,407	13,646

Includes all University funded grants awarded to undergraduates.

b) 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.

Undergraduate tuition assistance provided by the University, excluding loans and work study, for the past 10 years is summarized in the Chart 3 below in the column titled “University Grant Aid”:

Chart 3

Year	Tuition & Fees	University Grant Aid	Percent on Aid	Avg. Award on Aid
1997-98	\$19,940	\$30,052,064	40.0%	\$9,531
1998-99	\$21,050	\$35,522,479	43.2%	\$10,264
1999-00	\$22,200	\$40,662,973	44.9%	\$11,267
2000-01	\$23,357	\$47,082,444	47.1%	\$12,185
2001-02	\$24,497	\$57,014,022	50.6%	\$13,630
2002-03	\$25,852	\$63,853,648	52.4%	\$14,652
2003-04	\$27,612	\$71,891,568	54.5%	\$15,842
2004-05	\$29,512	\$79,158,574	56.2%	\$17,023
2005-06	\$31,542	\$84,188,644	54.0%	\$18,684
2006-07	\$33,407	\$89,477,577	54.1%	\$19,761
Growth	67.5%	197.7%		107.3%
CAGR*	5.9%	12.9%		8.4%

***CAGR = Compounded Average Annual Growth**

Includes all University funded grants awarded to undergraduates.

Growing its financial aid program has been Notre Dame’s top priority since the late 1980s, and it met the full financial need for its undergraduates for the first time in fiscal 1999-2000. At that time approximately 67 percent of financial aid was funded by scholarship endowments. During the financial market correction at the beginning of this decade, the University increased its tuition at a slightly higher pace, while simultaneously imposing budget cuts and efficiency programs on campus to maintain and actually enhance its financial aid programs. Throughout this period, gross tuition increased at a Compounded Average Annual Growth Rate (“CAGR”) of 5.9 percent, while University grant aid increased by 12.9 percent and the number of undergraduates receiving University grant aid increased from 40 percent to 54 percent.

In addition to the University grant aid shown in Chart 3 above, undergraduates attending Notre Dame also received outside scholarships from numerous private organizations, state-sponsored scholarships and grants, ROTC scholarships and Pell Grants. In 2007, these awards amounted to approximately \$19 million.

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

Chart 4 provides the percentage of students receiving various levels of grant aid as a percentage of tuition and fees. Also shown is the average grant aid amount for each percentage level of tuition and fees, the percentage of students receiving grant aid in these categories, and the percentage of all undergraduates receiving grant aid by these categories. Note that some students receive awards above the amount of tuition and fees, as financial aid is awarded based on the total cost of attendance which includes room and board, books, personal expenses and transportation.

Chart 4*

University Grant Aid Percentage of Tuition & Fees	Average University Grant Aid	Percent of University Grant Aid Population	Percent of Overall Undergraduate Population
<=25% of Tuition & Fees	\$4,142	17%	9%
25 to 50% of Tuition & Fees	13,375	20%	10%
50 to 75% of Tuition & Fees	22,248	29%	15%
75 to 100% of Tuition & Fees	30,526	28%	14%
>100% of Tuition & Fees	42,422	7%	4%

*Data is for Freshman Class Admitted Fall of 2007 (i.e., Academic Year 2007-08)

Includes all University funded grants awarded to undergraduates.

3) a) Please explain your university’s financial aid policy.

Notre Dame’s undergraduate financial aid policy is based on the goal of making the University’s costs reasonably affordable for all applicants, regardless of family resources. This need-based commitment begins at the point of admission, where students’ ability to pay is not a consideration in the process. Complementing this “need-blind” admissions policy is the University’s firm commitment to meet the demonstrated full “financial need” of every student. Financial need is the difference between the annually measured family ability to pay (also known as Effective Family Contribution or EFC) and the student’s full Cost of Attendance (tuition, fees, room, board, books, personal and transportation). Information on a family’s finances is secured through two national forms: the FAFSA and the CSS/Financial Aid PROFILE, which data is typically and thoroughly reviewed against federal income tax documents or other means of verification.

Financial aid in the form of scholarships, grants, loans and campus employment, is determined on the basis of financial need as defined above, with the most generous packages being awarded to the neediest students from the lowest family incomes, including decisions with little or no loan assistance for such students. A student’s receipt of any additional outside scholarship aid is allowed first to reduce his or her need to borrow and/or work. Millions of dollars of outside scholarships are received annually by the University’s financial aid recipients, effectively reducing their need to borrow.

b) How do you inform students and parents of that policy?

The University informs prospective students through a variety of strategies. The primary resources are the materials of the Office of Undergraduate Admissions (<http://admissions.nd.edu/>) and the Office of Student Financial Services (<http://financialaid.nd.edu/>). Both of these offices support websites that include links to other on-line sources, such as the College Board, the I-529 Program, and NASFAA, all of which also offer timely and comprehensive information for prospective college students.

All applicants for admission as well as all students accepted for admission are sent a letter summarizing the financial aid procedures and an *Affording a Notre Dame Education* brochure which describes the University's policies and programs as well as application for financial aid information, including options for financing.

The following information is available on the University's [Office of Financial Aid](#) website:

[Affording a Notre Dame Education](#) brochure
[Financing Your Notre Dame Education](#) interactive worksheet
[Undergraduate Frequently Asked Questions](#)
[Undergraduate Financial Aid Conditions and Information](#)

c) What outreach efforts does your university take to recruit potential low-income students?

Outreach efforts undertaken to recruit potential low-income students include the following:

- Admissions representatives traveling the country stress that Notre Dame has a “need-blind” admissions policy (i.e. students are evaluated and admitted without considering the family's ability to pay). In addition, the counselors share that Notre Dame annually meets the full demonstrated need of all students.
- The University also sponsors several pre-college programs on campus for high school students. Two special summer programs are held annually for high school students, including those from socioeconomically disadvantaged families, to introduce them to Notre Dame and to encourage them to apply. Participants in these two programs have all of their travel, accommodations, meals, instructional, and social expenses covered by the University.
- Each spring the University provides all-expense paid, three-day campus visit on three separate occasions for incoming admitted students from disadvantaged socioeconomic backgrounds. Participants attend classes, meet with current students, faculty, and staff, reside in the residence halls, and engage in numerous community activities.
- The University has been a participant in the federal government's Upward Bound, Educational Talent Search, and McNair Scholarship programs from the earliest days of these national efforts to better prepare students from disadvantaged backgrounds for acceptance and persistence in college.
- The Balfour Program is offered to incoming freshmen from disadvantaged socioeconomic backgrounds in the summer prior to their enrollment. It is intended to provide additional academic and personal support to better prepare them for the transition to living away from home, for the rigor of the University's academic program, and to enhance their overall chances for successful completion of their Notre Dame experience.

- The University's vast alumni club network of over 250 clubs and 120,000 living alumni are also involved in the admissions process. Alumni from these clubs participate in local college information programs. Special efforts to recruit students from disadvantaged socioeconomic families are made by four additional groups of alumni: the Black Alumni of Notre Dame, the Hispanic Alumni of Notre Dame, the Asian Pacific Alumni of Notre Dame, and the Native American Alumni of Notre Dame. Notre Dame alumni clubs typically award scholarships to students from their communities to enhance their ability to attend. In 2006-07, alumni club scholarships amounted to \$2.2 million to almost 1,100 undergraduates, many of whom come from lower income families. These awards reduced, dollar for dollar, the student recipients' need to borrow. Notre Dame's policy is to first reduce loans with any outside scholarships that students bring to the University.
- The University is a full participant in QuestBridge, a national program which identifies highly qualified, low-income students for admission.
- University administrators act in leadership roles nationally in many organizations that support public policies related to affordability including:
 - Independent 529 Plan (private college savings plan)
 - Financial Aid Standards and Services Advisory Committee (FASSAC) of the College Scholarship Service (CSS)/College Board.
 - Scholarship America: The largest provider of community based private scholarship assistance (over \$130 million annually) in nearly 4,000 communities across the country.
 - Marine Corps Scholarship Foundation: A national organization which currently awards \$3.5 million annually in scholarships to the dependent children of U.S. Marines and Navy corpsmen killed in the War on Terror.
 - NASFAA Journal of Student Financial Aid

d) How is low-income defined?

The University is need-blind in its admissions process. As part of its Catholic mission, the University strives to admit students of all socioeconomic backgrounds.

When determining financial aid for those who are admitted, the most generous decisions are made to those with the neediest circumstances, including those from lower- and middle-income families as evaluated thorough an individual review of each applicant's file. This review begins with an estimate of a family's ability to pay as initially calculated by the Institutional Methodology of the College Scholarship Service (CSS) of the College Board, which is further refined by University aid administrators to determine a fair and reasonable ability to pay. Preferential aid (i.e., more University scholarship and less or no loan) is awarded to students from families in the lowest income brackets.

e) What is the amount spent on these efforts?

Although the University does not specifically track the cost of recruiting and enrolling low-income students, it is estimated that over \$2 million is spent on the following:

- The dedication of four full-time Admissions Office professionals to recruiting students of diverse socioeconomic status.
- Federal outreach programs focused on low-income students: Upward Bound, Talent Search and the McNair Scholars program.

- Funding the Balfour Program, a Notre Dame initiative designed to increase the retention and success of low-income students.
- Sponsoring bus trips to campus for Chicago inner-city students.
- Sponsoring four one-week leadership programs for talented high school students (African American Scholars, Latino Community Leadership Seminar, Global Issues seminar, and Summer Scholars). In addition, the University runs four additional programs for talented students: Architecture Career Discovery Program, Summer Introduction to Engineering Program, QuarkNet (a science research program), and NDVision (a Campus Ministry program).
- Scholarships for needy students to participate in summer pre-college programs.
- QuestBridge program which assists in enrolling high-talent, socioeconomically disadvantaged students.
- Employment of four undergraduates for 12 weeks to assist with the recruitment of socioeconomically diverse students.
- Hosting campus visitation programs for admitted students who generally do not have the financial resources to visit campus.

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

The tuition increase is approved by the Board of Trustees, which approves the entire University budget. The Finance Committee of the Board of Trustees works in concert with the University's CFO and financial staff to evaluate the various revenue and expense components of the budget. A Budget Working Group, comprised of the President, Provost, Executive Vice President/CFO, Vice President for Finance, Senior Associate Provost, and Director of Budgeting and Financial Planning, prepares information based on various working group meetings on campus for review by the Finance Committee. In its fiduciary capacity, the Finance Committee reviews various revenue and expense increases, as proposed by the Budget Working Group, including, but not limited to tuition, room and board, endowment payout, salaries, and other factors. The Finance Committee also reviews the University's proposed enrollment targets, undergraduate financial aid and packaging policies. The Finance Committee reviews all of the budgetary information with the full Board and recommends the budget to the Board for approval.

b) Does the full Board of Trustees vote on tuition increases?

Yes.

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

Current students and their parents are advised of the tuition increase immediately following formal approval by the Board of Trustees via a letter from the University's President. Prospective students are informed of the tuition amount during the admissions process via numerous publications and websites.

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

The endowment plays a very significant role: As of June 30, 2007, approximately 23 percent of the University's total endowment was restricted or designated to support undergraduate scholarships. In addition, increasing endowment for undergraduate scholarships is the largest component of the University's current fundraising campaign, with a stated target of \$250 million.

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

The Notre Dame Endowment Pool ("NDEP")¹ and other financial assets of the University are managed by the Investment Office led by the Vice President and Chief Investment Officer. The Investment Committee of the Board of Trustees, a standing committee of the Notre Dame Board, provides oversight and approves all investment policies for University financial assets. Frequent meetings of the Board Investment Committee with the senior Investment Office staff are held throughout the year to review investment policies and overall investment strategy, asset allocation, investment manager recommendations, and total portfolio and manager performance.

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

The investment objective of the endowment is to maintain or increase the real (after inflation) purchasing power of the endowment in perpetuity, net of distributions for spending (i.e. payout). Investment guidelines focus on risk-return characteristics of various asset classes in light of the endowment's long-term time horizon, and measurement of asset class performance against institutional-quality benchmarks. A key aspect of investment policy therefore is the establishment by the Board of asset allocation targets and allowable ranges which set parameters for the University's internal investment staff that reflect both the diversified nature of the portfolio and the need to emphasize equity-related investments for long-term growth. Strategic asset allocation targets and allowable ranges currently are as follows:

Chart 5

Asset Class	Strategic Target	Allowable Range
Public Equities	40.0%	30-50%
Marketable Alternatives	15.0%	10-25%
Private Equity	20.0%	10-35%
Real Assets	17.5%	5-25%
Fixed Income	7.5%	5-25%

In terms of endowment spending, the University's uses a constant growth approach in which it works to increase spending each year by at least five percent in order to

¹ The assets supporting the University's endowment are invested primarily in the NDEP. The composition of NDEP holdings and other relevant information is disclosed in Note 4 to the University's audited financial statements (available within the 2007 Annual Report at the University of Notre Dame Controller's Group website -<http://controller.nd.edu>).

provide growing support for endowed activities. This methodology is employed with a goal of achieving a long-term spending rate target of between 4 and 5 percent of the trailing 12-quarter moving average of net asset values. Due to the workings of this calculation, during periods of very positive investment markets (the denominator increases) the spending rate tends to decline, while during periods of declining investment markets (the denominator decreases) the spending rate tends to rise.

The University's Board of Trustees makes annual decisions setting the payout rate for the coming fiscal year as part of its approval of the annual budget. In determining the annual payout, the Board considers a number of factors, including recent and anticipated investment performance, University goals and general economic conditions. By their nature, universities have a high proportion of fixed costs, such as faculty and staff expenses (salaries, health insurance, etc.), classroom and laboratory buildings, residence halls and other facilities, utilities and technology needs. Thus, it is important to minimize year-to-year fluctuations in revenue sources that could severely impact the quality of teaching, research and student life. Notre Dame, therefore, strives to provide a stable but steadily growing stream of endowment support each year that at least keeps up with inflation, which also allows for some level of predictability for longer-term budget planning.

b) What is the mission of your university's endowment?

What is commonly referred to as the "endowment" is actually a collection of individual funds (i.e. accounts) created primarily by alumni and other University benefactors that in the aggregate form the "endowment." The mission of the endowment is to provide financial support for these beneficiary accounts in perpetuity. The University is legally required to abide by donor restrictions that limit the purposes for which many endowment accounts may be used – for example, scholarships, endowed faculty positions, library collections or academic programs.

Providing financial support "in perpetuity" means that the endowment will support University activities for both current and future generations. This key concept of endowment management is "intergenerational equity," and requires the University to carry out the mission of the endowment, including spending decisions, in a manner that balances the needs of current students, faculty and staff with those of the future. Too much current spending will erode financial support available to future generations, while too little current spending will allow the endowment to grow at a faster rate but at the expense of current recipients.

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

Endowment policy and investment strategy are reviewed three times annually by the Board of Trustees. A more formal review of strategic asset allocation targets is conducted on an annual basis. The Board of Trustees last reviewed the entire policy in October 2007.

d) When will it next be reviewed?

Investment performance and strategy will next be reviewed with the Board in May 2008. The next formal investment policy review is scheduled for October 2008.

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

The net growth of the University's endowment net assets is summarized in Chart 6 for the 10-year period ending June 30, 2007 (in thousands):

Chart 6

Year	Net Assets at June 30	Increase/ (Decrease)	Percentage
1997-98	\$1,802,643	\$287,437	19.0%
1998-99	2,027,989	225,346	12.5%
1999-00	3,142,973	1,114,984	55.0%
2000-01	2,883,606	-259,367	-8.3%
2001-02	2,605,522	-278,084	-9.6%
2002-03	2,609,005	3,483	0.1%
2003-04	3,123,454	514,449	19.7%
2004-05	3,690,694	567,240	18.2%
2005-06	4,487,838	797,144	21.6%
2006-07	6,066,310	1,578,472	35.2%

Note: Endowment net assets are disclosed in Note 11 to the University's audited financial statements (financial statements for fiscal years 2001-2007 are included in the respective annual reports at the University of Notre Dame Controller's Group website - <http://controller.nd.edu>).

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

Contributions from outside sources for endowment funds are summarized in Chart 7 for each of the last 10 fiscal years ending June 30 (in thousands):

Chart 7

Year	Contributions
1997-98	\$53,646
1998-99	52,136
1999-00	86,559
2000-01	63,793
2001-02	67,260
2002-03	41,459
2003-04	99,507
2004-05	59,690
2005-06	114,503
2006-07	152,953

Note: Endowment contributions for fiscal 2006 and 2007 are disclosed in Note 11 to the University's audited financial statements (available within the 2007 Annual Report at the University of Notre Dame Controller's Group website - <http://controller.nd.edu>).

c) 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.

The assets supporting the University's endowment funds are invested primarily (more than 95 percent at June 30, 2007) in the NDEP. Chart 8 provides the asset allocation of the NDEP as of June 30, 2007:

Chart 8

Asset Class	Percentage of Total
Public Equities	43.4%
Marketable Alternatives	15.2%
Private Equity	19.0%
Real Assets	17.2%
Fixed Income	5.0%
Cash	0.2%

Public equities are comprised of U.S. and non-U.S. public equity securities, and hedge funds employing long/short equity strategies. Marketable alternatives represent hedge funds other than long/short equities.

As of June 30, 2007, approximately \$2.6 billion in NDEP assets were invested outside the United States.

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

The University defines its endowment in accordance with the guidance found in the AICPA Audit and Accounting Guide for Not-for-Profit Organizations with conforming changes as of May 1, 2007 ("Accounting Guide"). The Accounting Guide defines an endowment as:

"An established fund of cash, securities, or other assets to provide income for the maintenance of a not-for-profit organization. The use of the assets of the fund may be permanently restricted, temporarily restricted, or unrestricted. Endowment funds generally are established by donor-restricted gifts and bequests to provide a permanent endowment, which is to provide a permanent source of income, or a term endowment, which is to provide income for a specified period. The portion of a permanent endowment that must be maintained permanently – not used up, expended, or otherwise exhausted – is classified as permanently restricted net assets. The portion of a term endowment that must be maintained for a specified term is classified as temporarily restricted net assets. An organization's governing board may earmark a portion of its unrestricted net assets as a board-designated endowment (sometimes referred to as funds functioning as endowment or quasi-endowment funds) to be invested to provide income for a long but unspecified period. A board-designated endowment, which results from an internal designation, is not donor-restricted and is classified as unrestricted net assets."

An important characteristic of Notre Dame’s endowment is that it does not represent a singular fund that exists for the general support of the University. The University’s endowment actually consists of more than 4,500 individual funds established for a variety of purposes. Where a fund is established by a donor for the expressed purpose of supporting a particular program or initiative, the earnings generated by that endowment are generally restricted to expenditure in accordance with the donor’s intentions. Net assets associated with endowment funds, including funds functioning as endowment, are classified and reported in accordance with any such donor-imposed restrictions.

The University’s endowment net assets also include contributions receivable for endowment (i.e. unconditional promises to give that are restricted to endowment funds upon realization). NACUBO, however, excludes contributions receivable from the endowment values reflected in its annual endowment survey. At June 30, 2007 the University reported contributions receivable for endowment of \$89.2 million, which represents the difference between total endowment net assets reflected in the University’s audited financial statements and the value reflected in the NACUBO endowment survey.

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

Although endowment-related holdings comprise the bulk of the University’s long-term investments, the University does hold other investments that it does not characterize as endowment-related. Investments held for purposes other than endowment are summarized (at fair value in thousands) in Chart 9.

Chart 9

Working capital and other assets	\$ 610,881
Student loan funds	5,025
Split-interest agreements	59,164
Investments held on behalf of:	
Defined benefit pension plan	92,573
Revocable charitable trusts	3,964
Religious affiliate	48,869
	<u>\$ 820,476</u>

Note: Information concerning investment holdings is disclosed in Note 4 to the University’s audited financial statements (financial statements for fiscal years 2001-2007 are included in the respective annual reports at the University of Notre Dame Controller’s Group website – <http://controller.nd.edu>).

Invested assets characterized as working capital generate earnings that are used to support the operating needs of the University. However, these assets are not designated as endowment to reflect that these are general assets of the University that support the liquidity requirements of other University funds of an operating, restricted or capital nature. Split-interest agreements consist primarily of charitable remainder trusts for which the University serves as trustee. In addition, the University serves as the trustee for its employees' defined benefit pension plan, managing the investment assets held within the plan. The University also manages investment assets on behalf of an affiliated religious organization integral to the University's Catholic ministry and educational missions. Note that in its capacity of managing investments on behalf of both the pension plan and religious affiliate, the University does not recognize any *net assets* (i.e. equity) in these holdings, reflecting a liability equal to the fair value of these investments in its statement of financial position.

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

The costs associated with the management of the investment assets of the NDEP are outlined in Chart 10 for the fiscal years ending June 30 (in thousands):

Chart 10

Year	Total Costs
1997-98	\$10,344
1998-99	13,431
1999-00	23,833
2000-01	15,733
2001-02	14,318
2002-03	13,100
2003-04	14,563
2004-05	14,566
2005-06	17,251
2006-07	20,446

Note: Costs for fiscal years 2002-2007 are disclosed in Note 4 to the University's audited financial statements for the respective fiscal year (financial statements for fiscal years 2001-2007 are included in the respective annual reports at the University of Notre Dame Controller's Group website - <http://controller.nd.edu>).

These costs consist of external management fees paid directly by the University and operating expenses related to the University's internal investment office.

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

Chart 11 provides the endowment payout in dollars as well as the “spending rate” percentage computed as the trailing 12-quarter moving average of net asset values, a common formulation in higher education.

Chart 11

Fiscal Year	Total NDEP Payout \$ in MM's	Spending Rate as a % of 12 Qrt. Avg.
1997-98	55.1	3.7%
1998-99	69.9	3.7%
1999-00	84.1	3.6%
2000-01	111.3	3.9%
2001-02	136.8	4.3%
2002-03	138.5	4.6%
2003-04	129.2	4.7%
2004-05	133.7	4.4%
2005-06	143.3	4.0%
2006-07	159.9	3.7%

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

As previously stated, the University’s spending, or payout, policy establishes a long-term spending rate target of between 4 and 5 percent of the trailing 12-quarter moving average of net asset values. The University does not target a fixed percentage payout, rather it strives to increase the annual dollars paid out at or above the rate of inflation. Targeting a specific percentage would potentially lead to cuts in the dollars paid out when financial markets decline, given that the payout rate would be tied to market returns. During periods of very positive investment markets (the denominator increases) and the spending rate tends to decline (even when the dollars paid out are increasing), while during periods of declining investment markets (the denominator decreases) the spending rate tends to rise.

The goal in using a constant payout growth strategy with guidelines of a range of 4 to 5 percent is to provide a perpetually increasing source of operating support for endowed activities.

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

Chart 12 provides historical information on Notre Dame’s endowment returns, payout and spending rate. The “spending rate” percentage is computed as the trailing 12-quarter moving average of net asset values. This table demonstrates the inverse relationship between the spending rate and investment returns. Note that the spending rate declined when investment returns increased and conversely decreased when returns declined. Given the strong returns of the latter part of the 1990s and fiscal 2000, the spending rate was below 4 percent during the period through fiscal 2001 even as dollar spending was increasing by considerable double-digit percentages (see the far right column). Conversely, the spending rate increased after the market correction that began in fiscal 2001 while dollar spending moderated significantly during this period. Due to the dynamics of the spending rate calculation, the spending rate peaked at 4.7 percent in the very year that the dollar payout actually declined. Over the last few years, due to strong investment returns, the spending rate has trended downward although dollar spending increases have again accelerated.

Chart 12

Fiscal Year	Annual Return	Spending Rate as % of 12 Qrt. Avg.	Total NDEP Payout \$ in MM's	Increase in Dollars Paid Out
1997-98	19.2%	3.7%	55.1	33.7%
1998-99	14.3%	3.7%	69.9	26.9%
1999-00	57.9%	3.6%	84.1	20.3%
2000-01	-7.6%	3.9%	111.3	32.3%
2001-02	-8.9%	4.3%	136.8	22.9%
2002-03	2.4%	4.6%	138.5	1.2%
2003-04	20.0%	4.7%	129.2	-6.7%
2004-05	19.1%	4.4%	133.7	3.5%
2005-06	19.4%	4.0%	143.3	7.2%
2006-07	25.9%	3.7%	159.9	11.6%
2007-08	<i>Unknown</i>	<i>Unknown</i>	<i>Estimated \$175.9</i>	<i>10.0%</i>
2008-09	<i>Unknown</i>	<i>Unknown</i>	<i>Estimated \$219.9</i>	<i>25.0%</i>

Note also in Chart 12 the lagged nature of the spending rate calculation. Investment returns cannot be predicted in advance, but university budgets are established more than a year before the spending rate calculation can be made, thus it is virtually impossible to plan ahead to meet a spending rate target.

Due to these deficiencies in the spending rate calculation as a planning tool, the University uses the spending rate not as a yearly requirement but as long-term target that serves as a check on financial flexibility, believing that the scope of annual increases in dollar spending is a more pertinent measure of spending policy.

Notre Dame is similar to other higher education institutions in that it has a high proportion of fixed costs, such as faculty and staff expenses (salaries, health insurance, etc.), classroom and laboratory buildings, residence halls and other facilities, utilities and technology needs. Due to the high proportion of fixed costs, it is important to minimize year-to-year fluctuations in revenue sources. After several years of negative returns after the burst of the tech bubble in 2001, the University's spending rate began to climb. In the three-year period from 2003 through 2005 the University moderated its spending given the uncertainty in the markets. Budget cuts were enacted on campus to fund key priorities, including financial aid, which continued to grow during this period to ensure that Notre Dame remained affordable to students from families in all income categories.

In fiscal 2007 through 2009, the University has budgeted double-digit increases in the payout to increase its investment in financial aid and key academic and student life priorities. At the same time the University remains cognizant of the tech bubble burst in 2001 and the period from 1968 to 1982 in which real returns over this 15-year period were negative by more than 12 percent (as measured by the return on the S&P 500 adjusted by CPI).

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

The endowment is comprised of more than 4,500 individual funds, each of which is restricted by a donor or designated by the University to support a given program or purpose. A significant portion of these funds supports the University's general operating needs, either directly or indirectly, in the form of undergraduate scholarships or graduate fellowships (which essentially replace tuition revenues that would otherwise be collected from students). Because revenues supporting general operating needs are fungible, distinguishing individual expenditures funded by endowment payout from those funded by other sources, such as tuition revenue, is not practicable.

More than 70 percent of the payout from endowment funds in fiscal 2007 was distributed to support undergraduate and graduate financial aid, faculty compensation, and the university's general operating needs. Following is a summary of the major types of programs to which endowment payout was distributed in the year ended June 30, 2007 (in thousands):

Chart 13

Expenditure Category	\$ in 000's
Undergraduate scholarships	\$ 40,202
Endowed faculty chairs	28,492
Academic programs	16,418
Graduate fellowships	9,473
Athletics	6,206
Libraries	4,823
Religious programs	1,323
Student activities	1,296
Other endowed programs	8,522
General operations	19,201
	<u>\$ 135,956</u>

Note: Endowment distributions for fiscal 2006 and 2007 by programs supported are disclosed in Note 11 to the University's audited financial statements (available within the 2007 Annual Report at the University of Notre Dame Controller's Group website - <http://controller.nd.edu>).

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

As of June 30, 2007, approximately half of the university's endowment net assets were either permanently restricted (16.7 percent) or temporarily restricted (33.3 percent). The remaining half represents endowment funds established by the university. These funds represent unrestricted net assets that the university has dedicated to the long-term support of its general annual operating needs and other designated programs or functions, such as undergraduate scholarships. Endowment funds established by donors are generally subject to both permanent and temporary restrictions. In most cases, a donor's original contribution to establish an endowment, along with any subsequent donations to add to the endowment, are to be invested in perpetuity. As such, this portion of the endowment would carry a permanent restriction (i.e. barring a change in the donor's intent, it is unexpendable.) Earnings and appreciation on permanently restricted endowments are generally expendable, but their use is restricted to the program or purpose intended by the donor. Thus, earnings and appreciation on permanently restricted endowments are *temporarily* restricted until expended in accordance with the donor's wishes.

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

As of June 30, 2007, \$779,397,000 in endowment net assets was restricted by donors for the support of undergraduate scholarships. An additional \$640,396,000 in unrestricted endowment net assets was designated by the University for the support of undergraduate scholarships, as well. In total, the \$1,419,793,000 sum of restricted and unrestricted endowment net assets supporting undergraduate scholarships represents approximately 23 percent of total endowment net assets. All but a very small portion (less than 1 percent) of undergraduate scholarships are awarded based on demonstrated financial need.

c) Please provide the top five types of restrictions on the endowment by category. The following table illustrates the university's endowment net assets at June 30, 2007, by the top five categories of programs supported (in thousands):

Chart 14

\$ in 000's	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total
Funds established to support:				
Undergraduate scholarships	\$640,396	\$466,272	\$313,125	\$1,419,793
Endowed faculty chairs	264,408	589,790	178,258	1,032,456
Academic programs	107,378	363,821	159,491	630,690
Graduate fellowships	154,455	113,738	79,697	347,890
General operations	1,047,142	61	1,930	1,049,133
Other	818,535	475,478	203,118	1,497,131
	<u>3,032,314</u>	<u>2,009,160</u>	<u>935,619</u>	<u>5,977,093</u>
Contributions receivable	0	10,409	78,808	89,217
	<u>\$3,032,314</u>	<u>\$2,019,569</u>	<u>\$1,014,427</u>	<u>\$6,066,310</u>

Note: Endowment net assets at June 30, 2007 by type of programs supported are disclosed in Note 11 to the University's audited financial statements (available within the 2007 Annual Report at the University of Notre Dame Controller's Group website - <http://controller.nd.edu>).

d) 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 illustrated in the table above, approximately half of the University's endowment net assets are unrestricted—that is, they carry no restrictions on use imposed by a donor. While not “idle” funds, these net assets represent funds established by the university to provide stable, long-term funding for a wide range of programs and functions, in addition to a significant portion that provides annual support for the University's general operational needs. In some cases, such funds are established with budget surpluses or unrestricted revenues from other sources. For example, a significant portion of net revenues from the football team's bowl game appearances in recent years has been utilized to augment endowments for undergraduate scholarships and graduate fellowships.

Unrestricted endowments also are created when restrictions on endowment funds established by donors are lifted by the expenditure of unrestricted net assets on purposes that match donor intent. Under current accounting guidelines, the university is required to recognize the expiration of these restrictions by reclassifying the corresponding net assets to the unrestricted net asset class. In doing so, however, the University has made it a policy to replace donor-restricted endowment funds with unrestricted endowment funds designated for programs consistent with the original donor intent on a dollar-for-dollar basis in order to preserve the future spending power of the respective programs.

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

As stated previously, the assets supporting the University's endowment funds are invested primarily in the NDEP. The NDEP's year-by-year returns net of all investment advisory fees for the last 10 fiscal years ending June 30 are as follows:

Chart 15

Year	Return
1997-98	19.2%
1998-99	14.3%
1999-00	57.9%
2000-01	-7.6%
2001-02	-8.9%
2002-03	2.4%
2003-04	20.0%
2004-05	19.1%
2005-06	19.4%
2006-07	25.9%

11) Please explain the fee arrangement to investment advisors.

a) How is the fee and compensation measured and determined?

Investment advisor fees are of two types.

“Management fees” are calculated as a percentage of assets under management. Management fees typically range from less than one-tenth of one percent for passive indexing strategies to two percent for complex private investments.

“Incentive fees” are calculated as a percentage of investment gains, typically 20 percent. The fee calculation is often subject to various adjustments intended to provide a preferred return to investors and that have the effect of lowering the percentage of gains received by the investment manager below the stated percentage. For example, the investment manager may receive a 20 percent incentive fee but only after the investor earns a specified return (such as 8 percent, or a return at least equal to a market benchmark). The formulations of the incentive fee calculation vary considerably from one situation to another.

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

The University's internal investment staff performs extensive due diligence reviews prior to each investment. Fees charged by external investment managers are one element of these reviews. The reasonableness of fees is assessed by internal staff considering the details of each particular investment and comparisons to fees charged by other managers employing similar strategies.

c) Who reviews and approves the fee?

After the review described above is performed, fees charged by each investment manager are approved by the Vice President and Chief Investment Officer and the University's Board of Trustees.

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

All fees are paid from the NDEP.

e) 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.

The President's compensation is not tied to the size or growth of the endowment. The University's Vice President and Chief Investment Officer earns an annual incentive bonus that is determined primarily by long-term investment performance compared to a benchmark. The bonus plan was adopted by the University's Board of Trustees upon recommendation of a third-party human resources consulting firm retained by the Board for this purpose, and is intended to foster attraction and retention of qualified personnel with a market-based compensation program consistent with other large endowment and foundation investors. The terms of the plan are reviewed by the consultant with the Board every other year for purposes of comparison to then-current terms typically included in similar plans.

f) 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.

The University President does not receive endowment-related bonuses. The Vice President and Chief Investment Officer receives a compensation package based on investment performance that is overseen by the Board of Trustees. The University maintains confidentiality with regard to personal salary information; however, the University discloses the compensation of its five highest paid employees along with that of each officer in its annual Form 990 filed with the Internal Revenue Service.