AMHERST COLLEGE
REPORT OF THE TREASURER

October 18, 2011 Faculty Meeting

With the year-end audit now complete, I write to update and expand on my email from September concerning the financial condition of the College.

Operating Budget

As I reported, the College fiscal year ended with a small operating budget surplus of approximately $10,000 on total operating expenses of $134.4 million. Additional net revenue from a larger than budgeted student body, lower than budgeted interest rates on our debt, savings from open positions, and prudent spending throughout the College allowed for this result while the amount drawn from the endowment was held to $6.8 million less than budgeted.

Even with this $6.8 million reduced distribution, endowment support accounted for 44% of operating revenue. It is the largest component of operating revenue, followed by net student fee at 39% of revenue. Annual Fund gifts, other gifts and grants, and miscellaneous revenue make up the remaining 17% of revenue. Clearly, the College is significantly reliant on the endowment for the resources needed to provide the quality education of our students.

We are now in the third and final budget year of the period covered by the Advisory Budget Committee (ABC) report. The operating budget for year 2011/12 is $141.2 million, a modest 2.4% increase over last year's budget, mostly attributable to the salary increases awarded for this year. Financial aid is estimated at $40.1 million, an increase of 3.8% from last year's actual amount awarded.

The Endowment

The endowment ended the year at $1.642 billion, up $256 million from last year's balance of $1.386 billion, but still $63.0 million below the all time high balance of $1.705 billion in fiscal year 2007/08. The endowment investment return was a positive 19.2%, significantly better than the return used in the projections for the year (5.0%). The $256 million increase reflects $41.0 million in new gifts and life income transfers into the endowment, as well as market appreciation, offset by the amount used in operations. It will be some time before we have complete comparative data, but on a preliminary basis, the investment return is at the median of those reported by our peers. The investment performance of the College's endowment remains strong over the long term. The five year annual average return was 7%, the ten year return was 9% and the twenty year return was 12%. For each of those years, Amherst outperformed the market benchmark and the mean of other College and University endowments.

The spend rate for the fiscal year 2010/11 was 4.4%, based on the three year average endowment value. While that rate is an improvement over what had been projected, the real effect of the market downturn will not be fully felt in the three year spend rate until fiscal year 2011/12 when the $1.705 billion is removed from the calculation. The one year spend rate for the year was 4.8%.

The future

The results achieved in fiscal year 2010/11, both in operations and in the endowment return, will significantly improve our long term projections and move us closer to our goal of restoring financial equilibrium. Preliminary projections, without further adjustments in the assumptions, indicate that the College's spend rate would not exceed the target cap until fiscal 2015/16. However, we are near or at the top of the acceptable range of 5.0% for the next four years in these projections. The College entered fiscal 2008/09, the year of the downturn, with a three year spend rate of 4.3%. This provided a cushion that allowed us to proceed cautiously in our budget reductions. If the economy continues to be volatile and another sharp reduction in market value occurs, the College currently does not have a similar cushion to work with in making adjustments to the budget. As a result, it is important that the College continue to bring the spend rate down, closer to the mid-point of the acceptable range of 3.5% to 5.0%. The College must maintain the budget reductions achieved over the last three years and continue the work of looking beyond the period covered by the ABC. The turbulent markets since June 30, 2011 remind us that caution must continue to be the guiding principal as we plan for budget year 2012/13 and beyond.