

## APPENDIX C: ADDITIONAL DATA ANALYSIS

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## I. INTRODUCTION

This appendix to the Final Report supplements the presentation of questionnaire data provided in the Interim Report. The results contained in the Interim Report were limited to small, medium and large colleges and universities and did not include data provided for certain questions. This appendix — Additional Data Analysis — presents further analysis of the questionnaire data and, where appropriate, weights the responses. With the weighting of the responses, we can extrapolate our findings beyond those initially surveyed to all tax-exempt colleges and universities whether private or public. Where possible, the Additional Data Analysis also incorporates information from the narrative responses to questions<sup>1</sup> that were not included in the Interim Report. It also includes data gathered from further analysis of questions that were covered in the Interim Report.<sup>2</sup> The questions in the Additional Data Analysis are presented in the same order as the questions in the Interim Report.

### A. Sample Method

The sample from which these results are drawn is substantially the same as the sampling method explanation discussed on pages 2-5 of the Interim Report, but it also notes adjustments required based on information gathered during more extensive data analysis.

To ensure that the results were representative of all tax-exempt colleges and universities, the IRS identified the population of organizations that granted bachelor's, master's and more advanced degrees<sup>3</sup> and were exempt from federal income tax under section 501(c)(3)<sup>4</sup> or whose income was excluded from federal income tax under section 115. These 2,402 colleges and universities were then divided into three categories, or strata, based on size – small, medium and large.<sup>5</sup> The IRS did not take into account whether institutions were public or private in dividing them into strata, but it did identify them as public or private based on publicly available information.<sup>6</sup>

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<sup>1</sup> This includes Questions 21, 24, 25, 29, 57, 76 and 79.

<sup>2</sup> This includes Questions 17, 23, 27, 56, 60, and 80.

<sup>3</sup> Entities that granted associates degrees (such as community or junior colleges), technical schools and certificate programs were excluded from the study.

<sup>4</sup> Unless otherwise indicated, all “Code” and “section” references are to the Internal Revenue Code of 1986, as amended (“IRC”).

<sup>5</sup> Based on guidance from the National Center for Education Statistics, the IRS adopted the following stratifications for institution size: small colleges and universities are those with fewer than 5,000 students; medium-sized colleges and universities are those with 5,000 to 14,999 students; and large colleges and universities are those with 15,000 students or more.

<sup>6</sup> Some of the questions in the Questionnaire were not applicable to public universities. For example, questions 75 through 94 only applied to private universities because they were based on the requirements of IRC section 4958 to establish a rebuttable presumption of reasonableness of the compensation of certain disqualified persons.

**Figure 1. Numbers of Private and Public Colleges and Universities Identified in the Population, by Size**

	Small	Medium	Large	Total
Private Colleges	1608	121	23	1752
Public Colleges	258	230	162	650
Total	1866	351	185	2402

The IRS then selected a random sample of institutions within each size category to receive the compliance Questionnaire.<sup>7</sup> This was done without regard to whether the institution was public or private. In October, 2008, the IRS sent Questionnaires to 200 of the 1,866 small organizations, 100 of the 351 medium organizations and 100 of the 185 large organizations.

***B. Respondents***

This appendix includes analysis of data submitted by 342 of the 400 colleges and universities that received the Questionnaire.<sup>8</sup> Fifty-eight of the organizations that received a Questionnaire are not included in the analysis for the following reasons:

Non-responders: Thirteen recipients did not respond to the questionnaire and were referred to EO Examination, leaving 387 respondents.

Not eligible to respond: Of the 387 respondents, 28 indicated that they were a type of organization that was not intended to be included in the original sample (e.g., they offered only a two-year degree or were not tax-exempt). These organizations were referred to the EO Review of Operations unit for verification of their responses.<sup>9</sup>

Reported as a system: Sixteen recipients reported on a system-wide basis rather than as individual campuses. The Interim Report reported that 11 respondents chose to report as systems. However, further investigation indicated that five additional respondents reported on a system-wide basis. This is now reflected in the Additional Data Analysis. Recipients were permitted to respond to the Questionnaire on a system-wide basis if (1) system-wide reporting was consistent with reporting on Forms 990 and

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<sup>7</sup> Eight colleges and universities were replaced by randomly selected institutions within the appropriate strata because those schools were either currently or had recently been under examination.

<sup>8</sup> The Interim Report included analysis of 344 cases. Two respondents that reported as systems were misidentified as large colleges and universities in the Interim Report. In the Additional Data Analysis, they are correctly included as systems and have been removed. The discrepancy in sample size is explained below.

<sup>9</sup> The Interim Report identified 31 schools as ineligible to complete the Questionnaire. Upon further examination, three of those schools misidentified themselves and were placed back into the sample.

990-T and (2) the same method was used for all parts of the Questionnaire.<sup>10</sup> Responses on behalf of systems are included in Appendix D of the Final Report. Unlike the presentation of data elsewhere, the discussion of the systems' responses includes few numbers because the small, non-representative sample of the systems precludes conclusive statistical analysis. Therefore, results must be reported as qualitative observations instead of conclusions about systems as a whole.

Assigned to wrong size category: One respondent was removed from the study to preserve the sample because it was improperly identified as a large. If it had been left in the large category, it would have affected the responses on many questions. Moving it to the small category would have undermined the integrity of the sampling method. Since this error occurred in the selection process, the respondent was removed from the study. In all other cases when organizations reported student populations that would have placed them in a different size category than that which they were assigned when the sample was selected, they remained in the study in the size category to which they were originally assigned.

Figure 2 shows the number of respondents included in the analysis in each size category according to their status as a public or private institution. It indicates that small colleges and universities are much more likely to be private, while large colleges and universities are much more likely to be public.

**Figure 2. Number of Respondents**

	Small	Medium	Large	Total
Private Institutions	139	30	8	177
Public Institutions	20	64	81	165
Total	159 (of 200 surveyed)	94 (of 100 surveyed)	89 (of 100 surveyed)	342 (of 400)

### ***C. Analysis of the Data***

The Additional Data Analysis presents information provided by respondents in two ways: (1) broken down into the size categories by which the *sample* of surveyed colleges and universities was divided -- small, medium, and large; and (2) as representative of the entire *population* of colleges and universities and of private and public colleges and universities.

When data is presented for small, medium and large institutions, it is applicable only to the single stratum from which it was drawn – not the total population. This is how data

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<sup>10</sup> This issue and several others related to completion of the Questionnaire were addressed in Questions and Answers, October, 2008, which is included after the Questionnaire in Appendix A.

is presented in the Interim Report and how some of the data is presented in the Additional Data Analysis. When data in this Additional Data Analysis is reported in terms of small, medium, and large colleges and universities, the chart will include the number of responses to that particular question, i.e., “sample n.” Not every college or university answered every question, and some questions did not apply to every college or university.

When a question asks about a characteristic of a college or university (e.g., endowment sizes), the responses are weighted so that they are applicable to the *entire population* of 2,402 colleges and universities. Each respondent’s answers are assigned a particular weight based on the size of the college or university. All schools of a particular size have the same weight, because each one represents a certain number of that sized school in the overall population. Once each answer is weighted, data can be analyzed to project from the sample to the entire population. While a well-designed stratified random sample allows for projections to the population, those projections are still estimates. Proper statistical techniques result in accurate estimates, but those estimates always have a margin of error and confidence interval associated with them. In most cases, the population estimates are rounded to reflect the relative uncertainty related to projecting the data from the sample

A 95% confidence level was used for analysis of questions where data is reported for private, public and total colleges and universities. Unless indicated in a footnote, the margin of error for all analyses is + or – 7% or less. The margin of error is the error caused by observing a sample instead of the entire population when calculating estimates. For example, if we estimate that 60% of the population has a certain amount of revenue and there is a 7% margin of error, then there is a 95% chance (i.e., 95% confidence) that the actual percentage of colleges and universities in the population with that amount of revenue is somewhere between 53% and 67%. When the margin of error exceeds 7%, we will indicate the applicable margin of error in a footnote. The margin of error is influenced by sample size, with a smaller sample size increasing the likelihood of a larger margin of error.

When a question asks about the characteristics of a *part* of a college or university (e.g, compensation amounts and components for a non-random part), it is not possible to project responses to the entire population. The stratified random sample was designed for colleges and universities, not for their employees. Each school itself has a different distribution of executives, and it is not accurate to treat a non-random group of individuals as representative of all individuals at a school. Consequently, the questions relating to compensation are not weighted.

#### ***D. Treatment of specific responses***

Non-responses: In the Questionnaire, some questions asked only for a “yes” and did not give respondents the option to say “no.” To analyze the results, it was necessary to decide how to treat those questions when they were left blank by the respondents. A non-response could be indicative of a “no” answer or the respondent could have chosen to not answer the question. For purposes of reporting in the Additional Data

Analysis, these blank responses were all treated as a non-response.<sup>11</sup> Non-responses are included in the “n” and are used to calculate the percentage of positive responses to these types of questions.

Targeted questions: The Questionnaire instructed certain colleges and universities to skip certain questions. For example, if a question was written only for private universities, public universities were instructed not to answer. When calculating the “n” for these sorts of questions, if a college or university was instructed to skip a question but answered anyway, the information provided was excluded from analysis unless otherwise noted.<sup>12</sup> Furthermore, when questions were limited only to public or only to private colleges and universities, this report only includes the responses of the group to whom the question was targeted.

Narrative responses: Responses to questions provided in a narrative form were not analyzed in the Interim Report. In some cases, respondents provided narrative responses because the Questionnaire requested it. For example, a question might include a blank with instructions to “please describe.” In other cases, respondents asked if they could attach supplementary materials to address a particular question. When a narrative response was submitted, it was reviewed and, if possible, used to ensure the accuracy of reported data. When it was feasible to analyze narrative responses in a comprehensive manner, the results are presented.

Section 6103 of the Internal Revenue Code prohibits disclosure of a taxpayer’s return information, which includes a taxpayer’s identity. Specific responses as well as the number of responses to a question are not disclosed in order to prevent identification of respondent colleges and universities. In many cases, the data is presented in a way to prevent identification of respondents, while providing a sense of the responses. For example, in several figures, data is shown as greater than (>) or less than (<) a permissible disclosable amount or as rounded amounts. In other cases, an asterisk (\*) is used to indicate that responses cannot be disclosed.

## **II. ORGANIZATION INFORMATION**

This section provides demographic information on public and private tax-exempt colleges and universities. This information includes data on faculty, student and staff size; published and discounted tuition rates; financial data, including assets (gross and net), gross revenue, and total expenses; and activities taking place off campus, including those outside the United States.

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<sup>11</sup> This method of treating negative responses is different from the method used in the Interim Report, where blanks were themselves treated as negative responses.

<sup>12</sup> In contrast, the Interim Report generally included all responses to all questions, even if the respondent should not have answered the question.

**A. Faculty, Students, and Staff (Questions 2 – 7)**

Figure 3 shows the average and median number of students and faculty at tax-exempt colleges and universities. Public institutions enroll more students and employ more faculty members than private institutions in both part-time and full-time categories.

**Figure 3. Questions 2, 3 and 4 – Number of Students and Faculty, Fall 2006**  
(rounded to nearest hundred unless otherwise indicated)

	Public	Private	Total
2. Full-Time Equivalent Students	Average = 9,600 Median = 6,800	Average = 1,800 Median = 1,100	Average = 3,800 Median = 1,600
3a. Full-Time Students	Average = 8,400 Median = 5,600	Average = 1,500 Median = 900	Average = 3,400 Median = 1,400
3b. Part-Time Students	Average = 2,900 Median = 1,800	Average = 600 Median = 200	Average = 400 Median = 1,300
4a. Full-Time Faculty Members	Average = 600 Median = 400	Average = 100 Median = 50	Average = 200 Median = 80
4b. Part-Time Adjunct Faculty Members	Average = 300 Median = 100	Average = 100 Median = 60	Average = 200 Median = 80

The Questionnaire asked for the total number of employees, as reported on Form 941, *Employer's QUARTERLY Federal Tax Return* for the first quarter of 2006. The IRS did not compare the self-reported numbers against respondents' filed Forms 941. Figure 4 shows the total number of employees as well as the number of faculty, students, and staff included as employees on Form 941. Public institutions employ more individuals, whether as faculty or staff or student employees, than private institutions.

**Figure 4. Questions 5 and 6 – Number of Employees Reported on Form 941, First Quarter of 2006**  
(rounded to the nearest fifty)

	Public	Private	Total
5. Total Employees	Average = 4,000 Median = 2,250	Average = 900 Median = 400	Average = 1,700 Median = 600
6a. Faculty Members	Average = 850 Median = 550	Average = 200 Median = 100	Average = 400 Median = 150
6b. Staff	Average = 1,800 Median = 800	Average = 350 Median = 150	Average = 750 Median = 200
6c. Students	Average = 1,400 Median = 600	Average = 300 Median = 100	Average = 600 Median = 200

Figure 5, shows the average student-faculty ratio (the ratios are self-reported and not derived from the figures above).

**Figure 5. Question 7 – Student-Faculty Ratios, Fall 2006**

	Public	Private	Total
Student-Faculty Ratio	17:1	12:1	13:1

***B. Conflict of Interest Policy (Questions 8 – 9)***

Figure 6 summarizes the data for a series of questions related to conflict of interest policies. Private colleges and universities were asked whether they currently have conflict of interest policies in place governing members of the organization’s ruling body, its top management officials, and its full-time faculty. Public colleges and universities were asked whether there is a state statute explicitly governing conflicts of interest for members of the organization’s governing body, its top management officials, and its full-time faculty. Note that these questions are directed to the policies and statutes existing when the Questionnaire was completed in 2009.

**Figure 6. Questions 8 and 9 – Colleges and Universities with Conflict of Interest Policies**

	Public	Private
8a. Private Organizations with a Written Conflict of Interest Policy Governing Ruling Body and Top Management Officials	N/A	81%
8b. Public Organizations with State Stature Governing Conflicts of Interest for Ruling Body and Top Management Officials	95%	N/A
9a. Private Organizations with a Written Conflict of Interest Policy Governing Full-Time Faculty	N/A	60%
9b. Public Organizations with State Statute Governing Conflicts of Interest for Full-Time Faculty	77%	N/A

Most private and public colleges and universities have conflict of interest policies covering members of the ruling body and top management officials. Many also have conflict of interest policies covering full-time faculty.

***C. Public Disclosure of Audited Financial Statements (Question 10)***

Question 10 asked whether audited financial statements are available for public inspection. Overall, 78 percent of colleges and universities make their audited financial statements available to the public. Further, 96% of public institutions and 72 % of private institutions make them publicly available.

### **D. Tuition (Questions 11 –12)**

The Questionnaire asked a series of questions on undergraduate tuition rates for the Fall semester of 2006. Tuition rates included all mandatory fees, but excluded room and board. Public institutions have lower average tuition rates for in-state students than for out-of-state students. As indicated by average tuition rates, private institutions do not vary tuition rates based on state residency. Average tuition rates for out-of-state students are lower at public institutions than they are at private institutions. On average, private tuition rates are higher than public tuition rates for both in-state and out-of-state residents.

**Figure 7. Question 11 – Published Undergraduate Annual Full-Time Tuition Rates for Fall 2006**  
(rounded to the nearest hundred)

	Public	Private	Total
11a. In-State Tuition	Average = \$5,000 Median = \$5,000	Average = \$15,700 Median = \$16,800	Average = \$12,600 Median = \$10,900
11b. Out-of-State Tuition	Average = \$12,200 Median = \$13,100	Average = \$15,900 Median = \$16,800	Average = \$14,800 Median = \$14,000
11c. Other	Average = \$2,800 Median = \$0	Average = \$13,000 Median = \$13,000	Average = \$10,900 Median = \$8,100

Not all students pay the full amount of the annual full-time rate published by the college or university because of financial aid or other discounts. The tuition discount rate is the difference between the published tuition rate and the actual tuition rate students pay to attend. Colleges and universities offer tuition discounts for a variety of reasons. Students may demonstrate financial need or academic, artistic or athletic merit, for example. In addition, students may be dependents of faculty, staff, or alumni. The Questionnaire requested information concerning the annual average tuition discount rate used to calculate the net average tuition after discounts. On average, private institutions have higher tuition discount rates than public institutions, which have higher tuition discount rates for out-of-state than for in-state students.

**Figure 8. Question 12 – Annual Average Tuition Discount Rates, Fall 2006**

	Public	Private	Total
12a. In-State	Average = 15% Median = 12%	Average = 24% Median = 25%	Average = 21% Median = 20%
12b. Out-of-State	Average = 18% Median = 14%	Average = 24% Median = 25%	Average = 22% Median = 23%
12c. Other	Average = 8% Median = 0%	Average = 20% Median = 22%	Average = 18% Median = 15%

**E. Financial Data (Question 13)**

The Questionnaire requested financial data for the tax year ending in 2006. Figure 9 shows the assets (gross and net), gross revenue, and total expenses reported by the organizations. It also shows revenue in excess of expenses (excess revenue) and excess revenue as a percentage of gross revenue, both of which are calculated based on the gross revenue and total expenses reported by the respondents. Information also is shown in graph form in Figure 10 and Figure 11.

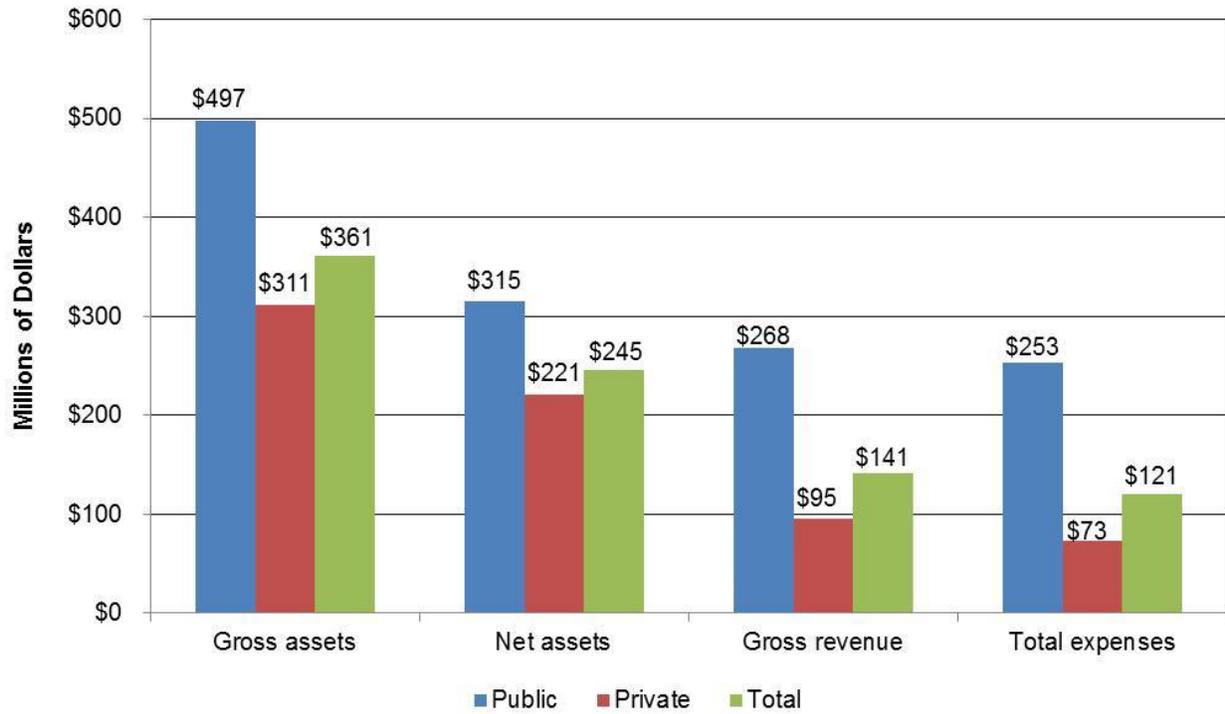
**Figure 9. Question 13 – Average and Median Gross Assets, Net Assets, Gross Revenue, Total Expenses, Excess Revenue, and Percent Excess Revenue Tax Year Ending in 2006**  
(in millions of dollars)

	Public	Private	Total
13a. Gross Assets	Average = \$497 Median = \$229	Average = \$311 Median = \$60	Average = \$361 Median = \$92
13b. Net Assets	Average = \$315 Median = \$156	Average = \$221 Median = \$32	Average = \$245 Median = \$56
13c. Gross Revenue	Average = \$268 Median = \$139	Average = \$95 Median = \$24	Average = \$141 Median = \$40
13d. Total Expenses	Average = \$253 Median = \$130	Average = \$73 Median = \$22	Average = \$121 Median = \$34
Excess Revenue	Average = \$15 Median = \$5	Average = \$22 Median = \$1	Average = \$20 Median = \$2
Percentage Excess Revenue	Average = 4% <sup>13</sup> Median = 4%	Average = 1% Median = 8%	Average = 2% Median = 6%

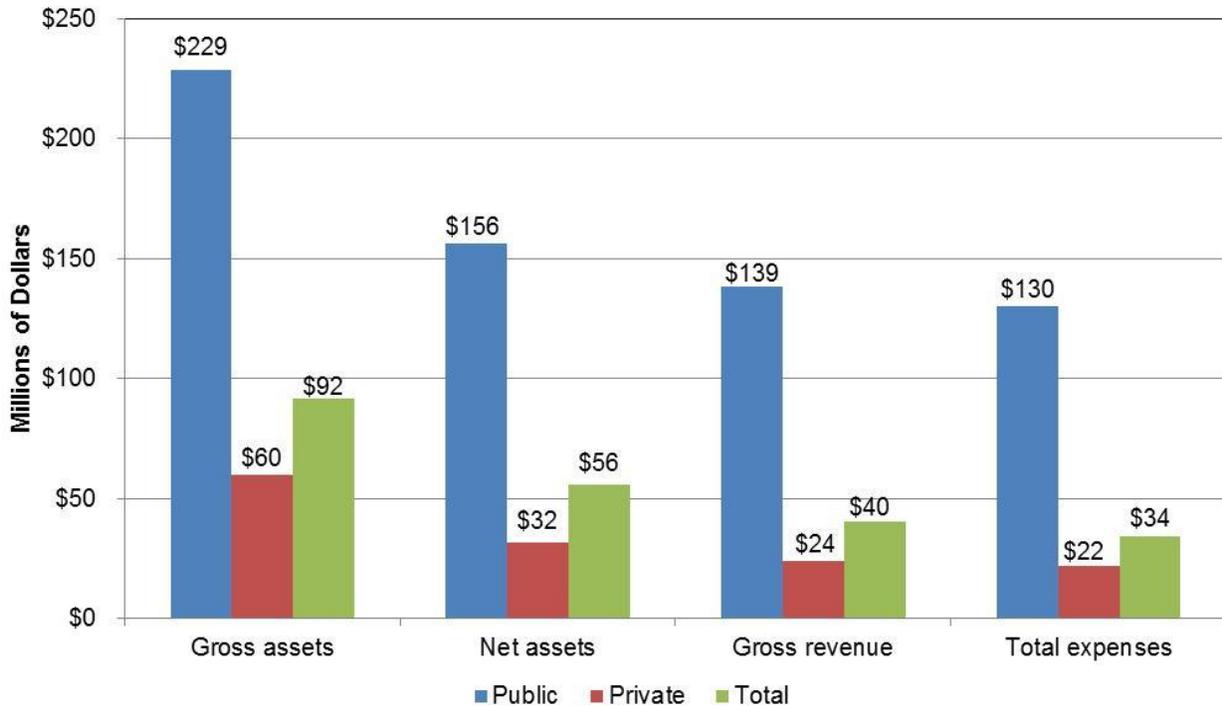
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<sup>13</sup> Margin of Error = 13%.

**Figure 10. Question 13 – Average Assets, Revenue, and Expenses for Tax Year 2006**



**Figure 11. Question 13 – Median Assets, Revenue and Expenses for Tax Year 2006**



Both public and private colleges and universities have positive excess revenue.

***F. Distance Learning and International Activities (Questions 14 – 16)***

The Questionnaire asked whether the college or university conducted distance learning activities, conducted educational programs outside of the United States, or maintained offices, campuses and/or employees in at least five countries outside of the United States. Figure 12 shows the data for these questions. Public institutions are more likely than private institutions to conduct off-campus educational activities, whether through distance learning or international programs. Both public and private institutions are more likely to conduct distance learning activities than operate educational programs outside the United States.

**Figure 12. Questions 14, 15, and 16 – Percentage of Colleges and Universities With Distance Learning Activities and Activities Outside of the United States**

	Public	Private	Total
14. Conducted Distance Learning Activities	89% <sup>14</sup>	53%	63%
15. Conducted Educational Programs Outside the United States	51%	32%	37%
16. Maintained Offices, Campuses, and/or Employees in at Least Five Countries Outside the United States	3%	2%	2%

***G. Related Organizations (Question 19)***

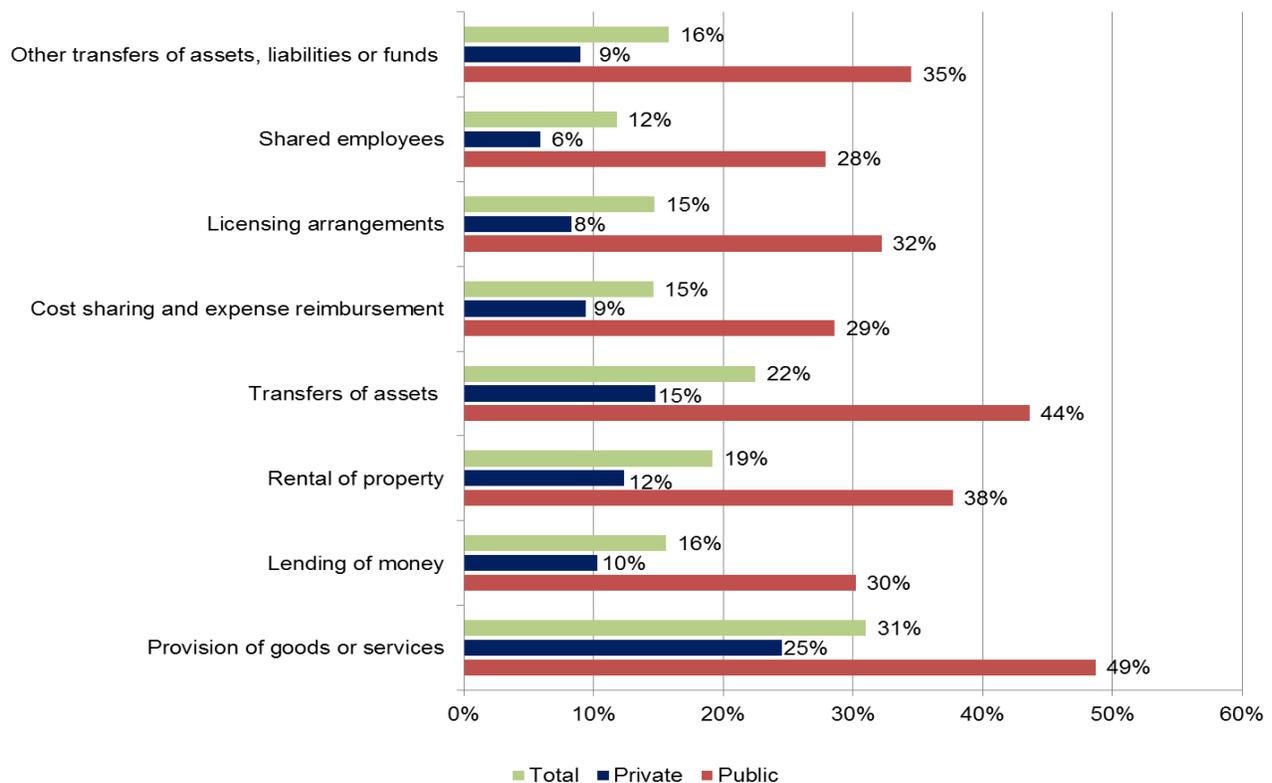
Question 19 asked private colleges and universities to report whether they currently had a written policy as to any of the enumerated transactions in the question to assure that transactions with non-501(c)(3) related organizations were made at arm’s length. Public colleges and universities were asked to report whether any of the enumerated transactions were subject to a statute designed to assure that transactions are made at arm’s length. Each college and university was asked to check all choices that applied to their written policy or statute.<sup>15</sup>

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<sup>14</sup> Margin of Error = 9%.

<sup>15</sup> For public colleges and universities in Figure 13, the Margin of Error ranges from 7 to 9%.

**Figure 13. Question 19 – Organizations with an Arm's Length Policy as to Specific Types of Transactions with Related Organizations**



Public colleges and universities were more likely than private colleges and universities to have a written policy governing their transactions with related organizations to assure that those transactions are conducted at arm's length.

#### ***H. Controlling Organizations (Questions 20-22)***

Question 20 asked private colleges and universities to report the items of income listed in the question for which they currently have a written policy in place that establish arm's length assurances when such amounts are paid or accrued to their organization from a controlled entity within the meaning of IRC section 512(b)(13).<sup>16</sup> Public colleges and universities were asked to check any items of income that are subject to a specific statute designed to assure that transactions are made at arm's length.

<sup>16</sup> For public colleges and universities in Figure 14, the Margin of Error = 8% for Rents and Royalties.

**Figure 14. Question 20 – Organizations with an Arm's Length Policy as to Income Received from Related Organizations**

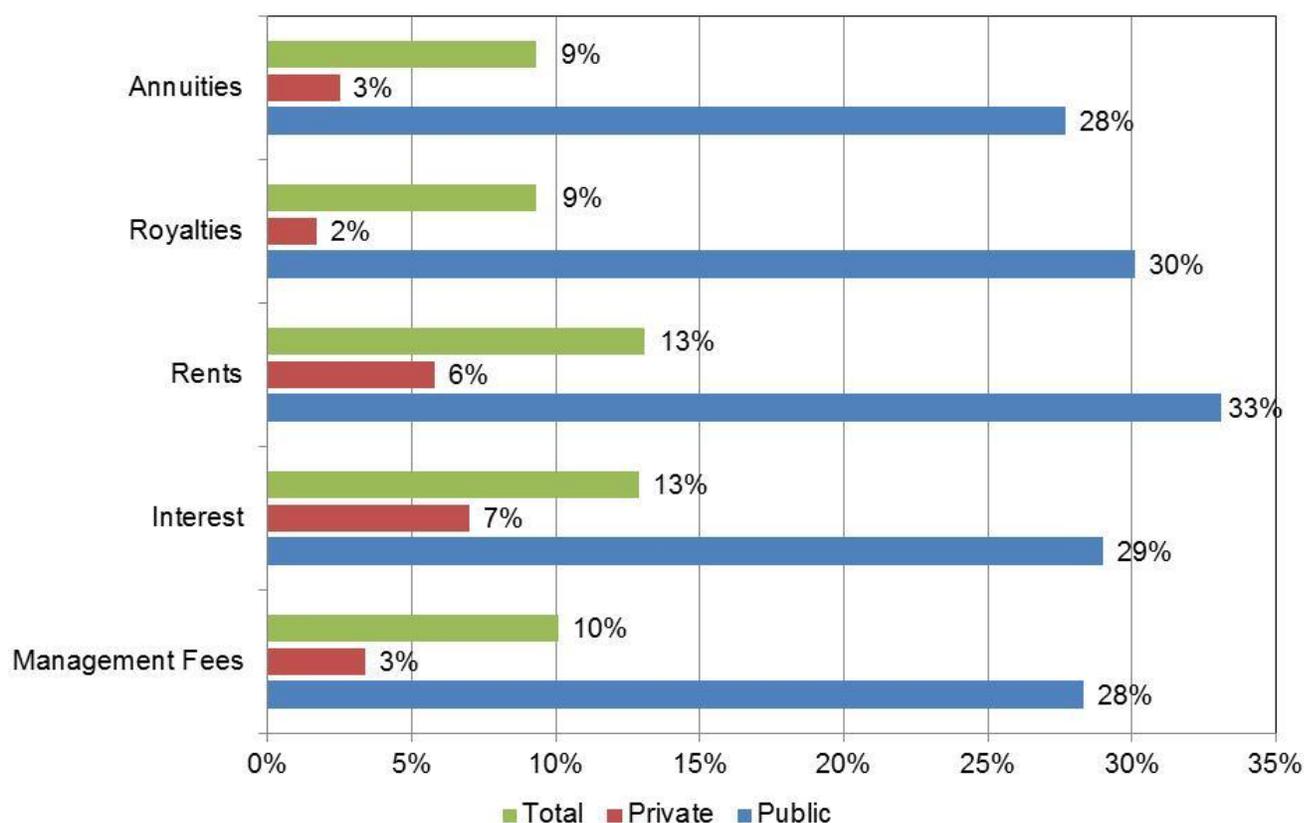


Figure 13 and Figure 14 both indicate that public college and universities are more likely than private colleges and universities to have written policies in place to govern the receipt of income from controlled entities.

***I. Pricing in dealings with related organizations (Question 21)***

Question 21 asked colleges and universities to describe how they currently determine pricing in their dealings with related organizations, including payments or accruals of interest, rents, royalties, or annuities by a controlled entity to their organizations. Respondents provided a narrative answer, rather than check-the-box or yes/no answer. The responses were analyzed using an open-ended question coding method, which translates qualitative written responses into quantitative data.<sup>17</sup>

<sup>17</sup> An IRS tax law specialist with expertise in UBI identified the eight most common categories of responses and coded each of the narrative responses as falling into one or more of these categories. While this method does rely upon some subjective judgment by the expert analyzing the written responses, using the same expert to code all responses helped ensure the consistency and validity of this measure. The coded responses were entered into a database and analyzed.

Narrative responses are presented in Figure 15<sup>18</sup> in the following eight categories:

1. respondents who did not have any related organizations with which they engage in transactions;
2. only transactions considered entered into at arm's length<sup>19</sup>;
3. only transactions considered entered into at Fair Market Value ("FMV");
4. transactions in which the respondents recovered the cost of providing goods and services to related entities;
5. payment for goods or services received via in-kind benefits from the related entities;
6. pricing transactions governed by statute (which also indicates that the respondent is a public institution);
7. pricing that is determined by the respondents desire to recover their cost of providing goods or services plus a certain percentage markup; and
8. a multiple pricing category that includes organizations that reported that they use some combination of cost recovery and/or various arm's-length standards, such as FMV and/or cost plus a markup.<sup>20</sup>

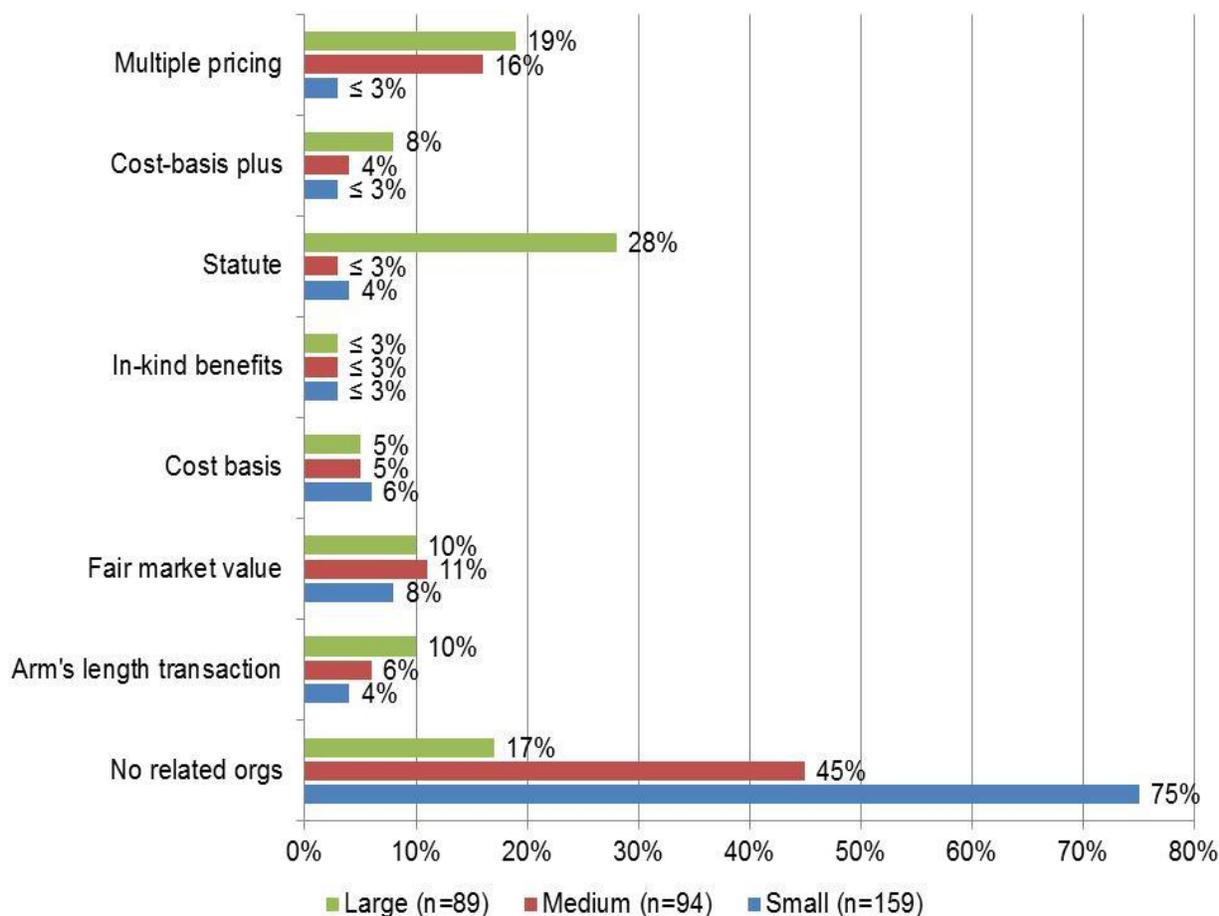
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<sup>18</sup> Responses are reported by for small, medium and large colleges and universities, not for the total population of colleges and universities. Specific percentages are not included in some cases to prevent disclosure of information about specific respondents. Such amounts will be represented as  $\leq 3\%$ .

<sup>19</sup> For purposes of this report, the IRS did not determine which pricing method the organization used to comply with the arm's length standard. Section 482 of the Regulations provide for multiple pricing methods to comply with the arm's length standard.

<sup>20</sup> Some organizations reported multiple pricing policies dependent upon the type of transaction with the related entities. For example, an organization might report having a FMV pricing policy when it came to rentals of facilities to a related entity, but would engage in a cost recovery pricing policy when the transaction related to the use of the organization's personnel by the related entity.

**Figure 15. Question 21 – How Organizations Determined Pricing when Dealing with Related Organizations**



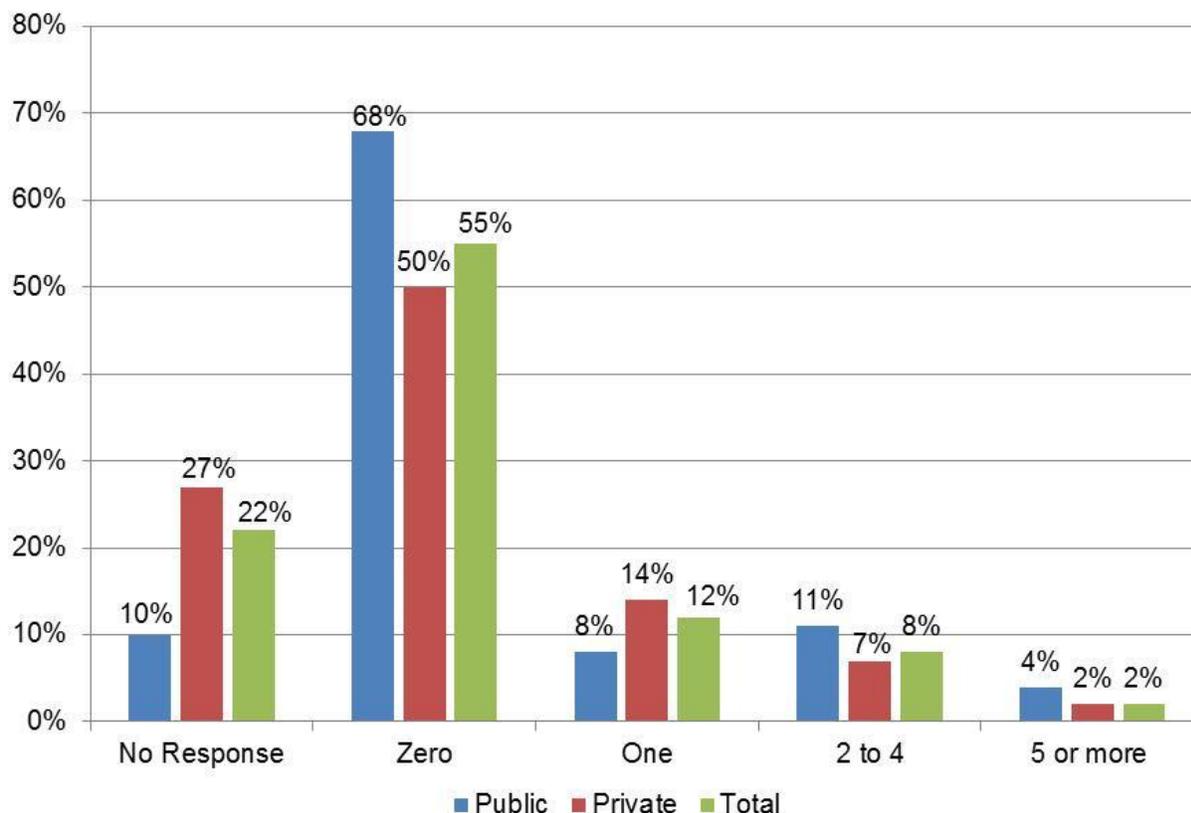
Small colleges and universities were less likely than medium or large colleges and universities to have transactions with related organizations. Large colleges and universities were most likely to have transactions with related organizations and were also more likely to have those transactions governed by statute. The governing statutes mandated that related-party pricing be determined by one or more of the following: arm's length transaction pricing, FMV pricing, cost recovery, or recovery of cost plus a markup.

Question 22 asked colleges and universities to report the number of organizations they controlled in the tax year ending in 2006, within the meaning of IRC section 512(b)(13). Control for purposes of section 512(b)(13) is generally represented by ownership of more than 50 percent of another entity. Respondents that were not controlling organizations were instructed to enter "0."

Figure 16 shows the percentage of colleges and universities that reported controlling at least one entity within the meaning of Code section 512(b)(13). A majority of colleges and universities, both public and private, do not control any organization within the

meaning of IRC section 512(b)(13). For those that did identify themselves as controlling organizations, public colleges and universities were more likely than private colleges and universities to control more than one organization.

**Figure 16. Question 22 – Distribution of Number of Controlled Entities Reported**



### III. ACTIVITIES

This section discusses the business activities of colleges and universities and the income tax treatment of such activities whether carried on directly or through controlled organizations. It presents information on the activities, their characterization as exempt or unrelated, Form 990-T reporting, and the allocation of expenses related to unrelated business activities.<sup>21</sup>

<sup>21</sup> This subsection includes percentages of respondents providing specific answers unless the number of respondents was so low that a percentage might permit identification of respondents. In that case, the amount will be represented as ≤1%.

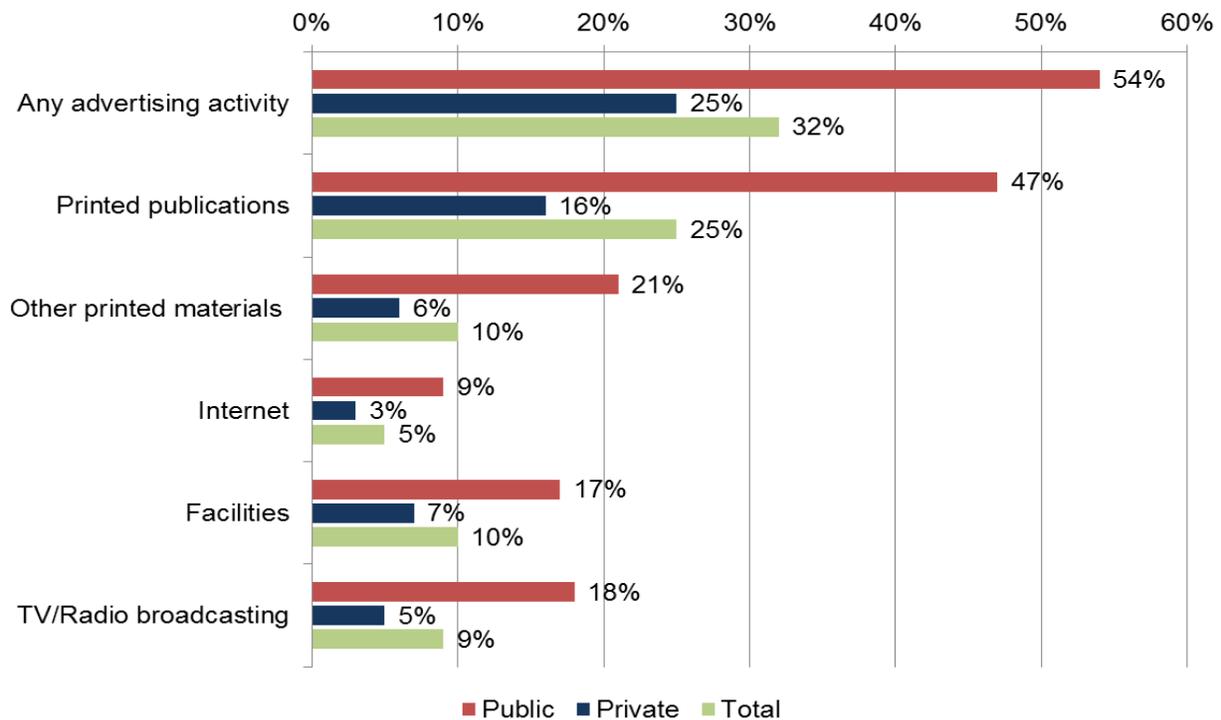
**A. Participation in Activities (Question 23)**

Question 23 asked whether organizations had directly engaged in any of 47 different activities in the tax year ending in 2006. The 47 activities were divided into four categories: Advertising, Corporate Sponsorship, Rentals, and Other.

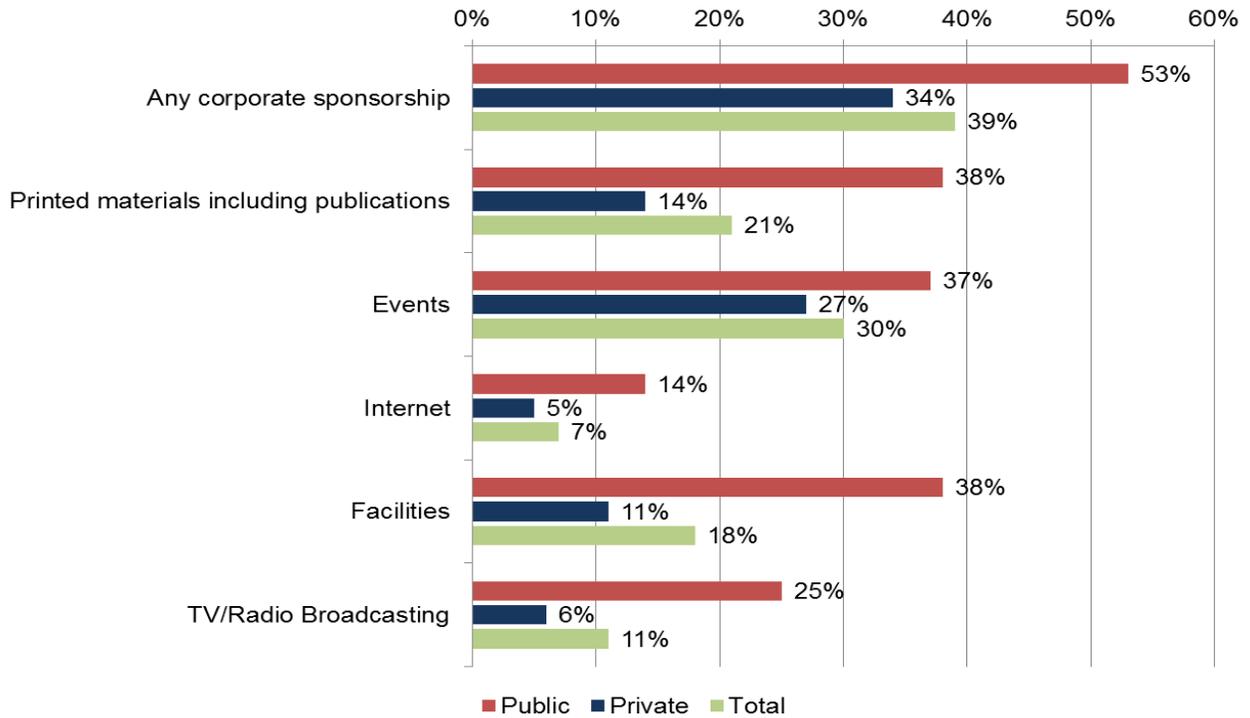
Figure 17 through Figure 24 present the percentage of all colleges and universities engaging in various activities. The top line of each figure shows the percent that engaged in any activity in the category, e.g., any Advertising activity. The lines below show the percent that engaged in each specific activity, e.g., internet advertising or television advertising.

The first three figures, Figure 17, Figure 18, and Figure 19, show results within three broad categories – Advertising, Corporate Sponsorship and Rentals.

**Figure 17. Question 23a – Percentage Engaged in Advertising Activities**



**Figure 18 – Q23b-Percentage Engaged in Sponsorship Activities**



**Figure 19. Question 23c – Percentage Engaged in Rental Activities**

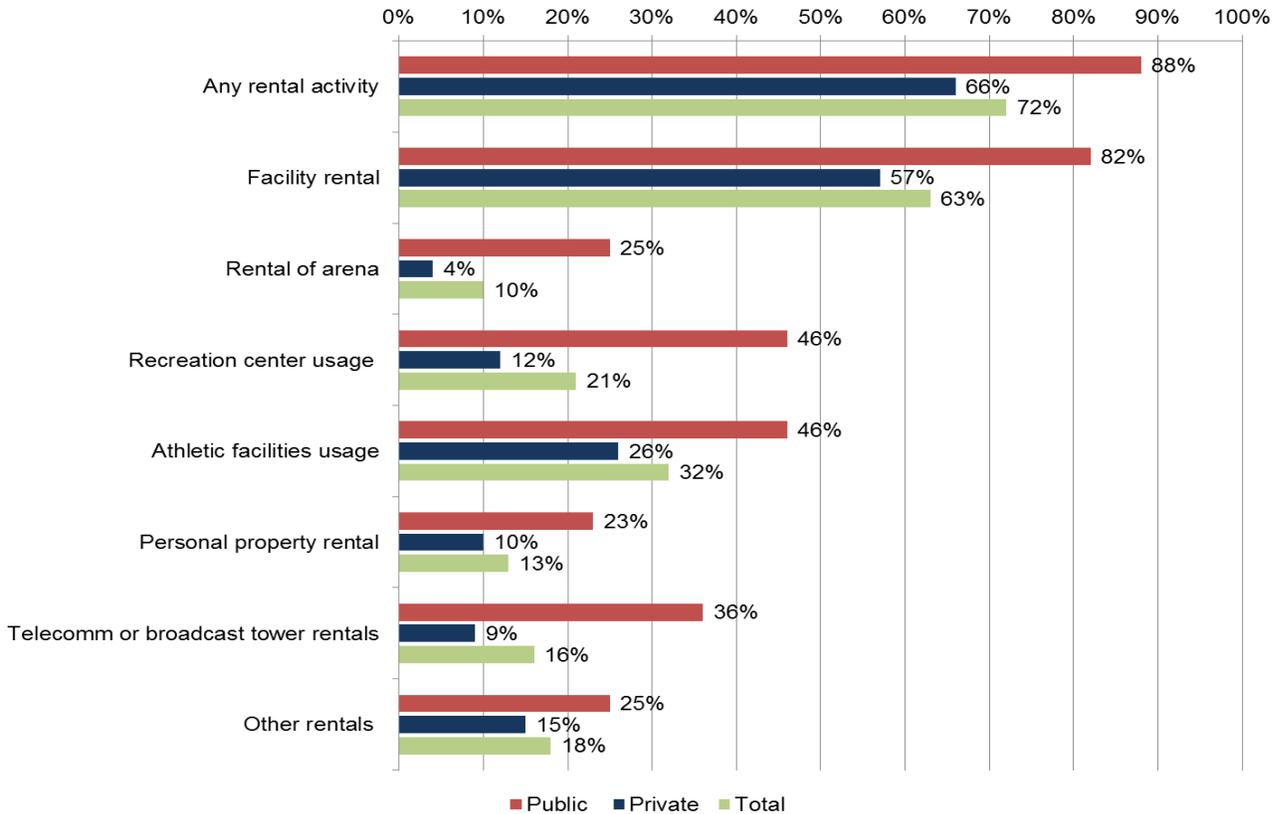
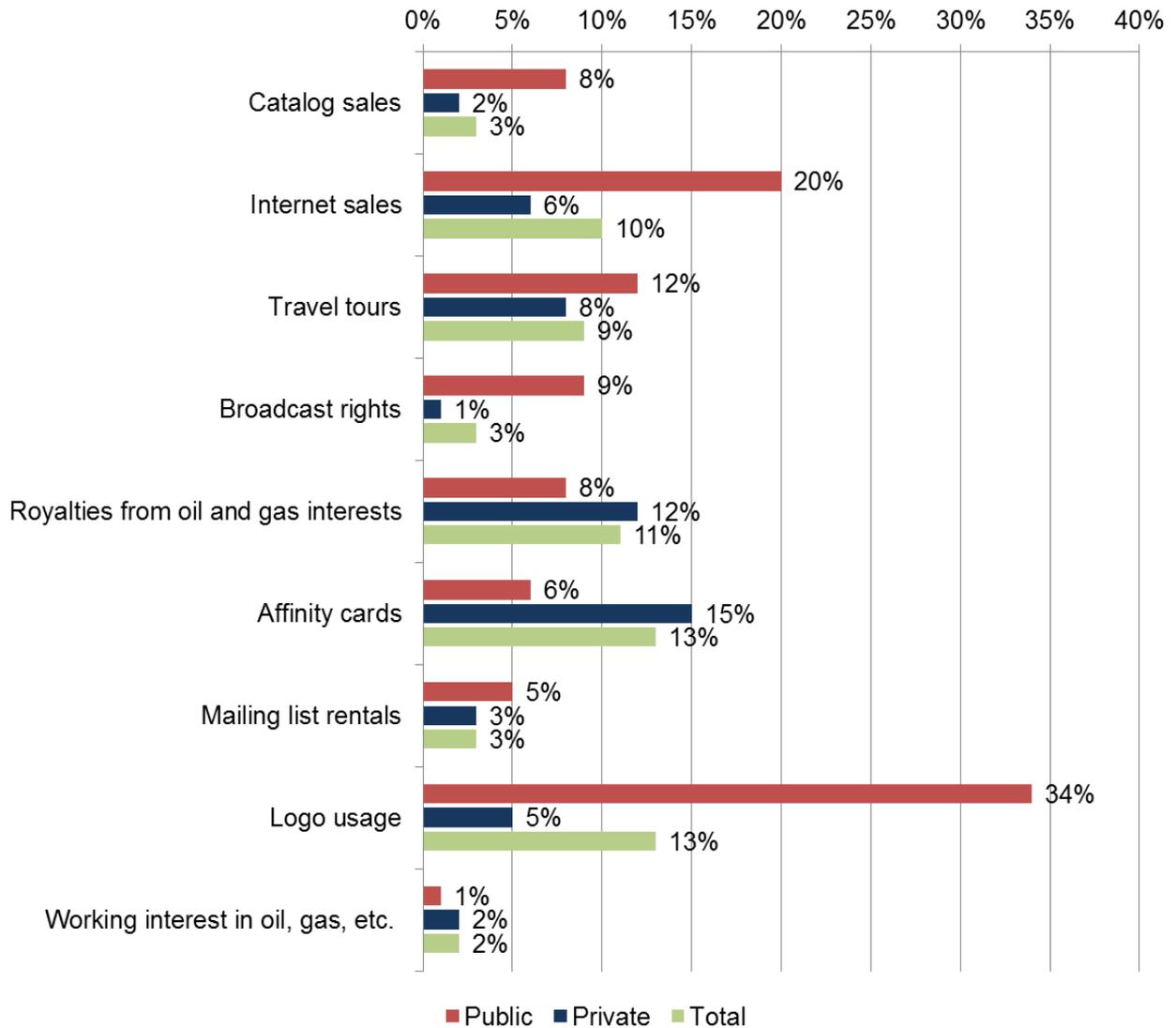
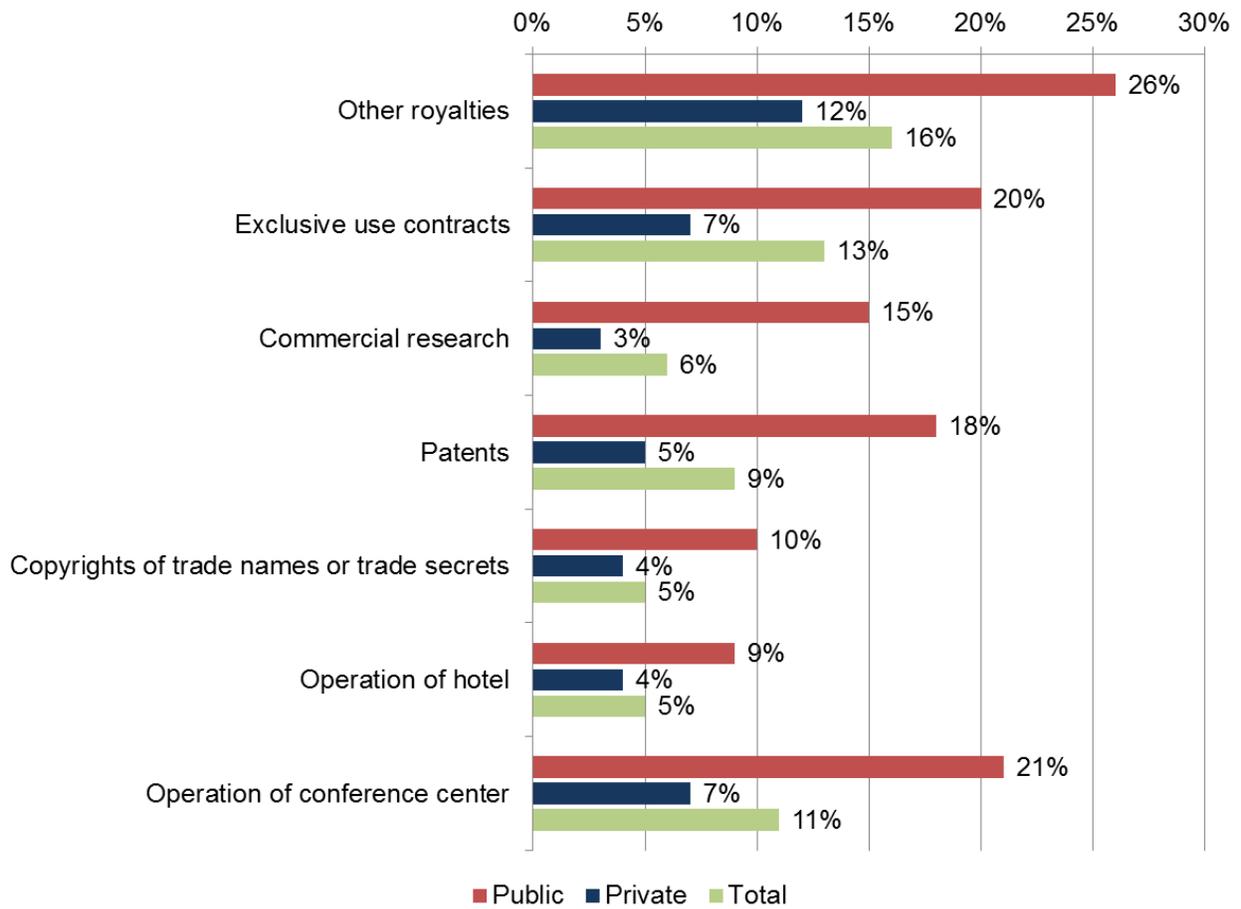


Figure 20 through Figure 24 show how results for the 31 other activities that did not fall under a broad category. These 31 activities are divided into five figures (i – v) for ease of reading.

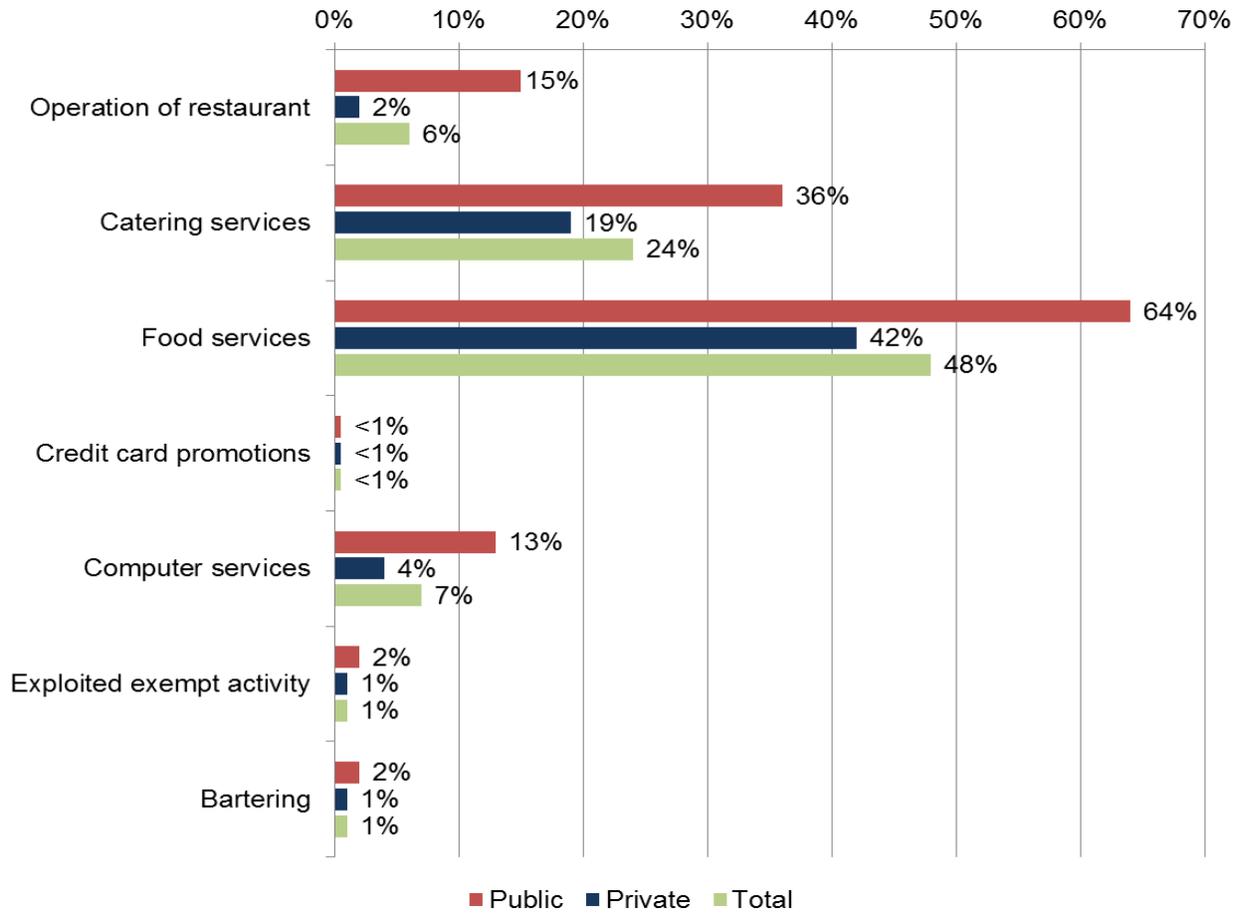
**Figure 20. Questions 23d and 23e – Percentage Engaged in Other Activities (i)**



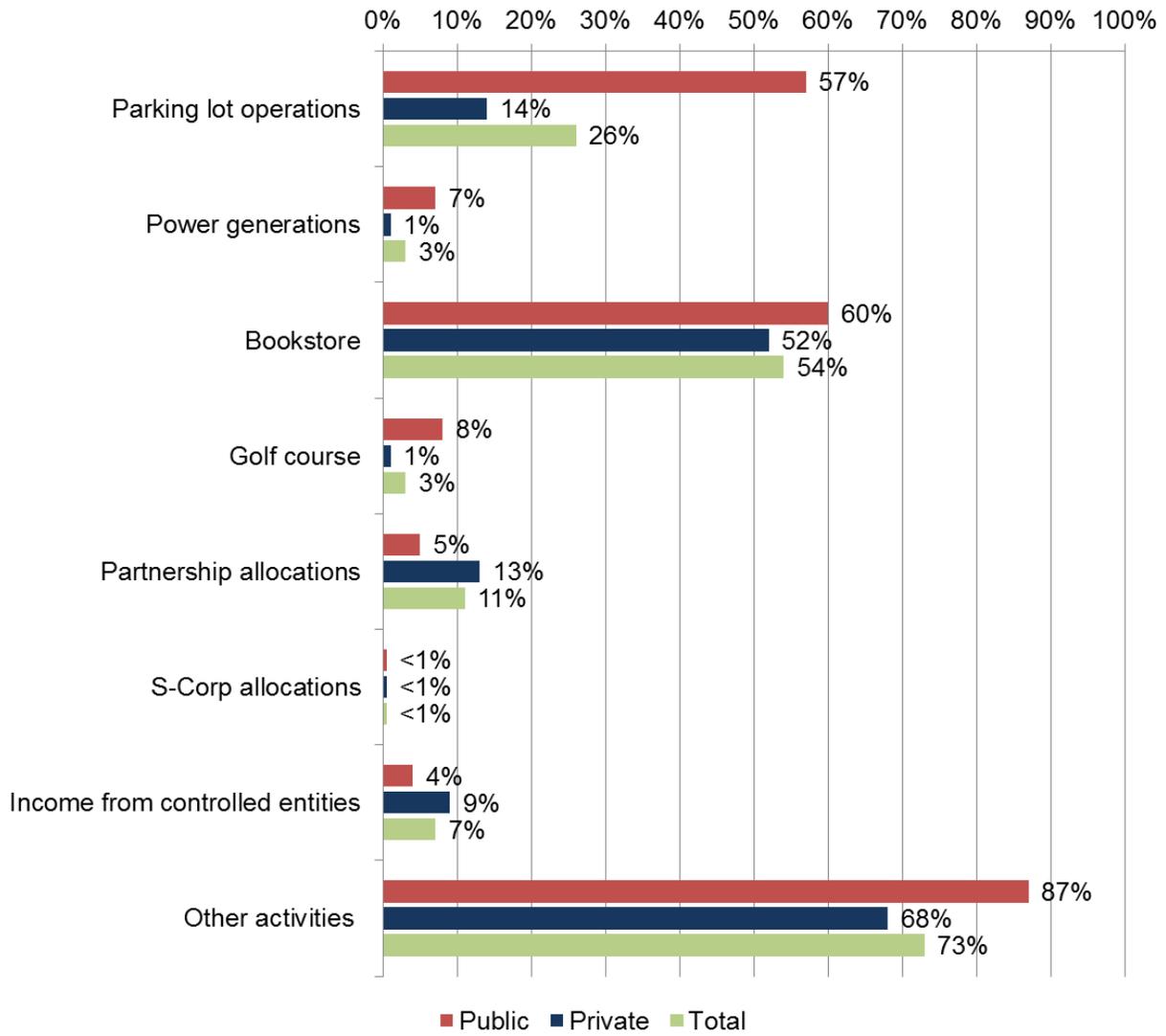
**Figure 21. Questions 23d and 23e – Percentage Engaged in Other Activities (ii)**



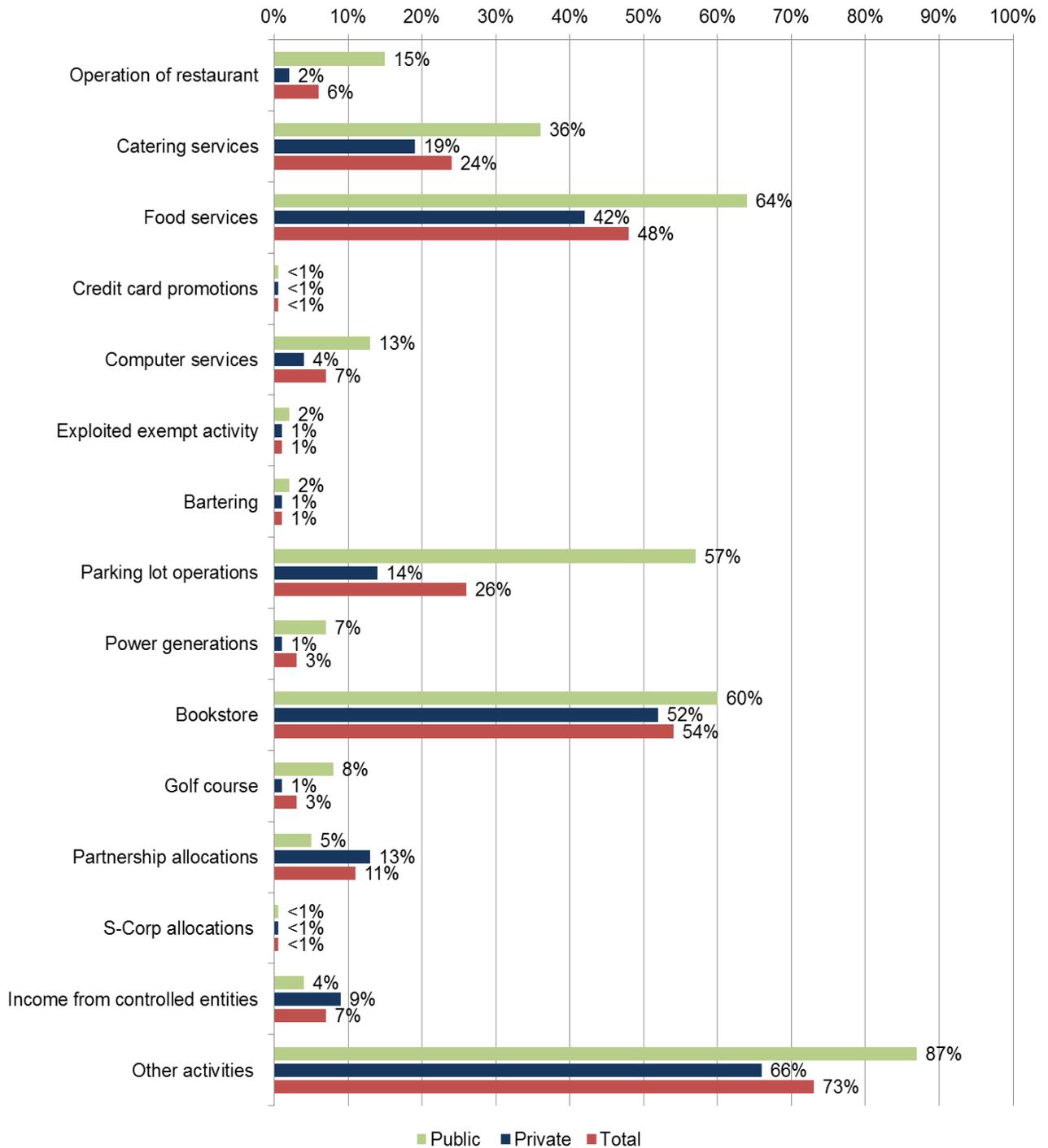
**Figure 22. Questions 23d and 23e – Percentage Engaged in Other Activities (iii)**



**Figure 23. Questions 23d and 23e – Percentage Engaged in Other Activities (iv)**



**Figure 24. Questions 23d and 23e – Percentage Engaged in Other Activities (v)**



In general, public colleges and universities are more likely to report involvement in business activities than private institutions. More colleges and universities are involved in some kind of rental activity than corporate sponsorship, advertising or other activities.

Question 23 of the Questionnaire asked respondents three questions about the listed activities:

- Did they report the income from the listed activities as “All UBI,” “Part UBI,” “No UBI,” or Debt-Financed UBI”?
- If they didn’t report income as UBI, why didn’t they?
- If a listed activity generated a loss three out of the last five years, what was the reason for the loss?

We analyzed these responses for small, medium and large colleges and universities in the broad activity categories – advertising, corporate sponsorship and rentals – and found the following:

### Classification as UBI

#### Advertising

- Of 159 small colleges and universities, about a quarter engaged in advertising. More than 80 percent of those that engaged in advertising report Part UBI or No UBI for at least one advertising activity.
- More than half of medium colleges and universities engaged in advertising. More than 80 percent of those that engaged in advertising reported Part UBI or No UBI for at least one advertising activity.
- More than 80 percent of large colleges and universities engaged in advertising. About 60 percent of those that engaged in advertising report Part UBI or No UBI for at least one advertising activity.

#### Corporate Sponsorship

- About a third of small colleges and universities engaged in corporate sponsorship, and of these, all reported Part UBI or No UBI for their corporate sponsorship activity.
- More than half of medium colleges and universities engaged in corporate sponsorship, and of these, all reported Part UBI or No UBI for their corporate sponsorship activity.
- More than 75 percent of large colleges and universities engaged in corporate sponsorship. Over 97 percent of those that engaged in corporate sponsorship activity reported Part UBI or No UBI for at least one corporate sponsorship activity.

## Rentals

- About two-thirds of small colleges and universities engaged in property rental activity. More than 80 percent of those that engaged in rental activity reported Part UBI or No UBI for at least one rental activity.
- More than 88 percent of medium colleges and universities engaged in property rental activity. More than 94 percent of those that engaged in rental activity reported Part UBI or No UBI for at least one rental activity.
- More than 96 percent of large colleges and universities engaged in property rental activity. About 96 percent of those that engaged in rental activity reported Part UBI or No UBI for at least one rental activity.

## Reasons for Exclusion from UBI

Because organizations could report more than one explanation code to describe why income for any activity was not reported as UBI, we have aggregated the responses to report the most common reasons for not treating income as UBI.

## Advertising

In order of frequency, the most commonly reported reasons for not reporting advertising income as UBI were:

- the income was substantially related to the colleges' or universities' exempt purpose;
- the activity was conducted primarily for the convenience of the college's or university's student body or faculty within the meaning of IRC §513(a)(2); and
- the income was excluded because the activity generated continuous losses sustained over a number of tax periods and therefore could not be regarded as conducted with a motive to earn a profit as required under the UBI definition of trade or business.

## Corporate Sponsorship

In order of frequency, the most common reasons for not reporting corporate sponsorship income as UBI were:

- the sponsorship income constituted a qualified sponsorship payment within the meaning of IRC §513(i);
- the income was substantially related to the college's or university's exempt purpose; and
- the sponsorship activity was not regularly carried on within the meaning of IRC §512(a)(1).

## Rentals

In order of frequency, the most common reasons for not reporting property rental activity income as UBI were:

- the rental income is excluded by IRC §512(b)(3);
- the income was substantially related to the college's or university's exempt purpose; and
- the rental activity was conducted primarily for the convenience of the college's or university's student body or faculty within the meaning of IRC §513(a)(2).

## Reasons for Losses Three out of Five Years

Because organizations could report more than one explanation code to describe why they had losses for three out of the last five years, we have aggregated the responses to report the most common reasons.

## Advertising

The most commonly reported reason for losses from advertising activity in three out of the last five years were:

- the activity was budgeted to operate at a breakeven or at a loss because doing so contributed to the organization's exempt mission;
- the business was in a start-up phase; and
- the actual costs were significantly greater than anticipated or budgeted.

## Corporate Sponsorship

The most commonly reported reason for losses from corporate sponsorship activity in three out of the last five years were:

- the activity was budgeted to operate at a breakeven or at a loss because doing so contributed to the organization's exempt mission; and
- competitive pressures prevented pricing to allow for full recovery of costs.

## Rentals

The most commonly reported reason for losses from property rental in three out of the last five years were:

- the activity was budgeted to operate at a breakeven or at a loss because doing so contributed to the organization's exempt mission;
- actual costs were significantly greater than anticipated or budgeted;
- competitive pressures prevented pricing to allow for full recovery of costs; and

- less demand for product or service than was projected.

**B. Activities Not Treated as Unrelated Business Activities (Question 24)**

Question 24 of the Questionnaire asked respondents to report their top five largest grossing revenue-generating activities that they reported as activities that do not generate unrelated business income (“UBI”).

The following chart, Figure 25, lists the top revenue-generating activities that were not self-reported as UBI. Although we requested the top five activities per college and university, we have provided eight of the top reported activities, grouped by size.<sup>22</sup>

**Figure 25. Question 24 – Top Non-UBI Revenue Generating Activities**

<i>Top Revenue-Generating Activities</i>	<i>Small Colleges &amp; Universities</i>	<i>Top Revenue-Generating Activities</i>	<i>Medium Colleges &amp; Universities</i>	<i>Top Revenue-Generating Activities</i>	<i>Large Colleges &amp; Universities</i>
Bookstore Sales	59%	Bookstore Sales	48%	Food Services	41%
Food Services	53%	Facility Rentals	48%	Grants/Gifts	39%
Facility Rentals	53%	Food Services	43%	Facility Rentals	38%
Sponsorship Income	25%	Parking Lot Operations	33%	Sponsorship Income	35%
Parking Lot Income	17%	Tuition & Fees	28%	Parking Lot Operations	32%
Tuition & Fees	14%	Investments	27%	Tuition & Fees	30%
Athletic Facility Rentals	13%	Grants/Gifts	24%	Bookstore Sales	29%
Investments	12%	Sponsorship Income	24%	Rentals	14%

Question 29 of the Questionnaire asked respondents to report their top five unrelated business income activities that resulted in the highest losses as reported on their Form 990-T for tax year 2006. The colleges and universities were asked to write in a description that best describes these activities.

<sup>22</sup> Responses such as “not applicable” or “none” were not counted as responses for this question. Of the 159 small colleges and universities, 103 reported at least one activity. Of the 94 medium colleges and universities, 79 reported at least one activity. Of the 89 large colleges and universities, 79 reported at least one activity.

Figure 26 shows the top loss-generating activities that were reported as UBI.<sup>23</sup> Although we requested the top five activities per college and university, we have provided for illustrative purposes eight of the top UBI loss activities grouped by size.

**Figure 26. Question 29 – Top UBI Loss-Generating Activities**

<i>Top Loss-Generating UBI Activities</i>	<i>Small Colleges &amp; Universities</i>	<i>Top Loss-Generating UBI Activities</i>	<i>Medium Colleges &amp; Universities</i>	<i>Top Loss-Generating UBI Activities</i>	<i>Large Colleges &amp; Universities</i>
Facility Rental	19%	Facility Rental	30%	Facility Rental	23%
Conference Centers	17%	Advertising	20%	Advertising	18%
Recreation Centers	17%	Recreation Centers	18%	Golf Courses	16%
Athletic Facility Rentals	10%	Arena Rental	15%	Arena Rentals	15%
Bookstore Sales	10%	Catering/Food Services	15%	Catering/Food Services	15%
Catering/Food Services	10%	Golf Courses	13%	Athletic Facility Rentals	14%
Partnerships	7%	Conference Centers	10%	Gifts Shop/Retail Sales	12%
Advertising	*% <sup>24</sup>	Recreational Activities	10%	Recreational Center	12%

**C. Unrelated Business Income Treatment (Questions 26 – 27)**

An exempt organization must file Form 990-T if it has gross income from a regularly carried on trade or business of \$1,000 or more. Question 26 asked organizations to indicate if they had never filed a Form 990-T. The data reveals that 30%<sup>25</sup> of public institutions, 47% of private institutions, and 42% of all schools never filed a Form 990-T. Therefore, most colleges and universities, whether public or private, have filed a Form 990-T.

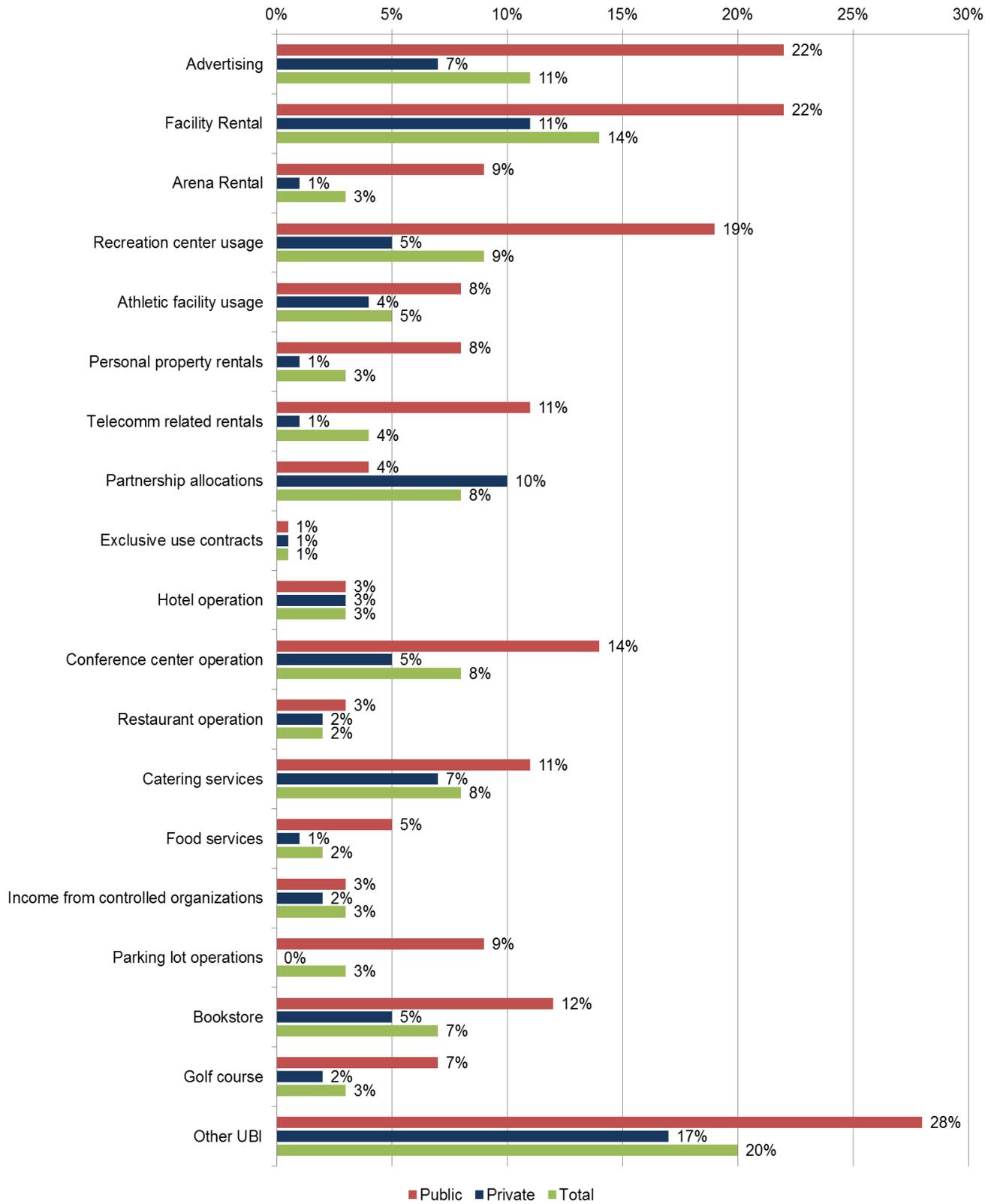
<sup>23</sup> Responses such as “not applicable” or “none” were not counted as responses for this question. Of the 159 small colleges and universities, 42 reported at least one UBI loss-generating activity. Of the 94 medium colleges and universities, 40 reported at least one loss-generating activity. Of the 89 large colleges and universities, 73 reported at least one loss-generating activity.

<sup>24</sup> The percentage of respondents reporting that this type of activity was a top 5 gross revenue generating activity was too small to be reported.

<sup>25</sup> Margin of Error = 9%.

Question 27 requested information concerning the income and expenses for activities reported on the Form 990-T for the tax year ending 2006. In the case of organizations that did not file a Form 990-T for 2006, they were instructed to use the most recently filed Form 990-T

**Figure 27. Question 27 – Percentage that Reported Unrelated Business Activities on Form 990-T**



Public colleges and universities report a greater number of activities on Form 990-T than private colleges and universities. However, for both public and private colleges and universities, rental activities and advertising were the most commonly reported activities.

Figure 28 compares data from question 23 (where the organizations reported activities they directly engaged in) to data from question 27 (where organizations reported activities included on their Form 990-T) for some of the most common activities. For example, 32 percent of all colleges and universities engage in advertising, but only 11 percent report that activity on Form 990-T.

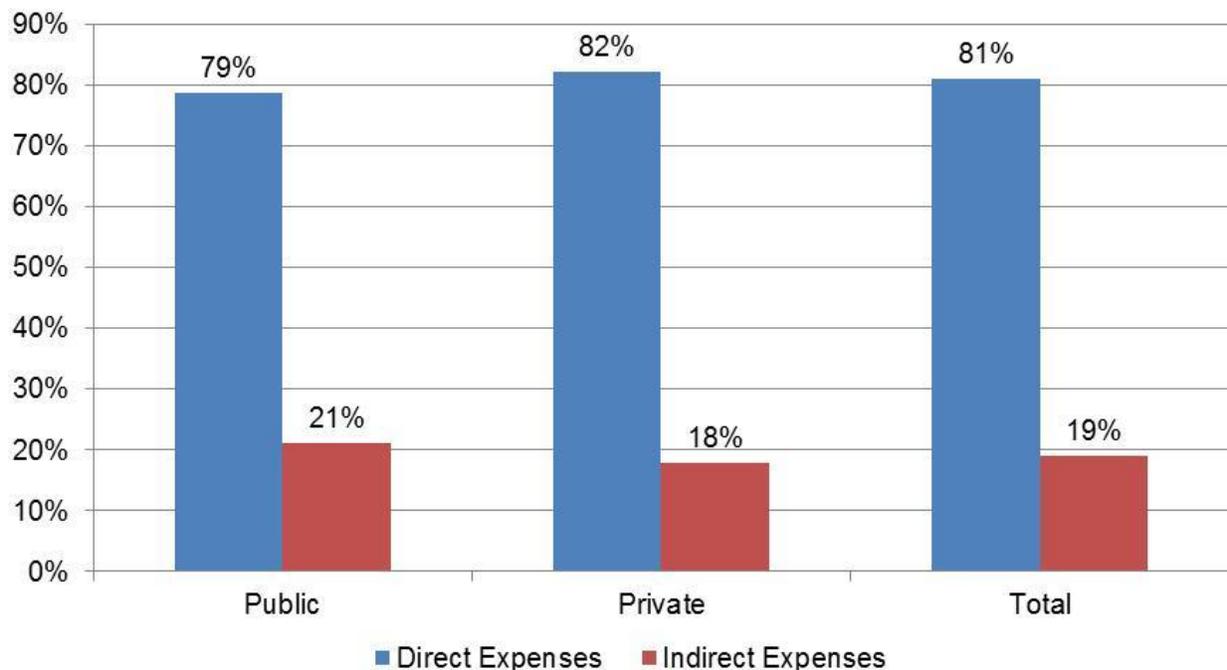
**Figure 28. Questions 23 and 27 – Percentage that Engaged in Certain Activities and Percentage Reporting those Activities on Form 990-T**

Activity	Public		Private		Total	
	Engaged in Activity	Reported Activity on 990-T	Engaged in Activity	Reported Activity on 990-T	Engaged in Activity	Reported Activity on 990-T
Advertising	54%	22%	25%	7%	32%	11%
Facility Rental	82%	22%	57%	11%	63%	14%
Arena Rental	25%	9%	4%	1%	10%	3%
Recreation Center Usage	46%	19%	12%	5%	21%	9%
Athletic Facility Usage	46%	8%	26%	4%	32%	5%
Personal Property Rentals	23%	8%	10%	1%	13%	3%
Telecomm Related Rentals	36%	11%	9%	1%	16%	4%
Exclusive Use Contracts	30%	<1%	17%	<1%	13%	<1%
Hotel Operation	9%	3%	4%	3%	5%	3%
Conference Center Operation	21%	14%	7%	5%	11%	8%
Restaurant Operation	15%	3%	2%	2%	6%	2%
Catering Services	36%	11%	19%	7%	24%	8%
Food Services	64%	5%	42%	1%	48%	2%
Parking Lot Operations	57%	9%	14%	<1%	26%	3%
Bookstore	60%	12%	52%	5%	54%	7%
Golf Course	8%	7%	1%	2%	3%	3%

#### **D. Expense Allocation (Questions 28 - 30)**

Question 28 asked respondents to break down the total expenses, including direct and indirect, reported for all activities on their Form 990-T for the tax year ending in 2006 or the most recent year in which they filed a Form 990-T. Figure 29 represents the results for both public and private colleges and universities. The results are similar for both public and private colleges and universities.

**Figure 29. Question 28 – Average Percentage Reporting Expense Type**

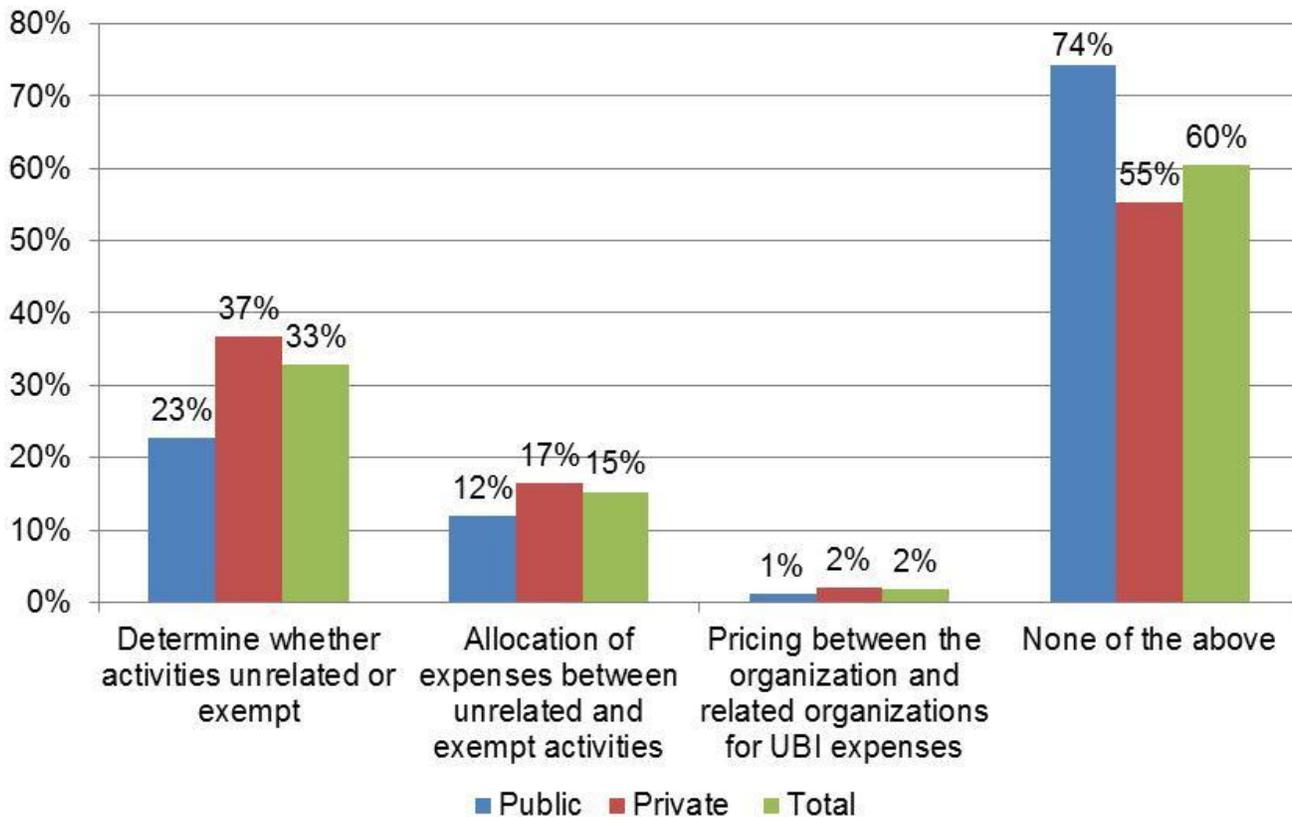


Question 30 asked for a breakdown of inter-company expenses (expenses paid or accrued to related organizations) compared to total expenses reported for all activities on Form 990-T. The results were similar between public, private and all colleges and universities combined. All reported, on average, that inter-company expenses constitute 7 percent of total reported expenses.

#### **E. Outside Advisers (Question 31)**

Question 31 asked colleges and universities whether they relied on the advice of independent accountants or counsel for certain unrelated business issues for the tax year ending 2006. Colleges and universities do not routinely rely on outside advisers to determine whether activities are unrelated or exempt, to allocate of expenses between unrelated and exempt activities and to allocate pricing for expenses incurred in unrelated activities. When they do seek advice, it is more likely to be related to whether an activity is unrelated or exempt than to the allocation of expenses or pricing.

**Figure 30. Question 31 – Percentage of Organizations that Reported Reliance on Independent Accountant or Counsel Advice for Selected Issues**



#### IV. ENDOWMENT FUNDS

Part III of the Questionnaire asked a series of questions on endowment funds and instructed colleges and universities to provide answers to this section based on their fiscal year ending in 2006. Given the fluctuations in the financial markets since 2006, the responses to certain endowment related questions (e.g., valuation and spending practices) may be significantly different than if based on a more recent year.

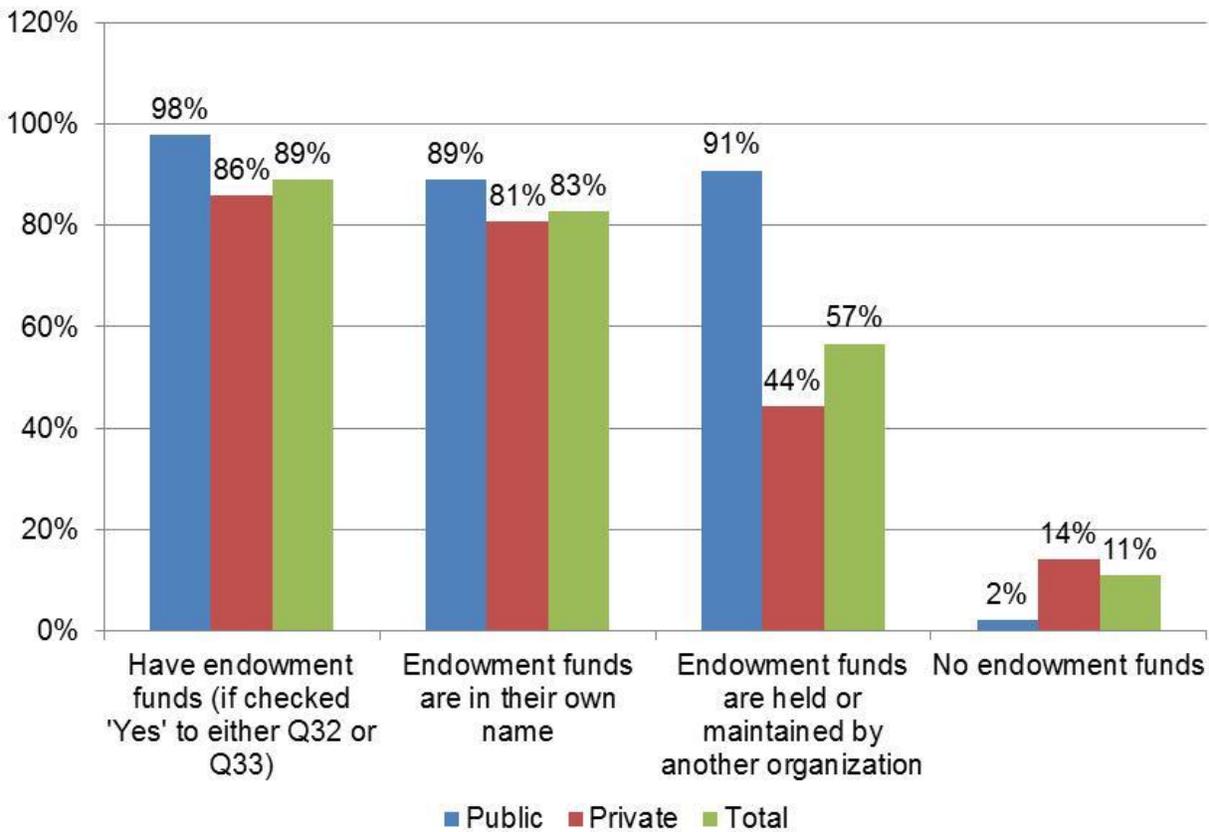
##### ***A. Endowment Funds and Management (Questions 32 – 33)***

The Questionnaire asked colleges and universities whether they had endowment funds in fiscal year 2006 and whether the organization had endowment funds that were managed or maintained by another organization on their behalf. Most institutions had endowment funds and/or had another organization manage or maintain endowment funds on their behalf.<sup>26</sup>

<sup>26</sup> Organizations that responded that they did not have endowment funds and that no other organization managed or maintained funds on their behalf were instructed to skip the remainder of the endowment fund questions.

Figure 31 shows the percentage of each type of institution that had endowment funds and/or that another organization held or maintained endowment funds on their behalf.

**Figure 31. Questions 32 and 33 – Respondents with Endowment Funds and/or Third-Party Maintaining or Managing Endowments Funds on their Behalf**



The Questionnaire asked a number of questions related to management of endowment funds. The governing body or certain other persons may be required either by state law or by the organizational documents to oversee or approve major investments made by the organization. The responses to Question 35 do not include public institutions that reported that their endowment was managed by a state treasury or other state agency.<sup>27</sup>

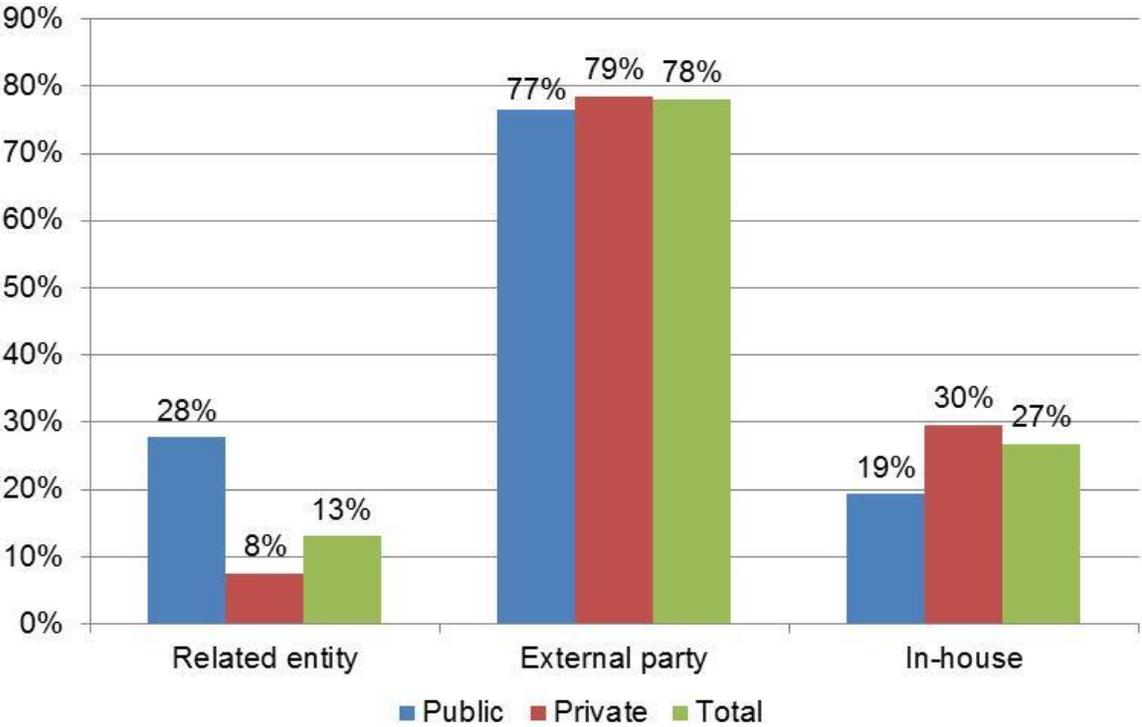
**Figure 32. Question 34 and 35a – Management by State Treasury or Other State Agency and Presence of Investment Policy**

	Public	Private	Total

<sup>27</sup> For public colleges and universities in Figure 33, Margin of Error = 8% for “Related entity” and “In-house.”

34. Percentage of Public Institutions Reporting having Endowments Managed by State Treasury or Other State Agency	11%	N/A	N/A
35a. Percentage of Private Institutions (or Public Institutions that Checked 'No' to 34) Reporting having an Investment Policy for Endowment Funds.	90%	92%	91%

**Figure 33. Question 35b –Type of Fund Manager Used to Manage Endowment Funds**



Nearly all public and private colleges and universities have an endowment fund investment policy. External party managers were the most commonly used type of fund manager and the least common was a related entity fund manager for both types of institutions. Note, for question 35b, organizations could have indicated more than one type of fund manager type

***B. Investment Committees, Managers, and Consultants (Questions 36 – 41)***

The Questionnaire asked about the use, composition and activities of investment committees.

**Figure 34. Questions 36 and 37 – Use of Investment Committees**

	Public	Private	Total
36. Percentage of Organizations that Used Investment Committee to Oversee Endowment Fund Assets	83%	72%	75%
37. Number of Committee Members that Oversaw Endowment Funds	Average=9 Median=7	Average=7 Median=7	Average=8 Median=7

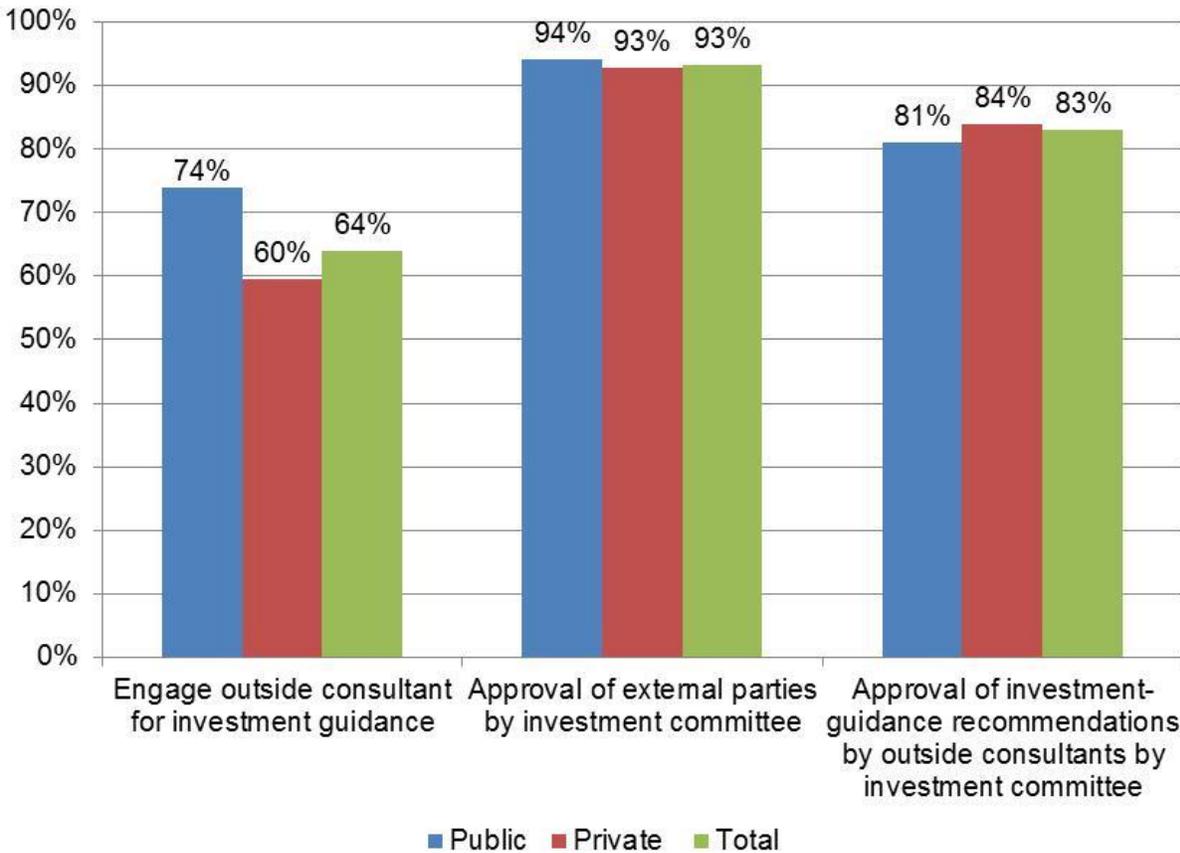
The Questionnaire also asked for the number of individuals that were on staff whose primary responsibility was investment management of endowments in Question 40. The data indicates that the majority of organizations had no individual on staff whose primary job was investment management of endowment funds.

Reponses to questions related to the use of outside consultants and external parties are summarized below.<sup>28</sup>

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<sup>28</sup> For public colleges and universities in Figure 35, Margin of Error = 9% for “Engage outside consultant for investment guidance.” For both private and public colleges and universities in Figure 35, Margin of Error = 8% for “Approval of investment guidance recommendations by outside consultants by investment committee.”

**Figure 35. Questions 38, 39, and 41 – Investment Guidance**



In most cases, the investment committee had responsibility for approval of the selection of external fund managers. At least 80% of organizations classified within each type of institution have investment committees approve investment guidance by outside consultants. A majority of the organizations within each type of institution both engage an outside consultant *and* have the investment committee approve the selection of external parties their investment advice.

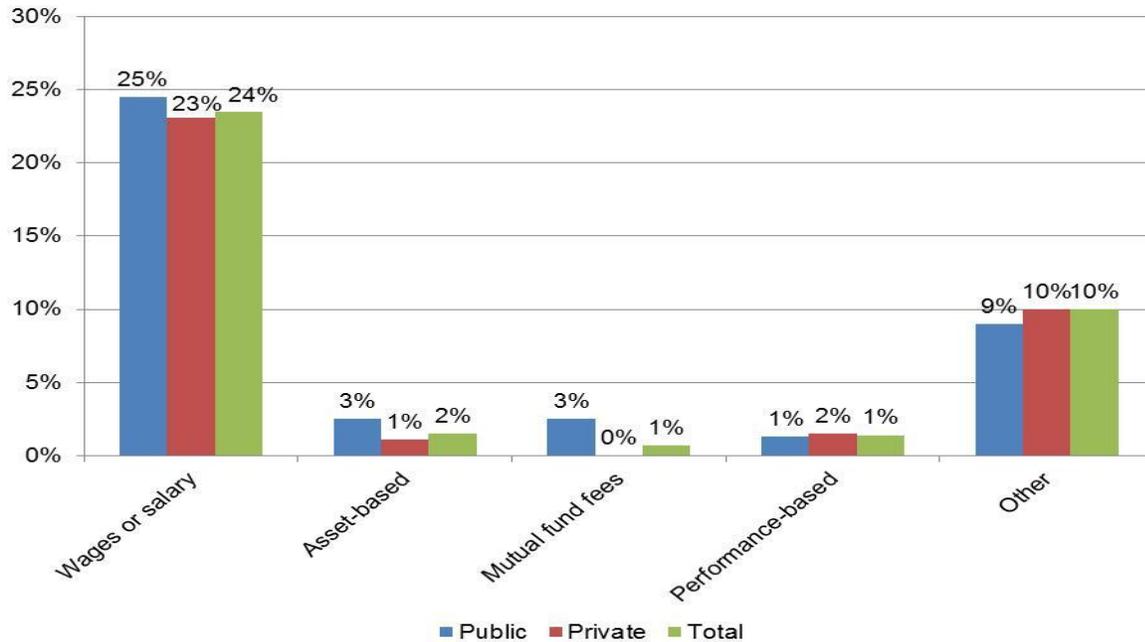
**C. Compensation to Fund Managers (Questions 42 – 43)**

The Questionnaire asked about compensation arrangements with fund managers of both the internal investment and external investment manager types. The percentage of organizations providing various types of compensation to internal investment managers is included in Figure 36.<sup>29</sup> Figure 37 includes this information for external investment managers.<sup>30</sup>

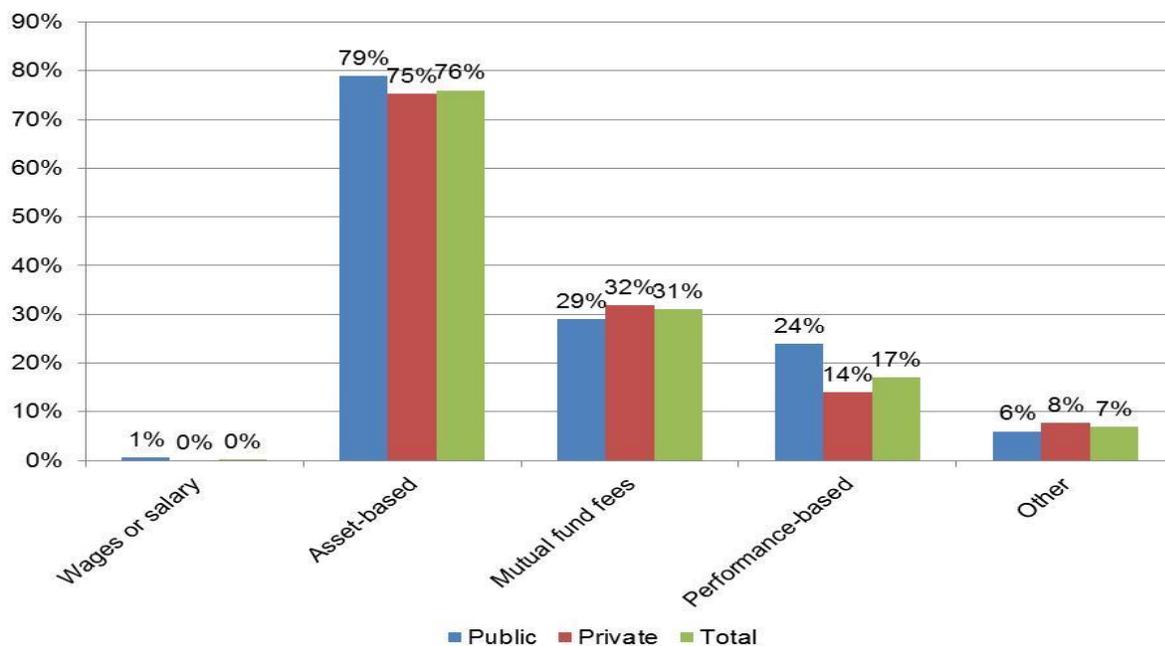
<sup>29</sup> For public colleges and universities in Figure 36, Margin of Error = 8% for “Wages or salary.”

<sup>30</sup> For public colleges and universities in Figure 37, Margin of Error = 8% for “Asset-based.” For private colleges and universities in Figure 37, Margin of Error = 8% for “Mutual fund fees.”

**Figure 36. Question 42 –Types of Compensation Paid to Internal Investment Fund Managers**



**Figure 37. Question 43 – Types of Compensation Paid to External Investment Fund Managers**

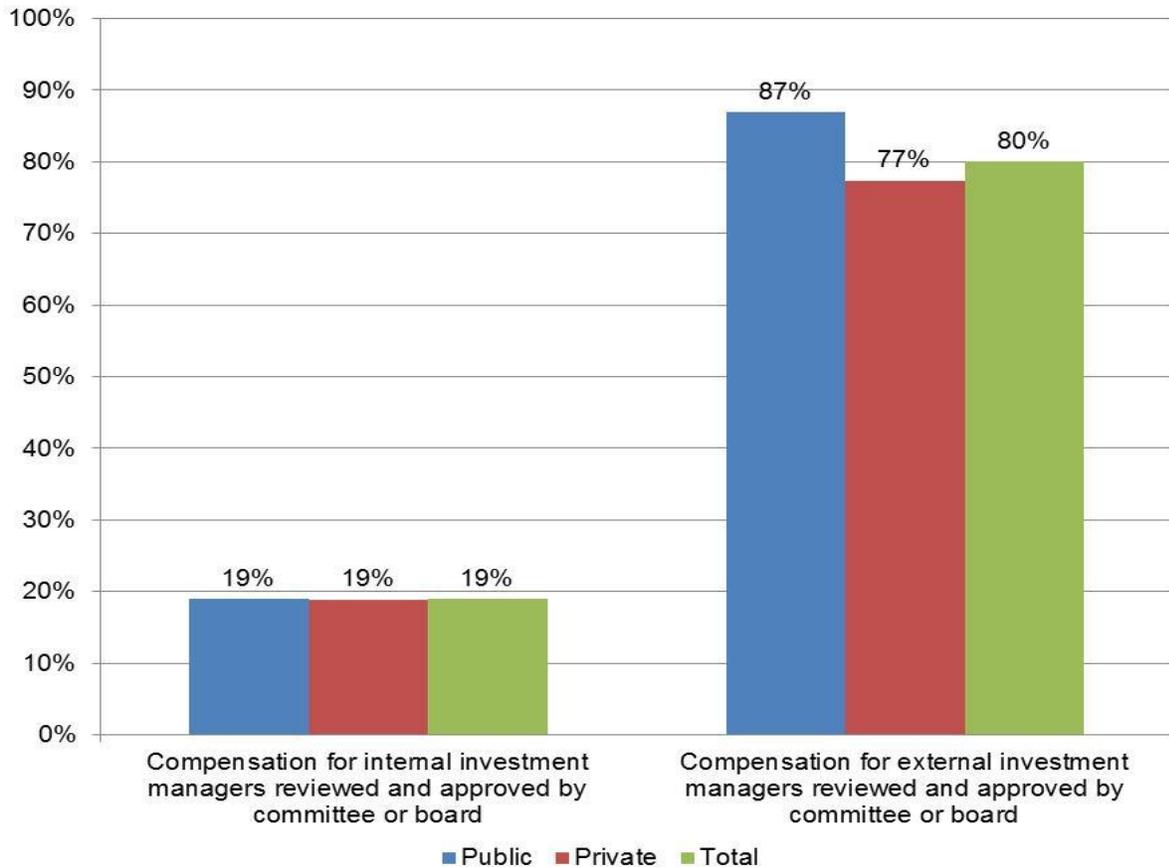


Wages or salary was the most commonly reported type of compensation paid to internal fund managers. Fee-based compensation arrangements were more commonly used to compensate external fund managers than internal fund managers.

**D. Review of Compensation to Fund Managers (Questions 44 – 45)**

The Questionnaire asked whether a committee of the board or the full board reviewed and approved compensation to investment managers.

**Figure 38. Questions 44 and 45 – Review and Approval of Compensation Arrangements for Investment Managers by Board**

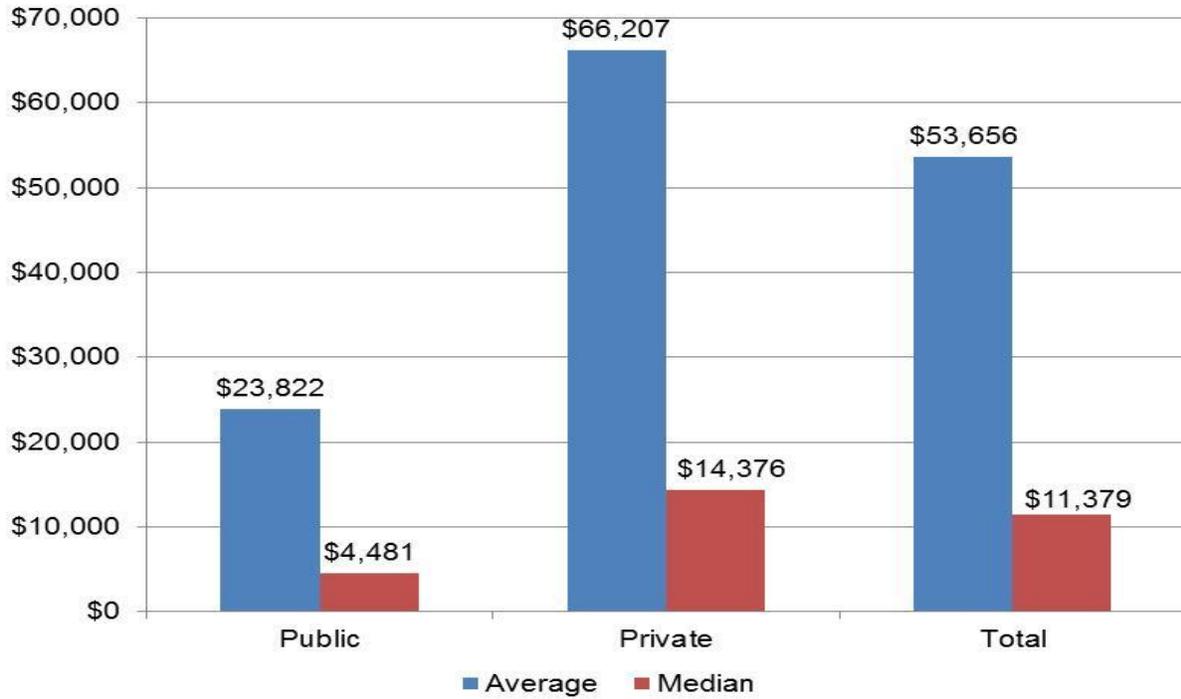


More institutions of both types used a committee of the board or the full board to review and approve compensation to external investment managers than they did for compensation to internal investment managers.

**E. Value of Endowments and Target Spending Rate (Questions 46 – 47)**

Figure 39 and Figure 40 show the reported amount of endowment assets per full-time equivalent student and the year-end fair market value of endowment assets. As previously noted, the reported amounts may be higher than values for a more recent year.

**Figure 39. Question 46 – Average of Endowment Assets per Full-Time Equivalent Student: Fiscal Year Ending 2006**  
*(rounded to the nearest thousand)*



**Figure 40. Question 47 – Fair Market Value of Endowment Assets: Fiscal Year End 2006**  
*(in millions of dollars)*

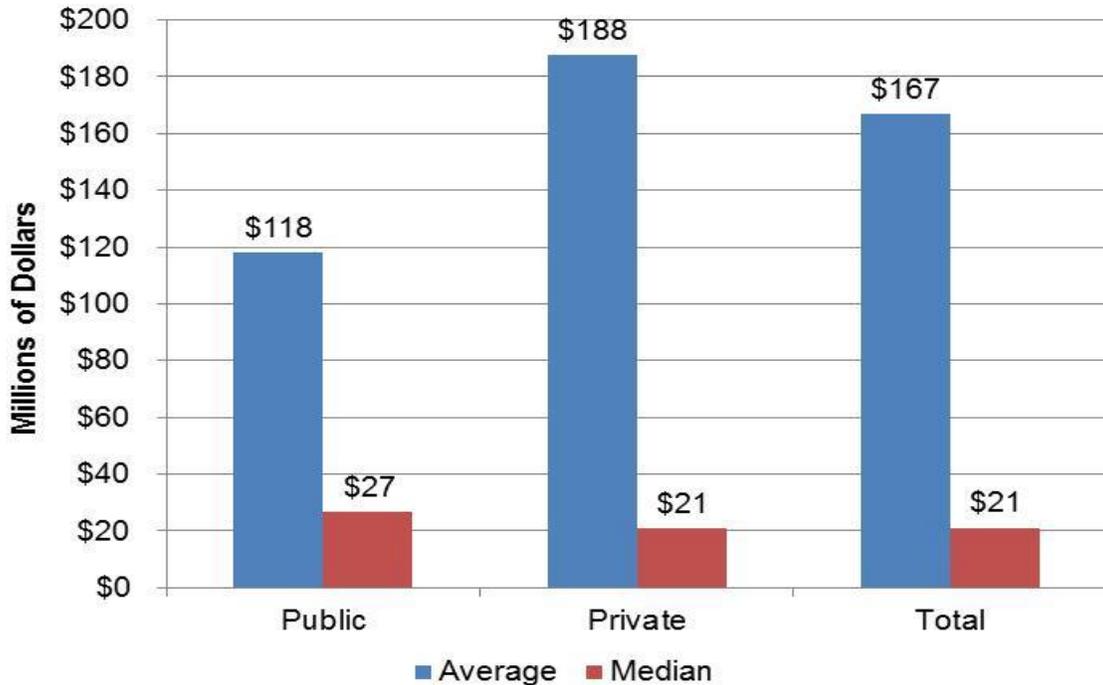


Figure 41 shows the results for questions related to target spending rates.

**Figure 41. Questions 47a, b, and c – Target Spending Rates**

	Public	Private	Total
47a. Investment Committee or Board Adopted Target Spending Rate for All Endowments	84%	74%	77%
47b. Organization Met the Adopted Target Spending Rate	87%	87%	87%
47c. Target Spending Rate Reported	Average=5% Median=5%	Average=5% Median=5%	Average=5% Median=5%

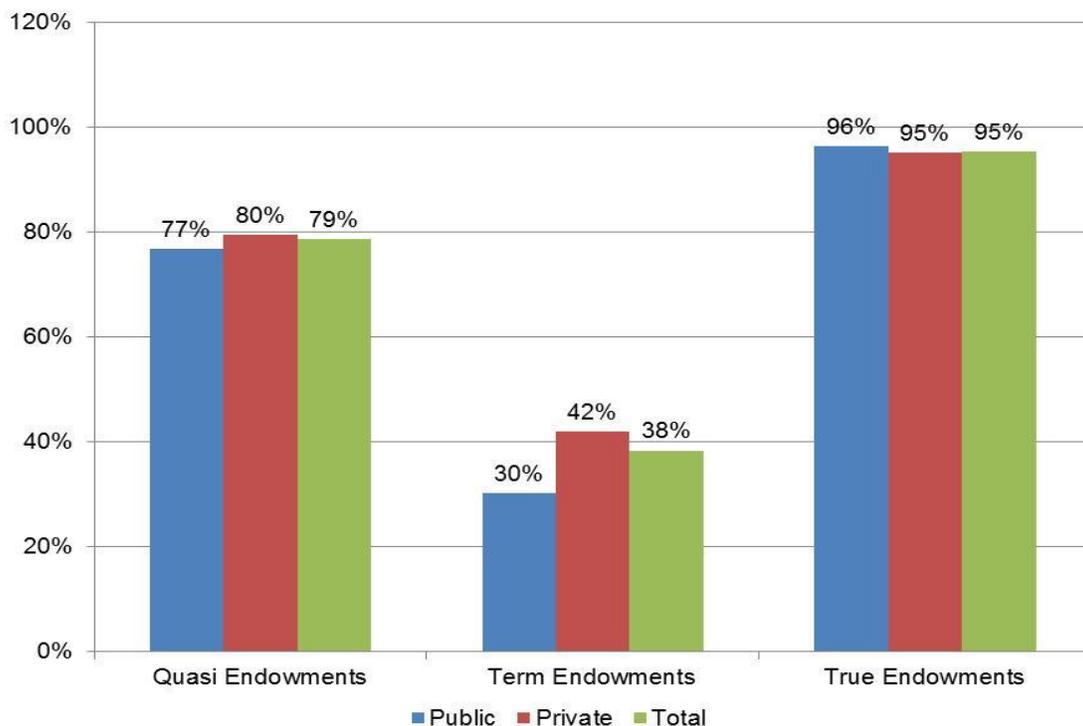
Most private and public institutions have similar target spending rates and most meet their target.

**F. Types of Endowment Funds (Questions 48 – 50)**

Private and public colleges and universities may have multiple types of endowment funds. The Questionnaire asked for the 2006 fiscal year end balance of quasi

endowment funds, term endowment funds and true endowment funds.<sup>31</sup> For purposes of the Questionnaire, quasi endowment funds are defined as endowment pool investments of which the principal can be spent at the discretion of the institution's trustees. Term endowment funds are defined as endowment pool investments of which the principal can be spent after its defined term has passed. A term can be a period of time, an event, or a benchmark of growth of principal. True endowment funds are defined as gifts to the endowment pool of which only the return on the principal investment can be spent. Usually, the principal investment remains permanently invested in the institution's endowment pool.

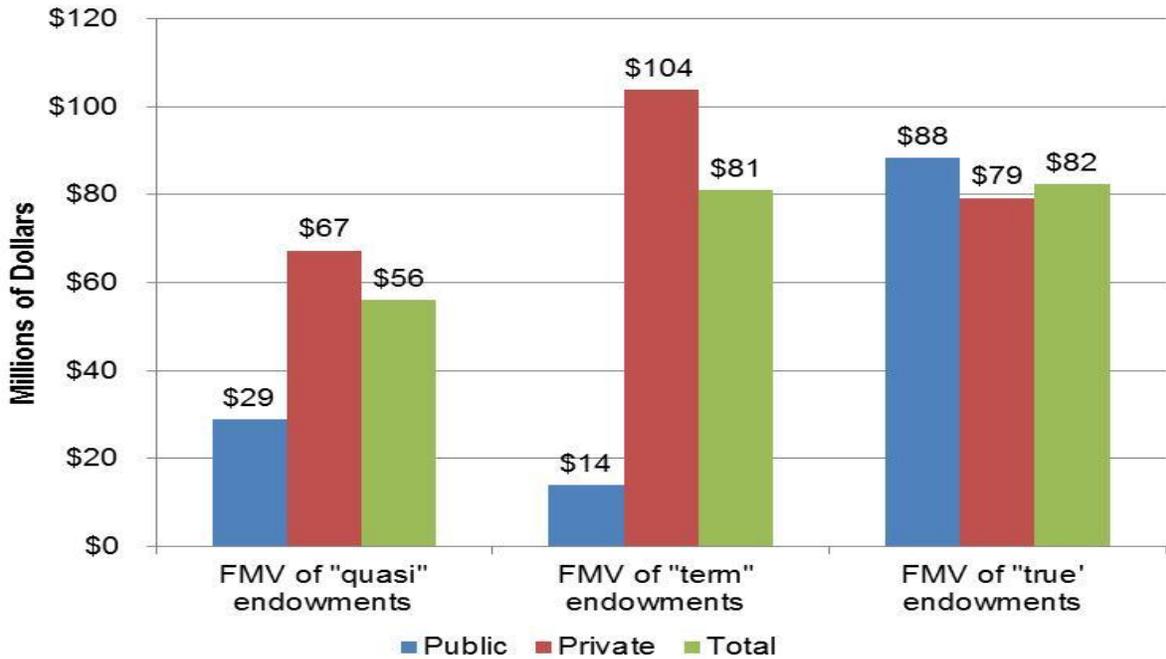
**Figure 42. Questions 48, 49, and 50 – Organizations with Quasi, Term or True Endowment Funds with Reported Positive Values**



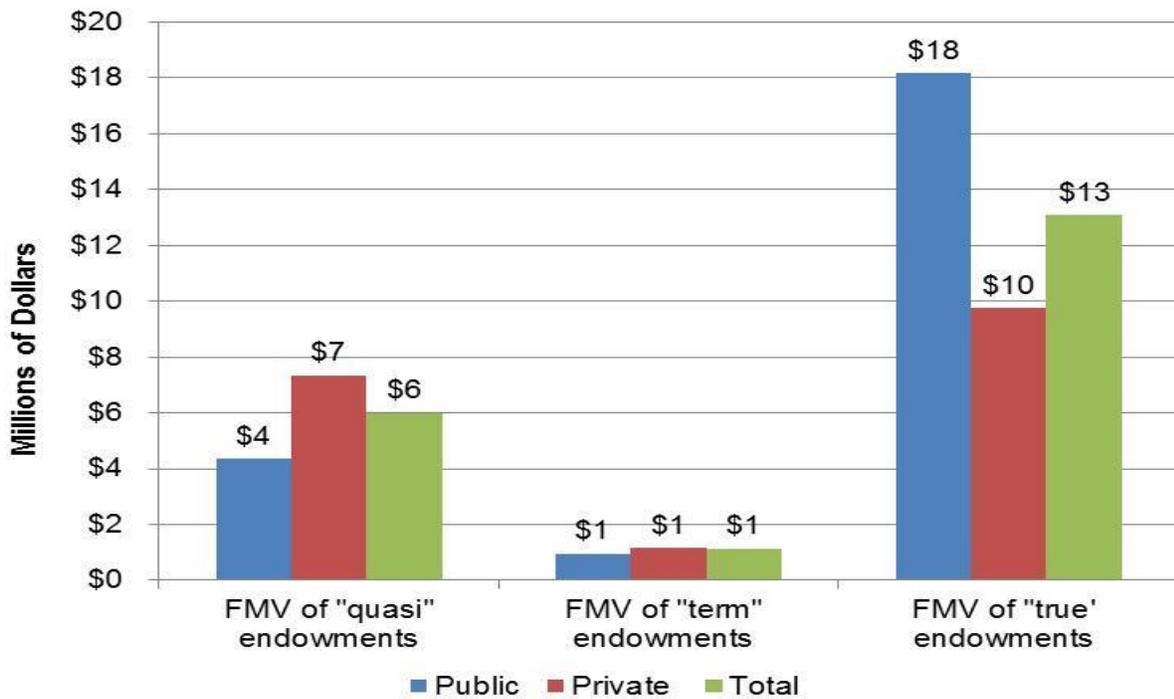
Among the various types of endowments, as depicted in Figure 42, true endowments were the most common investment held by public and private colleges and universities, followed by quasi endowment funds and term endowments. The figure below shows the average and median fair market value of quasi, term, and true endowments as of the end of the fiscal year of 2006. Private institutions held the largest average year-end fair market value in average term endowments. Public institutions held the largest average year-end fair market value in true endowments.

<sup>31</sup> The types of endowments funds and their definitions are based on Financial Accounting Standards Board (FASB) rules.

**Figure 43. Questions 48, 49, and 50 – Average Fair Market Values (FMV) of Quasi, Term and True Endowment Funds for Fiscal Year End 2006**



**Figure 44. Questions 48, 49, and 50 – Median Fair Market Values (FMV) of Quasi, Term and True Endowment Funds for Fiscal Year End 2006**



### G. Life Income Funds (Question 51)

The Questionnaire asked whether the organization or a related entity had certain life income funds – charitable gift annuities, charitable remainder trusts and pooled income funds – and the percentage of the endowment comprised of the selected fund.<sup>32</sup>

**Figure 45. Question 51a, b, and c – Organizations with Types of Life Income Funds**

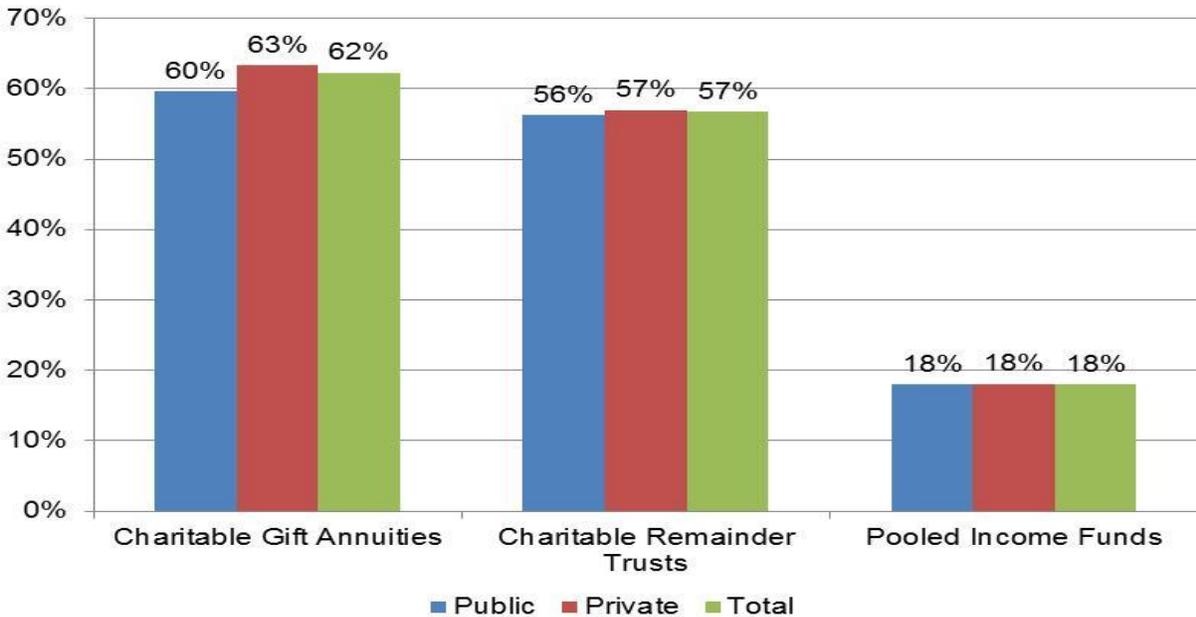
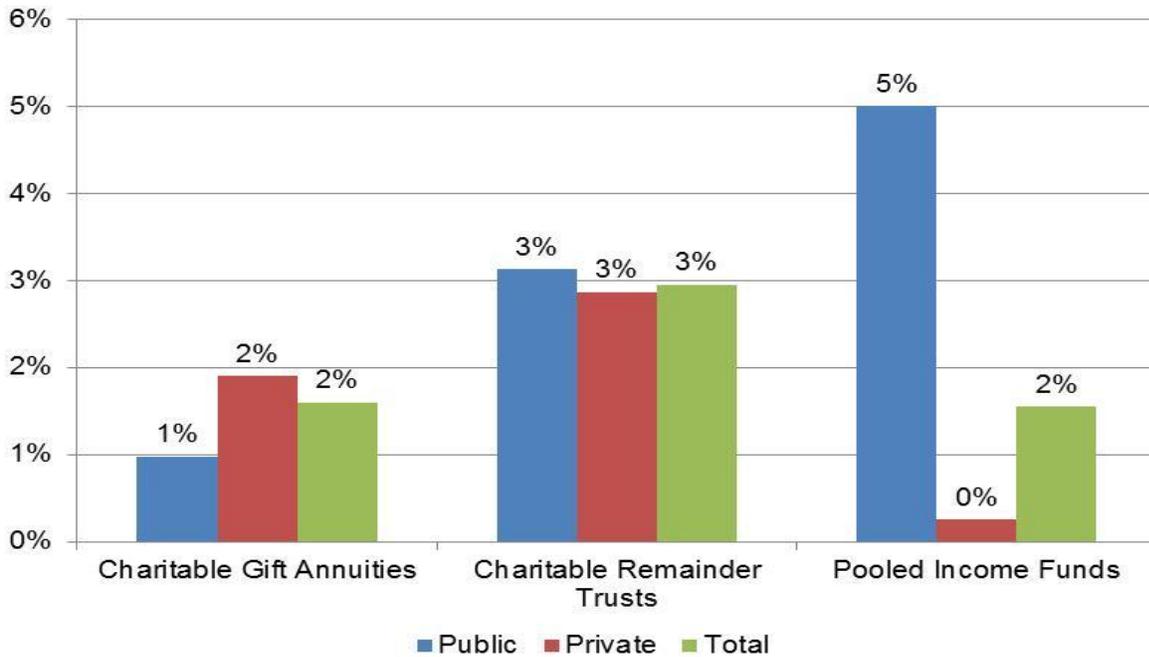


Figure 45 shows the percentage of endowment funds comprised of each of these three types of assets for those having such assets.

<sup>32</sup> For public colleges and universities in Figure 45, Margin of Error = 9% for “Charitable Gift Annuities” and “Charitable Remainder Trusts.” For private colleges and universities in Figure 45, Margin of Error = 8% for “Charitable Gift Annuities” and “Charitable Remainder Trusts.” For public colleges and universities in Figure 46, Margin of Error = 9% for “Pooled Income Funds.”

**Figure 46. Question 51a, b, and c –Percentage of Endowment Funds Comprised of Certain Life Income Funds**

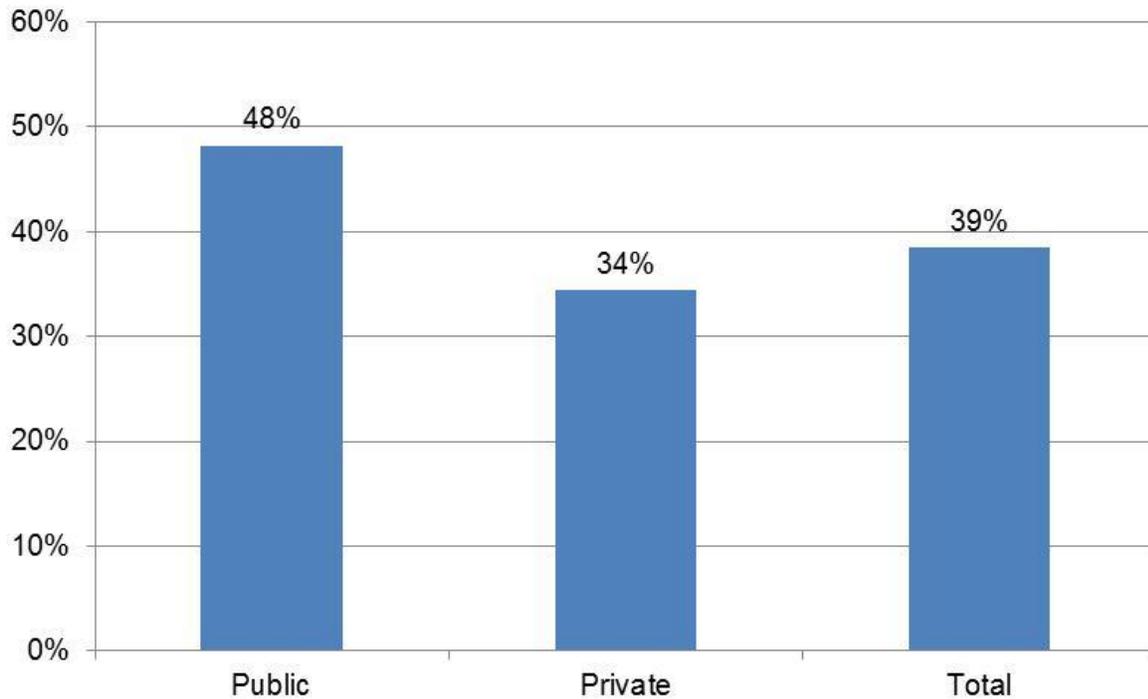


**H. Foreign Investments (Question 52)**

The Questionnaire also asked whether organizations made foreign investments of endowment funds through an investment entity.<sup>33</sup>

<sup>33</sup> For public colleges and universities in Figure 47, Margin of Error = 9%. For private colleges and universities in Figure 47, Margin of Error = 8%.

**Figure 47. Question 52 – Percentage of Organizations Making Foreign Investments of Endowment Funds through an Investment Entity**

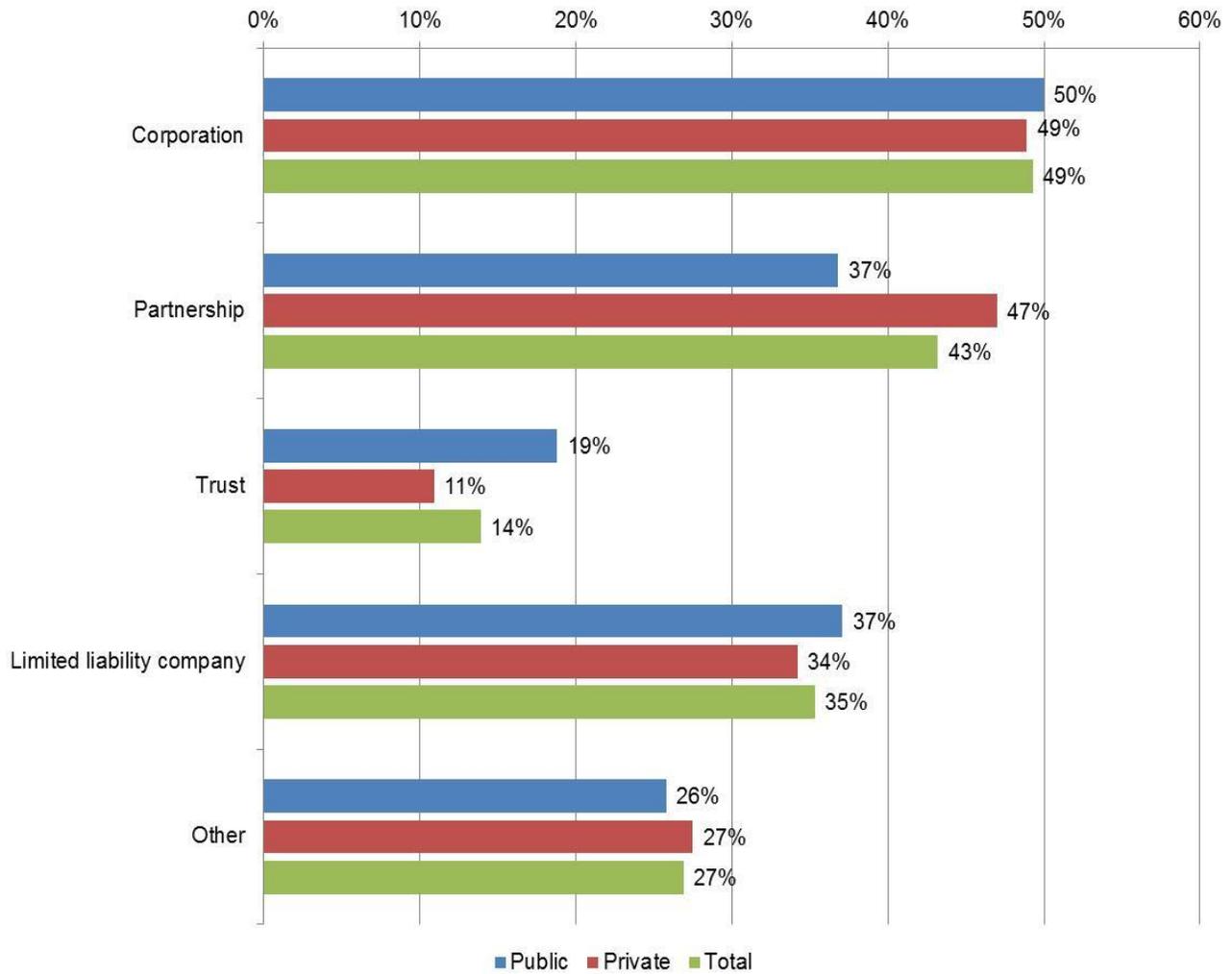


Colleges and universities responding that they made foreign investments of endowment funds through an investment entity were asked to indicate if the entity used to make these investments was a corporation, partnership, trust, limited liability company (LLC) or otherwise. The Questionnaire instructed respondents to “check all that apply,” so if more than one type of entity was used by an organization, the organization was asked to indicate this.<sup>34</sup>

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<sup>34</sup> In Figure 48, for public colleges and universities, the Margin of Error ranges from 11 to 13%; for private colleges and universities, the Margin of Error ranges from 12 to 14%, except for “Trust,” for which the Margin of Error = 8%; and for total colleges and universities, the Margin of Error ranges from 9 to 10%, except for Trust, for which the Margin of Error = 7 %.

**Figure 48. Question 52a, b, c, d, and e – Entity Type Used to Make Foreign Investments**



Many public and private institutions used more than one type of entity to make foreign investments. Public institutions make foreign investments through a corporation entity more than through any other entity. They also make foreign investments in almost as many partnership entities as limited liability entities.

Of all entity types, both public and private institutions held the smallest percentage of their foreign investments in trusts. A large percentage of both private and public institutions also hold foreign investments through the use of a corporation than any other type of investment entity.

***I. Investments (Questions 53 – 55)***

The Questionnaire requested information concerning the types of investments held by the colleges and universities in their endowment funds as of the last day of their fiscal

year ending in 2006, as well as the percentage of their total endowment assets held in each type of investment. The types of investments listed in the Questionnaire included breakdowns for alternative investments, fixed income funds, equity funds, real estate, international funds, cash and other investments. Figure 49 shows the separate and overall percentages of public and private colleges and universities that hold some portion of their total endowment assets in the specified investment types. For the specific categories of investments, the figure shows the percentage of organizations that have any investment in that category of investment, followed by the breakdown for the specific asset types within that category.

**Figure 49. Question 53 – Investments in Various Asset Classes**

	Public	Private	Total
53a. Alternatives			
Any Alternative Investment	57%	46%	49%
53ai. Hedge Funds	61%	48%	52%
53aii. Private Equity	48%	39%	41%
53aiii. Venture Capital	36%	32%	33%
53aiv. Natural Resources	39%	34%	35%
53av. Other	31%	28%	29%
53b - Fixed Income Funds			
Any Fixed Income Fund	99%	92%	94%
53bi. U.S. Fixed	98%	90%	93%
53bii. Non - U.S. Fixed Income	33%	35%	34%
53biii. Other	31%	26%	28%
53c - Equity Funds			
Any Equity Fund	96%	93%	94%
53ci. U. S. Equity	95%	93%	94%
53cii. Non - U.S. Equity	71%	61%	64%
53ciii. Other	24%	23%	23%

**Figure 49 Continued. Question 53 – Investments in Various Asset Classes**

	Public	Private	Total
53d - Real Estate			

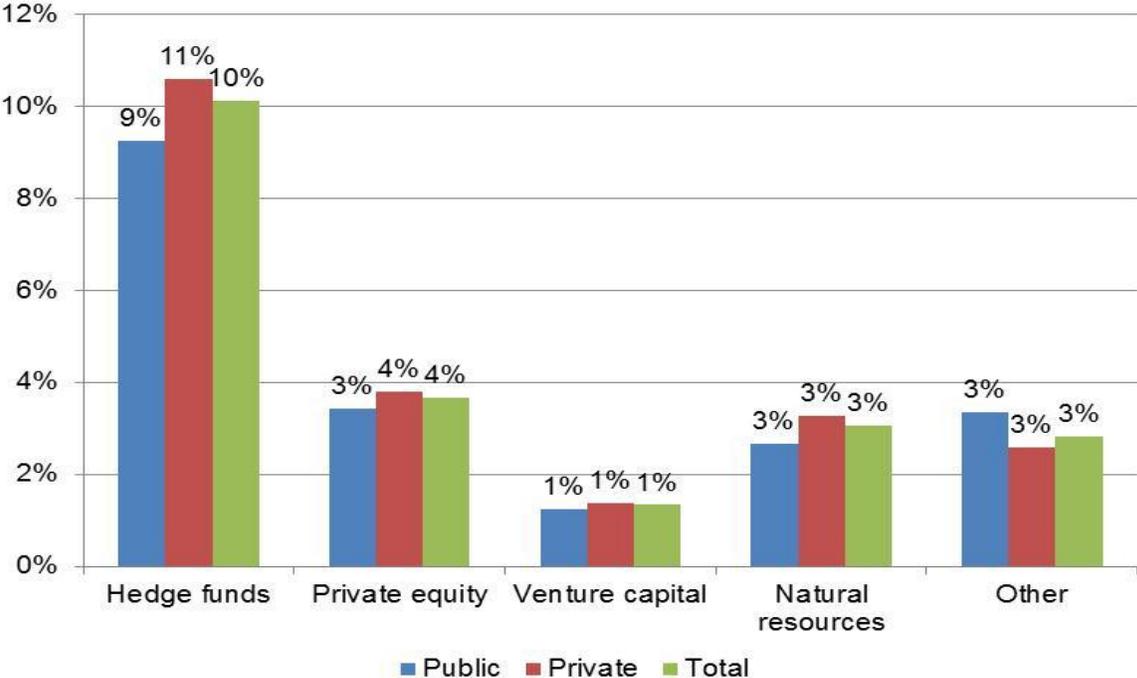
Any Real Estate	44%	41%	42%
53di. Public Real Estate	39%	35%	36%
53dii. Private Real Estate	45%	45%	45%
53e - International Funds	32%	34%	33%
53f - Cash	80%	80%	80%
53g - Other Investments	36%	37%	37%

The most common type of investments by both public and private colleges and universities were U.S. fixed income and U.S. equity funds.

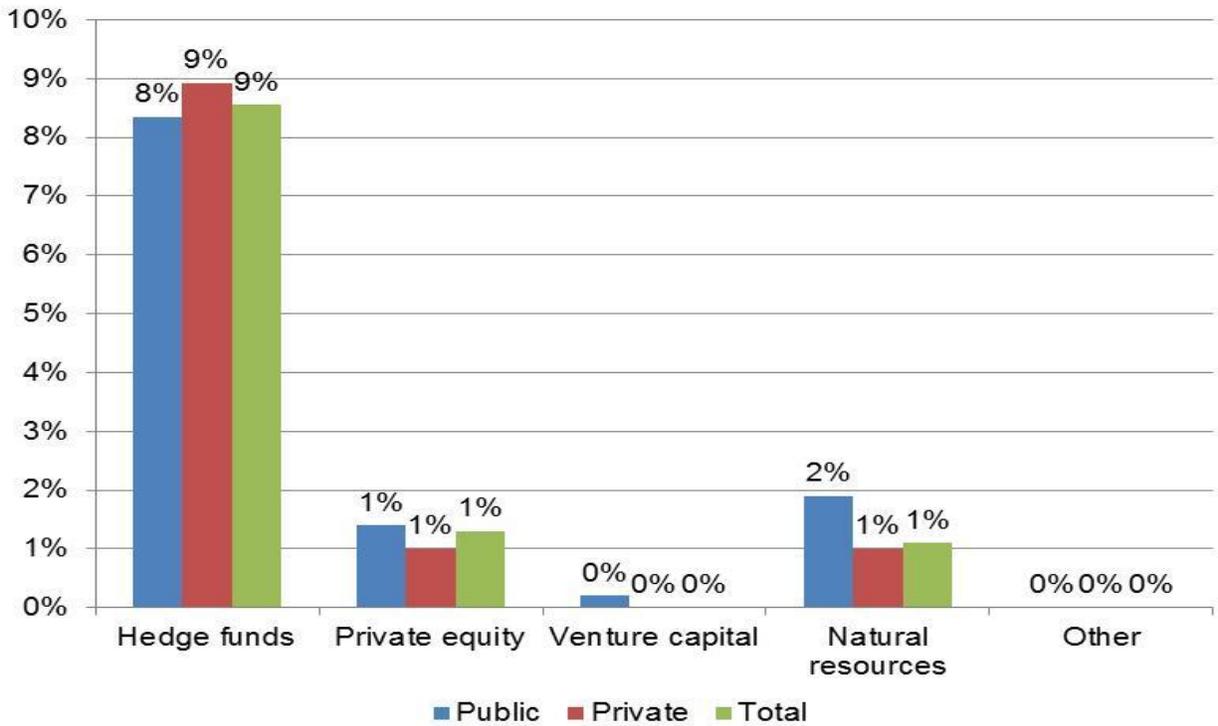
Approximately three-quarters of public and private colleges and universities hold cash in their endowments, while roughly one-third of the public and private colleges and universities have investments in natural resources and public real estate.

For those colleges and universities that had some portion of their endowment invested in a particular type of asset, the following tables show the average and median percentage of total endowment assets invested in each type of asset as of the end of the fiscal year ending in 2006.

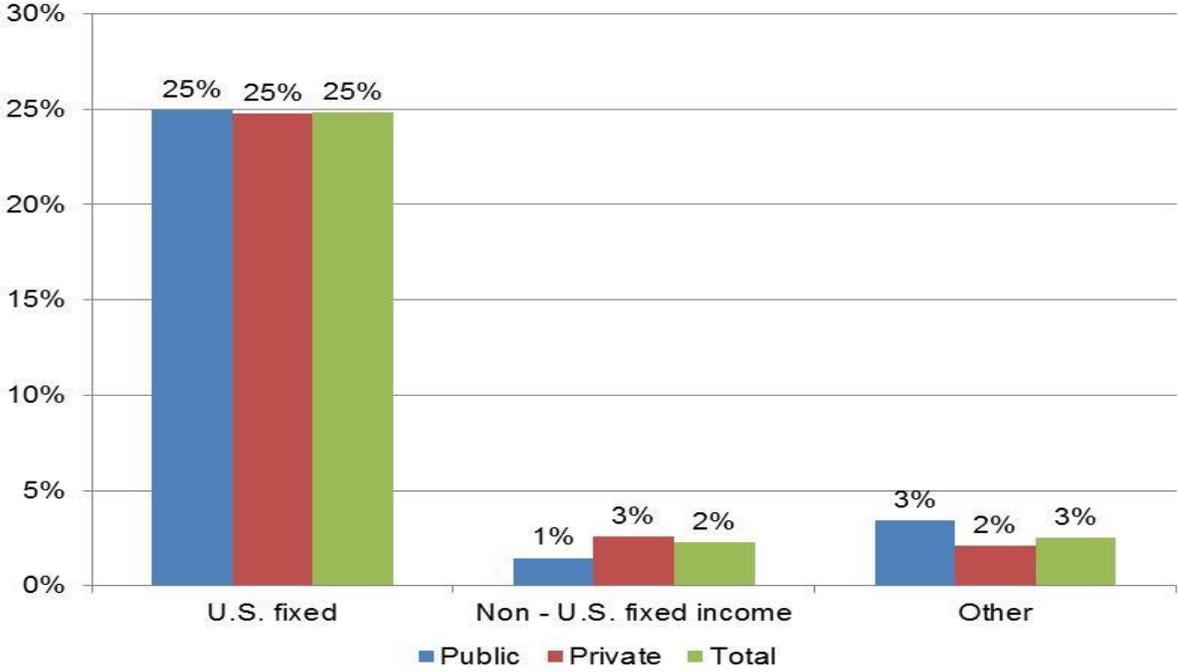
**Figure 50. Question 53a – Average Percentage of Endowment Invested in Alternative Investments**



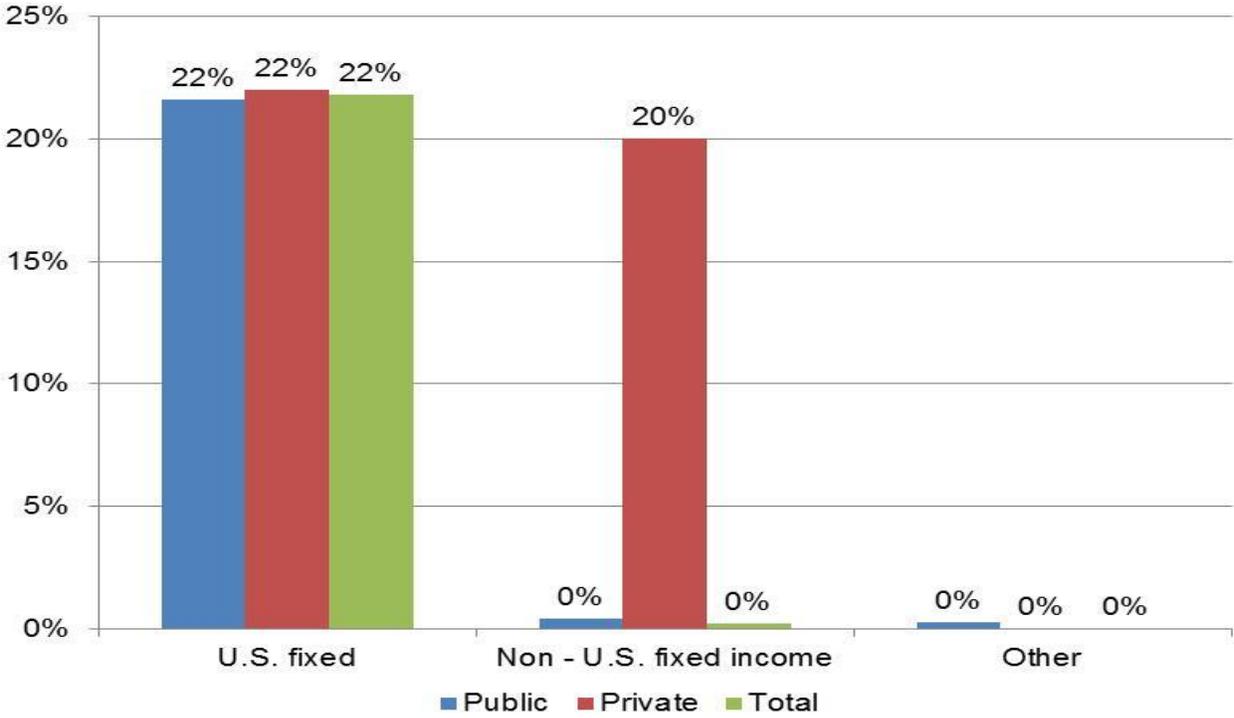
**Figure 51. Question 53a – Median Percentage of Endowment Invested in Alternative Investments**



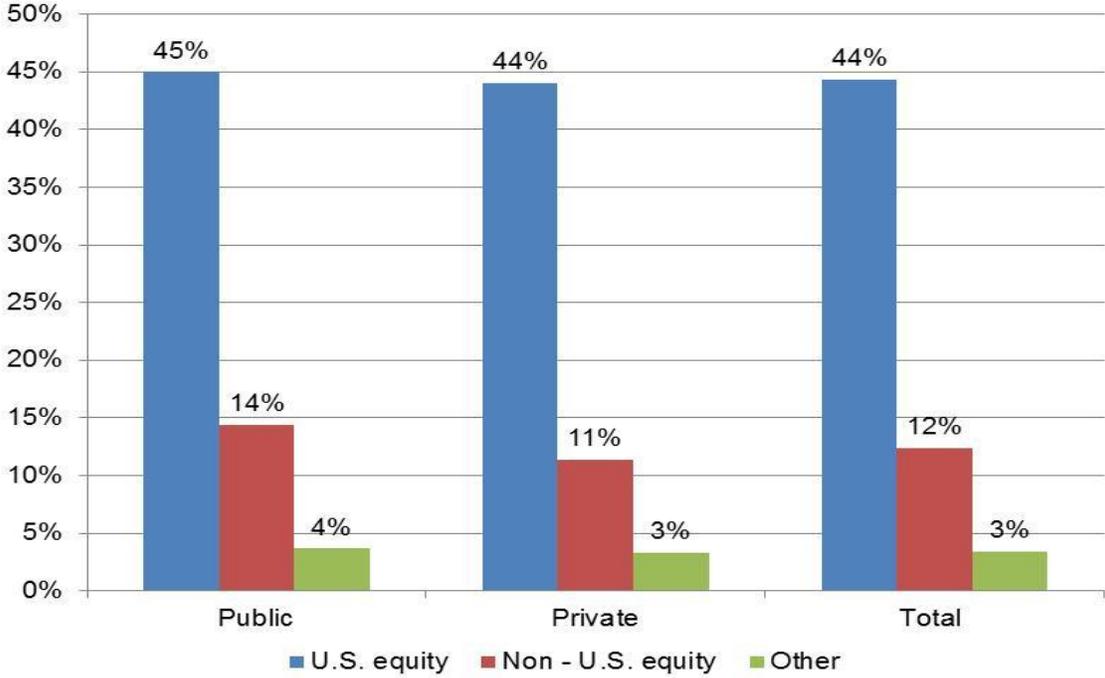
**Figure 52. Question 53b – Median Percentage of Endowment Invested in Fixed Income Funds**



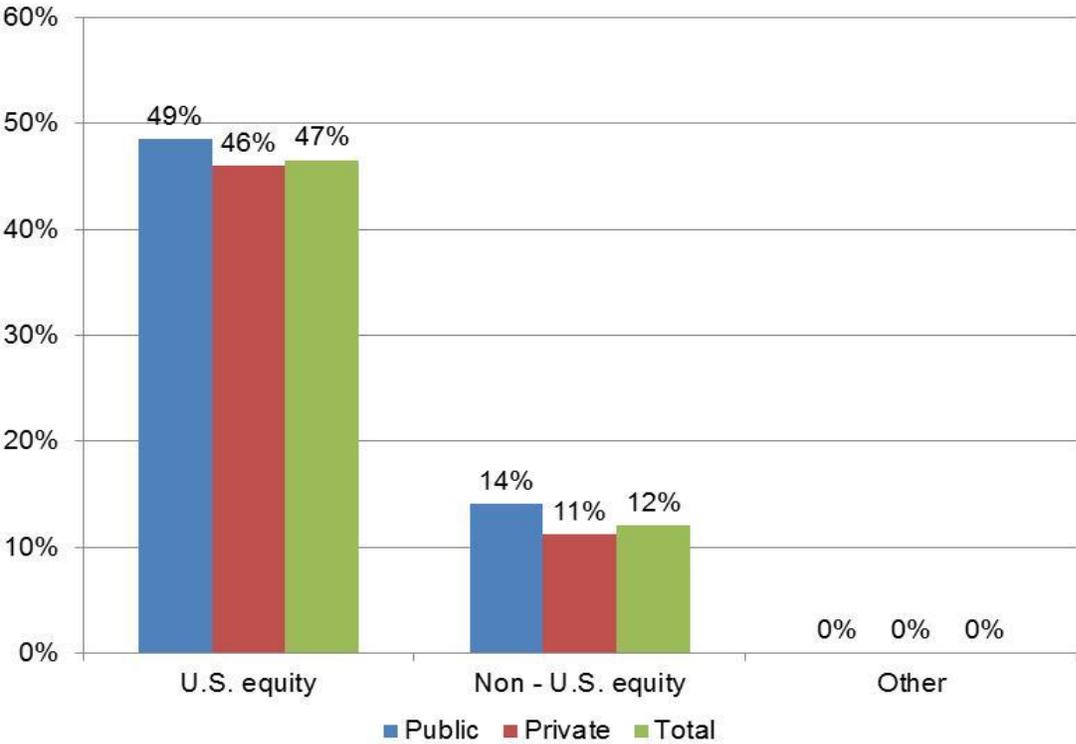
**Figure 53. Question 53b – Median Percentage of Endowment Invested in Fixed Income Funds**



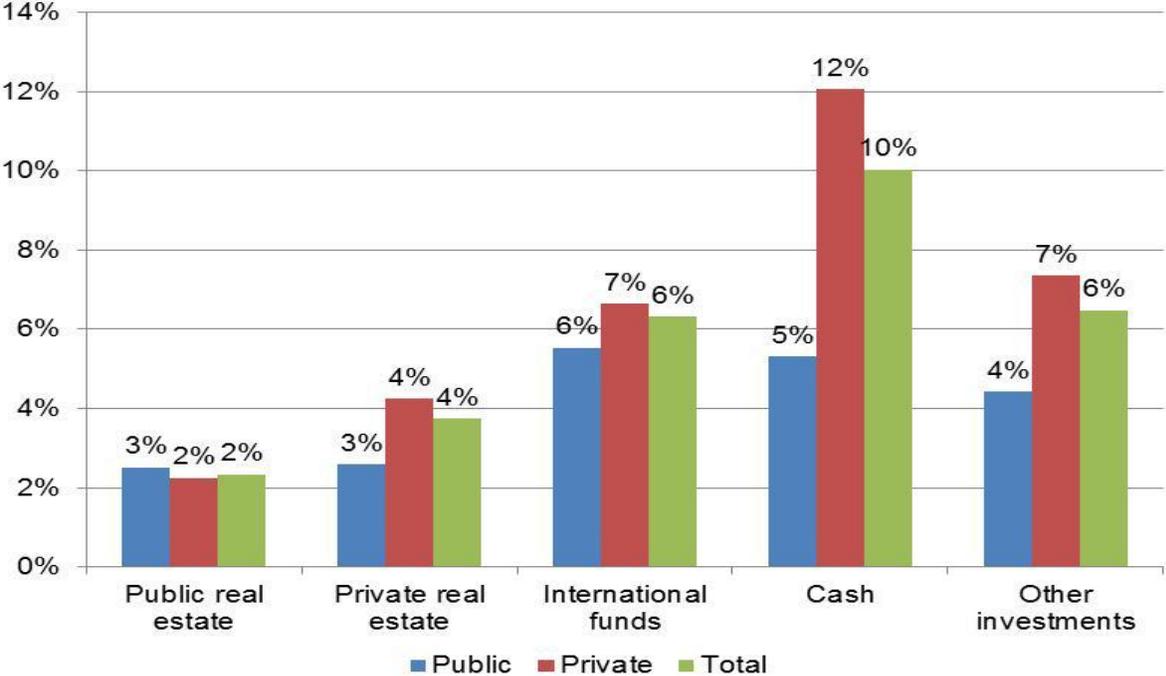
**Figure 54. Question 53c – Average Percentage of Endowment Invested in Equity Funds**



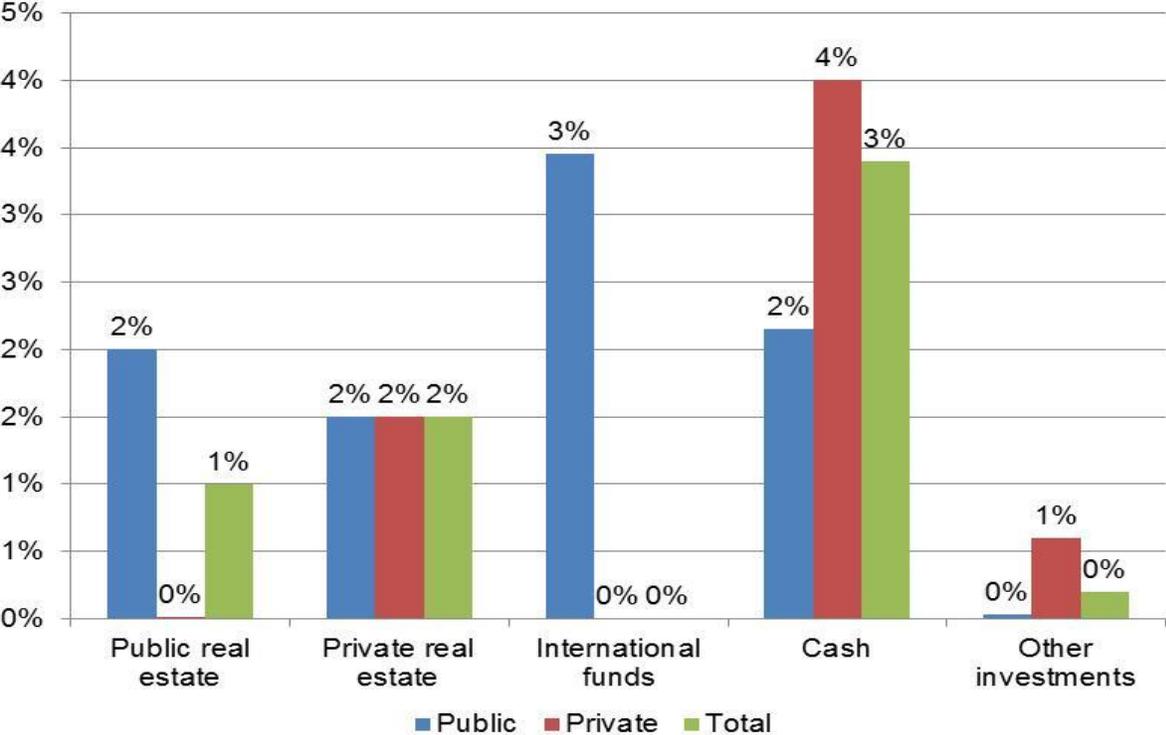
**Figure 55. Question 53c – Median Percentage of Endowment Invested in Equity Funds**



**Figure 56. Question 53d-g – Average Percentage of Endowment Invested in Other Investments**



**Figure 57. Question 53d-g – Median Percentage of Endowment Invested in Other Investments**



Although the likelihood of participation in a particular type of investment varied by institution type, for those colleges or universities that invested in a particular type of asset investment, the average and median percentage of total endowment assets for that investment was fairly consistent. There were a few exceptions to this general pattern. For example, of the colleges and universities that invested in cash, the average percentage invested by the private colleges and universities was almost twice then that of the public colleges and universities. For those that invested in other investments, the average percentage invested by the private colleges and universities was almost twice the average invested by the public colleges and universities.

Question 55 asked whether the board or committee members placed restrictions on the purchase or sale of certain securities because of particular donor restrictions or special requests. More private institutions than public institutions did place such restrictions.

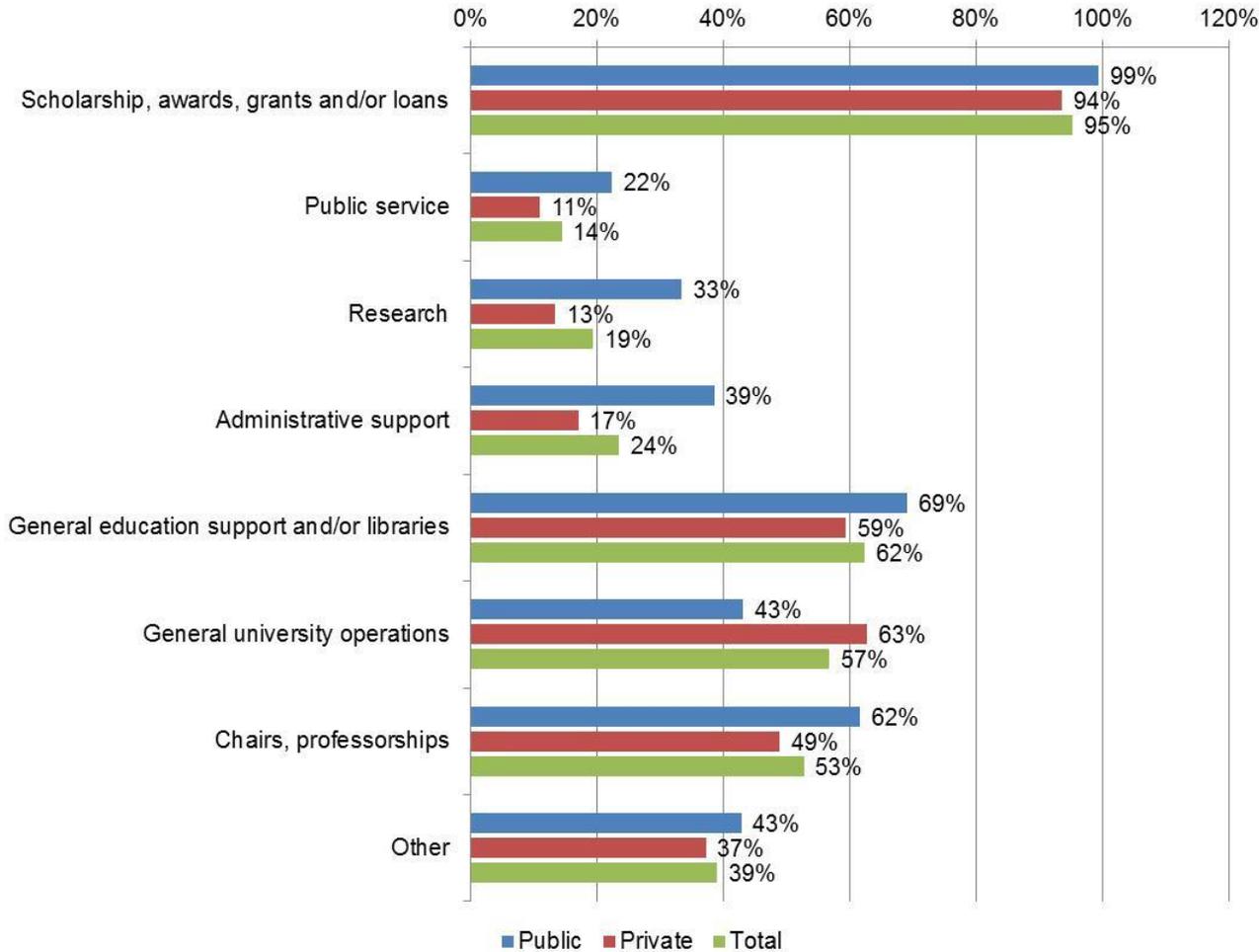
#### ***J. Distributions from Endowments (Questions 56 – 57)***

The Questionnaire requested information about how the organization distributed its endowment funds among a specified list of categories, including the percent of total distributions for each specified category, the amount distributed, and the percent of the distributions that were restricted by the donor or the board or committee.<sup>35</sup>

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<sup>35</sup> For both public and private colleges and universities in Figure 58, Margin of Error ranges from 8 to 9% for all categories except for “Scholarship, awards, grants and/or loans” and “Public Service” for which Margin of Error = 7%.

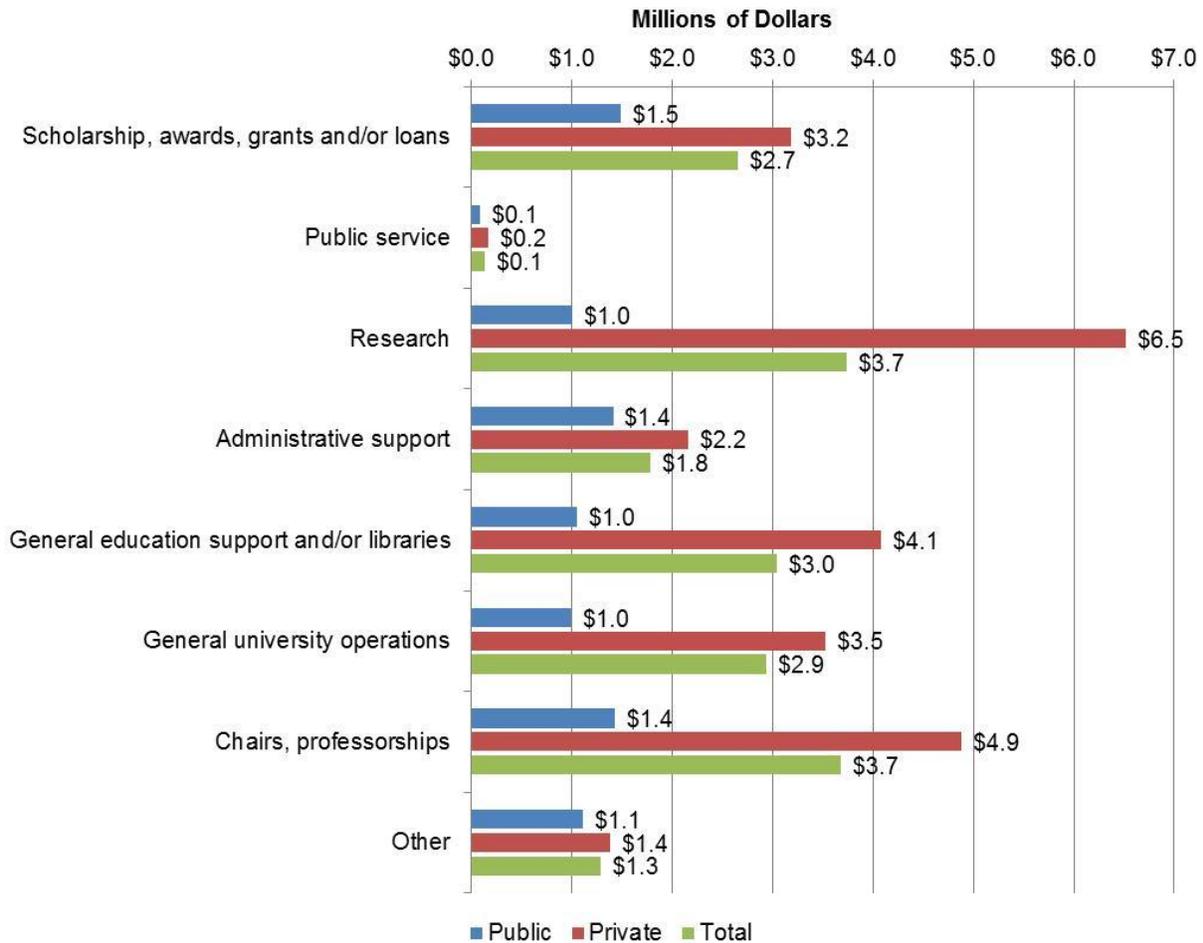
**Figure 58. Question 56 – Percentage of Organizations that Reported Distribution of Endowment Funds for the Following Categories**



A large percentage of the private and public institutions made distributions for scholarships, awards, grants and/or loans from their endowment funds. Except for general university operations and chairs and professorships, and administrative support, the percentages of distributions for a particular use were close across institutional type.

Figure 59 shows the average endowment fund amount distributed by public and private institutions based upon how the funds were used.

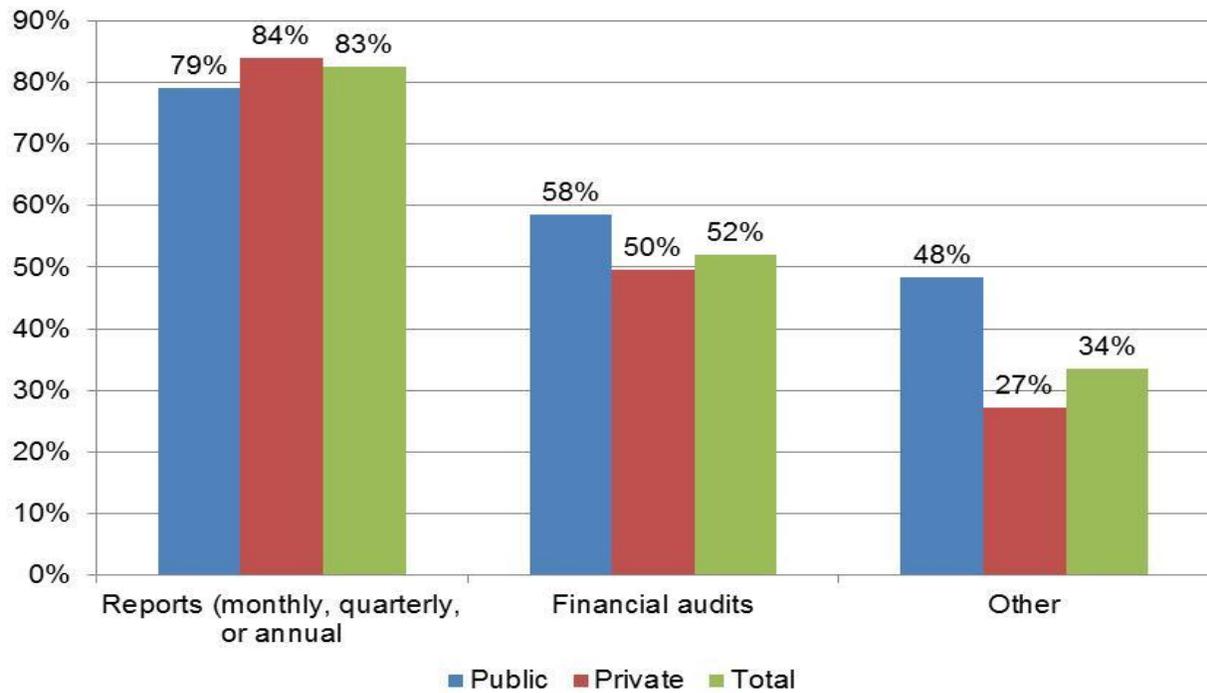
**Figure 59. Question 56c – Average Endowment Fund Amount Distributed**



Question 58 asked if the organization monitored endowment distributions to ensure they were used for the donor’s intended purpose and how distributions were monitored. Nearly all public and private colleges and universities monitor distributions to ensure use for the intended purpose. Figure 60 reflects the method used by the colleges and universities to monitor endowment distributions.<sup>36</sup>

<sup>36</sup> In Figure 60, for public colleges and universities, Margin of Error = 9% for “Financial audits” and “Other;” and for private colleges and universities, Margin of Error = 8% for “Financial audits.”

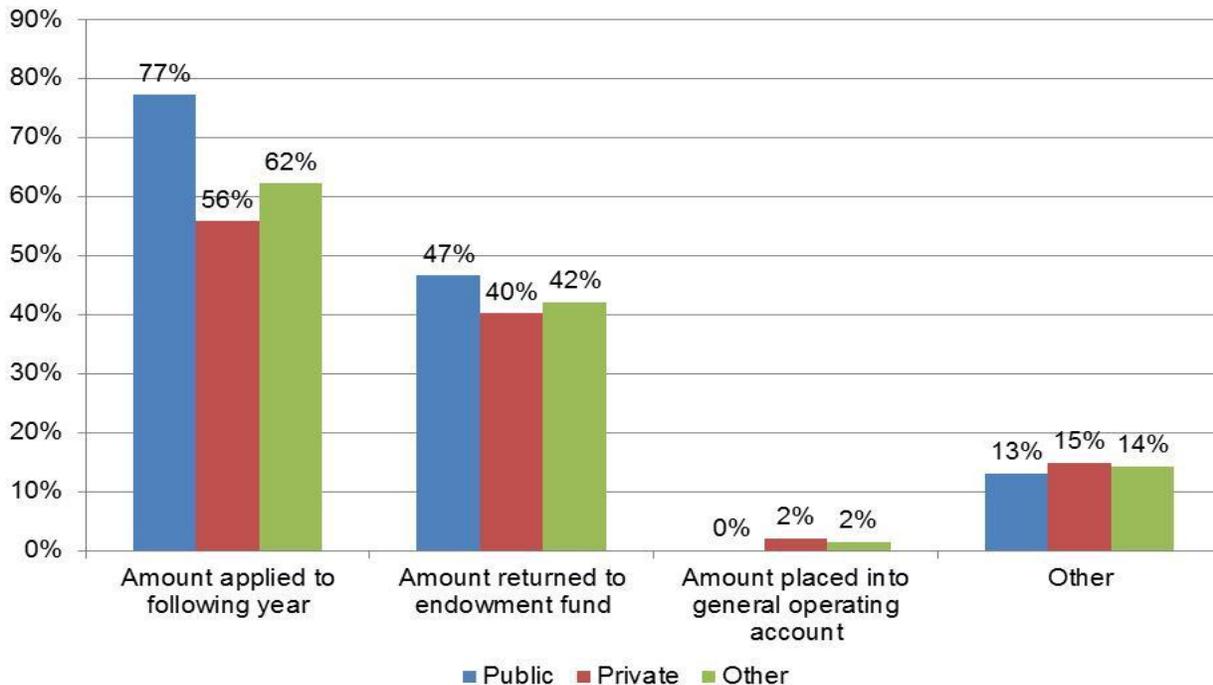
**Figure 60. Question 58 – Method of Monitoring Distributions**



Question 59 inquired about a college or university's policy on disbursements made from its endowment fund that were not used during the fiscal year the disbursements were made.<sup>37</sup>

<sup>37</sup> For public and private colleges and universities in Figure 61, Margin of Error ranges from 8 to 9% for "Amount applied to following year" and "Amount returned to endowment fund."

**Figure 61. Question 59 – Policy on Disbursements Not Used during Fiscal Year**



## V. COMPENSATION

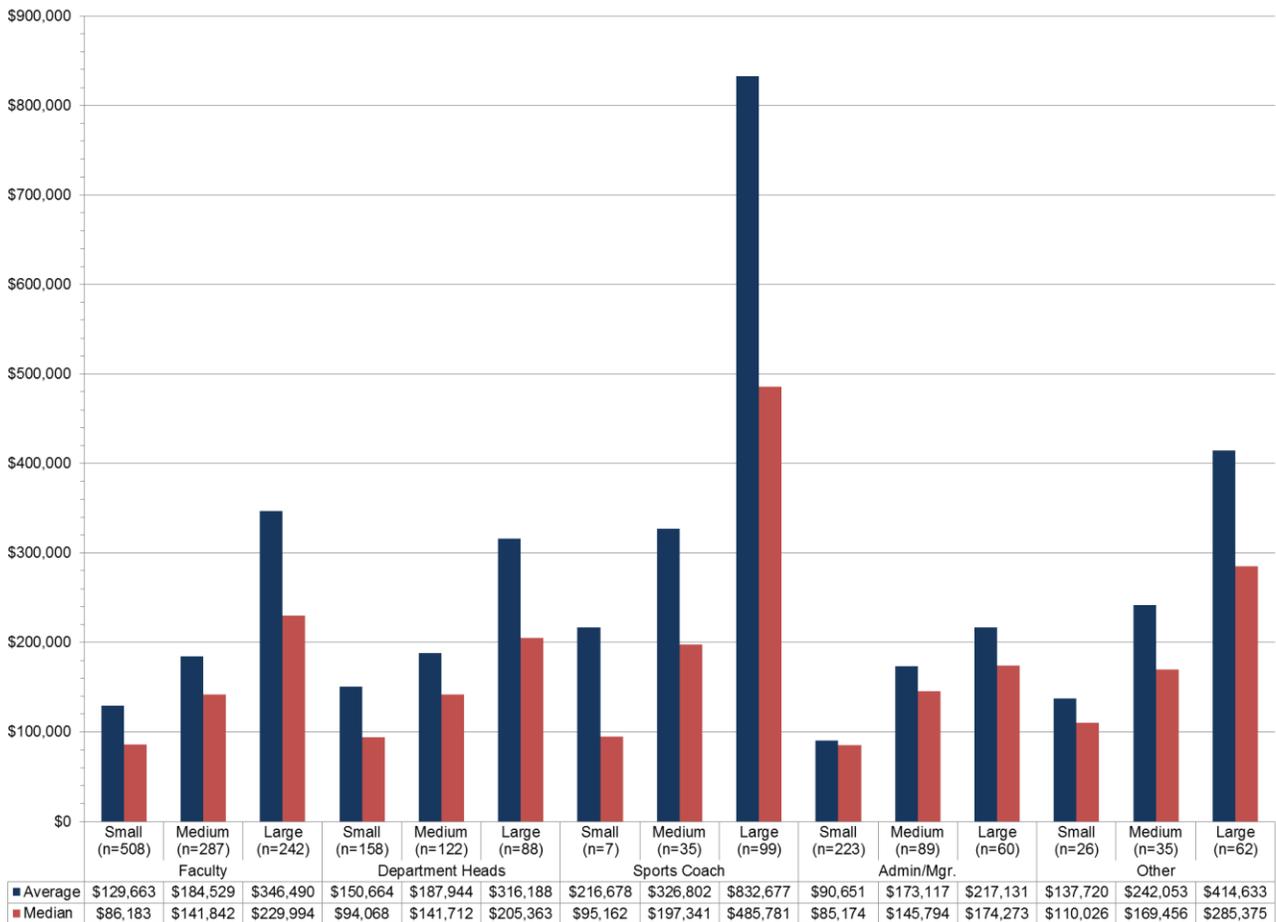
### A. Overview

The Questionnaire asked for compensation information for the six highest paid officers, directors, trustee and key employees of the organization (referred throughout this section as “ODTKEs”) as well as a number of questions related to practices and procedures used to determine compensation amounts. The Questionnaire also requested compensation and other information for the five highest paid employees of the organization other than ODTKEs. For the purposes of this study, respondents were to use the compensation reported on Form(s) W-2, box 1, plus any deferred compensation or other forms of compensation that are generally subject to Medicare taxes but excluded from federal income tax.

### B. Compensation of Highest Paid Employees (Other than Officers, Directors, Trustees, or Key employees) (Question 17)

Question 17 asked respondents to indicate the job titles (Faculty, Heads of Department, Sports Coach, Administrative/Managerial, Investment Manager, or Other) that describes the position(s) held by each of the five highest paid employees. Several respondents listed a person that held one or more title. The following graph and table show the average and median compensation paid by the respondent organization plus compensation from related organizations to the highest paid employees.

**Figure 62. Question 17 – Average and median compensation paid by the organization plus compensation from related organization for the highest paid employees by job title (other than an ODTKE)**



Several questions focused on the compensation paid to sports coaches. Of the highest paid employees, Sports Coaches had the highest average and median compensation across all sizes of colleges and universities. The highest average and median total

compensation paid to Sports Coaches was paid by the large colleges and universities; the average was \$833,000 and the median was \$486,000.

***C. Question 17 – Athletic Coaches Not Employed by the Organization and Receipt of NCAA Athletic Income***

Question 17 asked whether athletic coaches were not employed by the respondent and also asked whether any of the top five highest paid employees received NCAA income. Nearly all athletic coaches were employed by their college or university; only about five percent were not.

According to the NCAA Division I Manual, Operating Bylaws § 11.2.2 (August 1, 2011), sources of NCAA Athletic Income shall include, but are not limited to, the following:

- Income from annuities;
- Sports camps;
- Housing benefits (including preferential housing arrangements);
- Country club memberships;
- Complimentary ticket sales;
- Television and radio programs;
- and Endorsement or consultation contracts with athletics shoe, apparel or equipment manufacturers.

In general, contractual agreements, including letters of appointment, between a full-time or part-time athletics department staff member and an institution shall include the stipulation that the staff member is required to provide a written detailed account annually to the president or chancellor for all NCAA Athletic Income and benefits from sources outside the institution. In addition, the approval of all athletically related income and benefits shall be consistent with the institution's policy related to outside income and benefits applicable to all full-time or part-time employees.

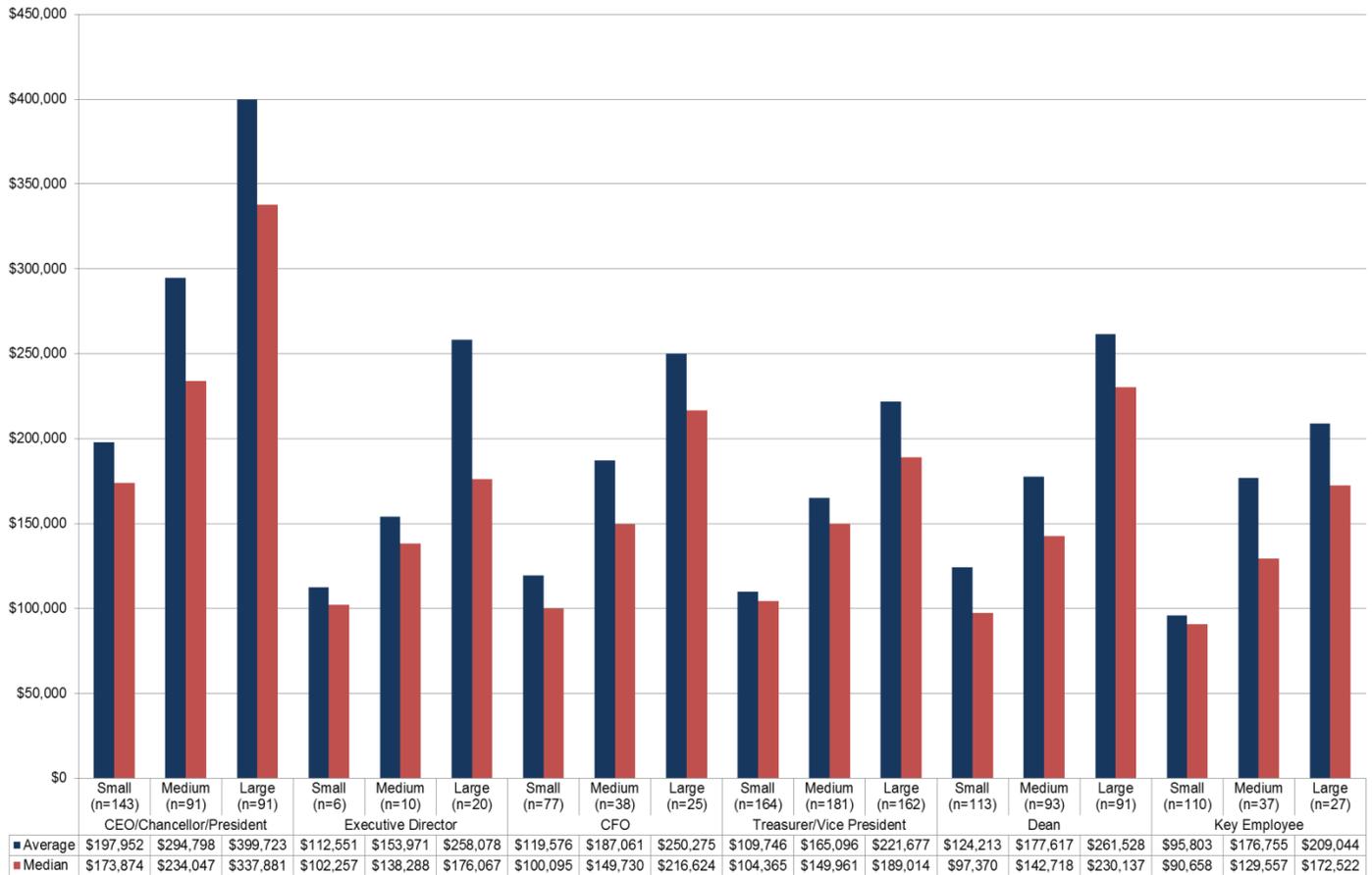
The average and median amounts of NCAA income received by the 18 medium sized universities and colleges that responded was 341,000 and \$161,000 respectively. The average and median amounts of NCAA income received by the 67 large colleges and universities that responded was \$527,000 and \$312,000 respectively. The data from the small universities and colleges has been omitted so to prevent the potential identification of respondents.

***D. Executive Compensation Amounts and Types of Remuneration (Question 60)***

The Questionnaire asked public and private colleges and universities to provide information concerning the compensation paid by the respondent and related organizations to the college's or university's six highest paid ODTKEs. Both public and private organizations were instructed to respond to these questions.

Question 60 asked public and private colleges and universities to provide compensation paid by the respondent and related organizations to the respondent's six highest paid ODTKEs. The following graph (Figure 63) provide a breakdown by the traditional college and university job titles<sup>38</sup> for the highest paid ODTKEs based on compensation paid by the respondent and by related organizations for the calendar year 2006.

**Figure 63. Question 60 – Average and Median Total Compensation of the Highest Paid ODTKEs**



<sup>38</sup> The graph also includes compensation paid to employees identified as Key Employees. A Key Employee is an employee of the organization (other than an officer, director, or trustee) who has responsibilities, powers or influence over the organization similar to those of officers, directors, or trustee.

Large colleges and universities reported the highest average and median total compensation paid to the highest paid ODTKE while small colleges and universities reported the lowest average and median total compensation.

**E. Questions 61 – 74 and 81 - 94**

As explained in the Introduction, when a question asks about the characteristics of a *part* of a college or university (e.g., compensation amounts and components) it is not possible to project responses to the entire population. The stratified random sample was designed for colleges and universities, not for their employees. Each school itself has a different distribution of executives, and it is not accurate to treat a particular group of individuals as representative of all individuals at an institution. Questions 61-74 and 81-94 ask about characteristics of individuals at colleges and universities; therefore, the responses are not weighted because the results cannot be extrapolated to all colleges and universities. See pages 51-66 of the Interim Report for an unweighted analysis of these responses.

**F. Questions 75 - 80**

Questions 75 through 85 asked for information regarding the process the colleges and universities used to set compensation of the six highest paid ODTKEs. Because the questions were principally focused on issues related to excess benefit transactions under section 4958 of the Code, public colleges and universities (which are not subject to such provision) were instructed not to complete these questions.

Figure 64 and 65 summarize the data for a series of questions related to compensation policies that were in effect during calendar year 2006.

Question 75 addressed whether private colleges and universities had formal written compensation policies in place for officers, directors, trustees, and key employees. Unlike the earlier responses related to the adoption of conflict of interest policies governing members of an organization’s ruling body and its top management officials, only a small number of colleges and universities responded having a compensation policy in place.

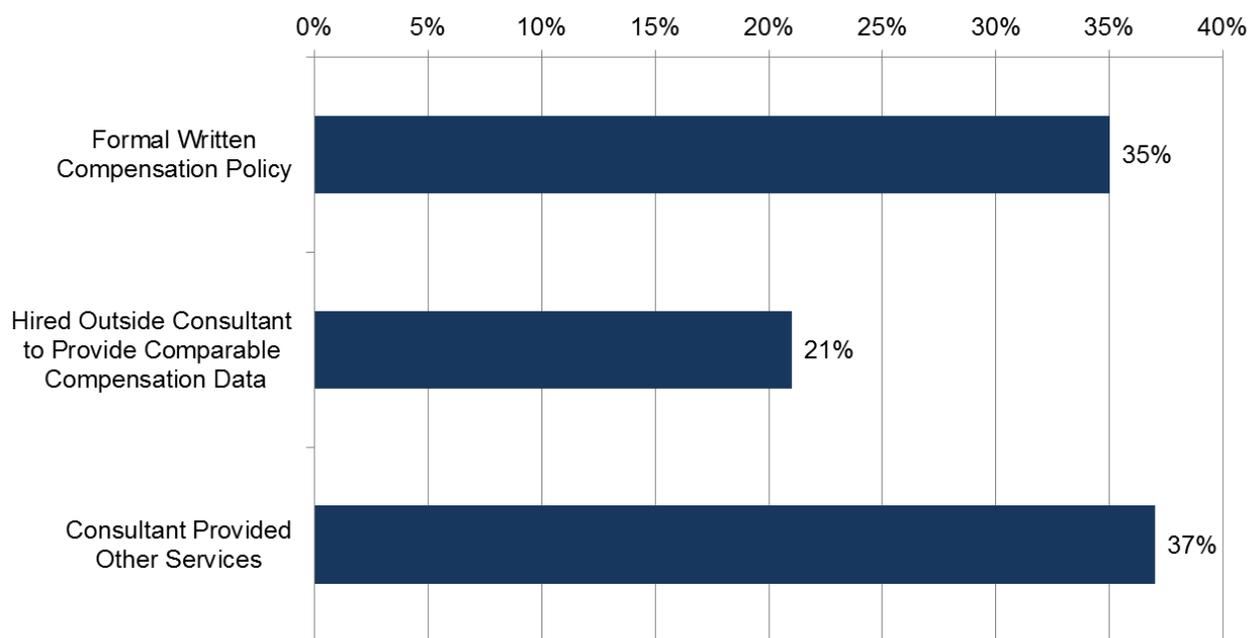
**Figure 64. Question 75 – Formal Written Compensation Policy Based on Sizes**

	Small	Medium	Large
75. Private Colleges & Universities that Responded to Having a Formal Written Compensation Policy for Officers, Directors, Trustees or Key Employees	27	12	10

Of those colleges and universities that gave affirmative responses to having a compensation policy, the majority also provided the effective date of instituting that policy. Of the 40-some private colleges and universities that provided an effective date for instituting a formal written compensation policy, four schools instituted a policy in Fall 2007 or later, around the time or soon after the unveiling of the redesigned Form 990. Many of the others that provided a date already had a policy in place, including about half that were in effect before year 2000.

Further, Figure 65 shows the weighted percentages of colleges and universities that have instituted written compensation policies and the use of outside consultants to provide comparable compensation data, as well as other services, such as: provide comparables for other employees; assist with drafting employment agreements; provide actuarial services for pension plans; assist with the search and vetting process of qualified candidates.<sup>39</sup>

**Figure 65. Question 75, 77, and 78 – Written Compensation Policies and Use of Outside Consultants among Private Colleges and Universities**



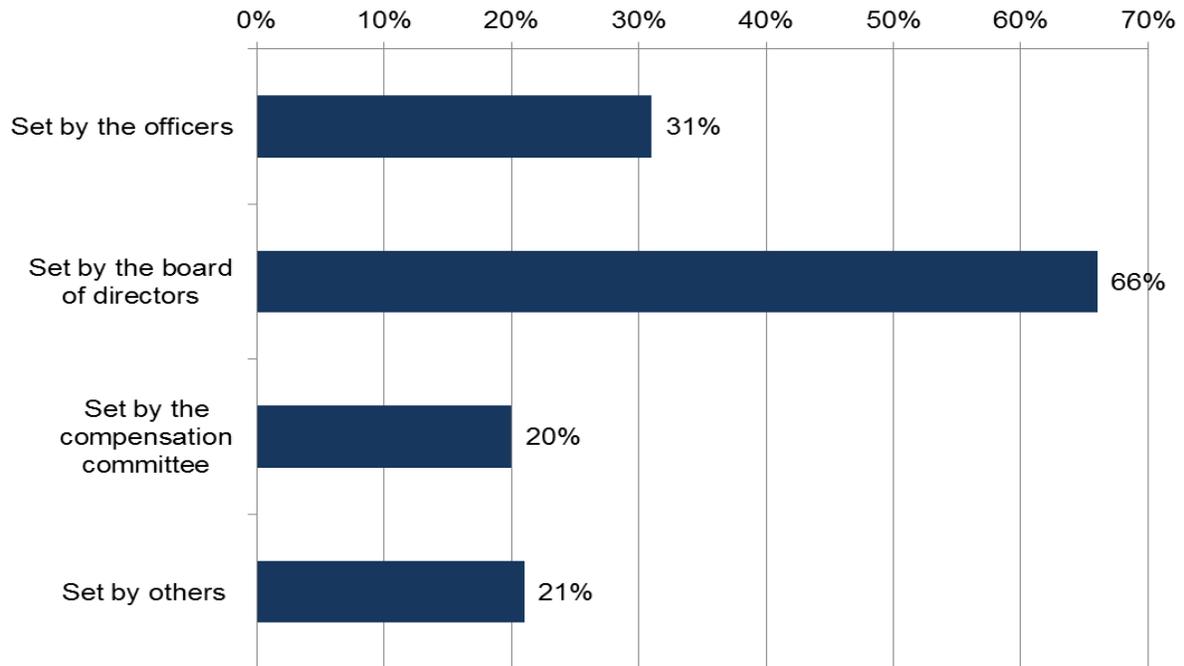
**G. Compensation Decision Makers (Question 80)**

Figure 66 through 69 provide information on the decision makers setting the compensation of officers, directors, trustees, or key employees. Consistent with averting potential conflict of interest concerns, many of the colleges and universities establish a process of deciding the compensations of an officer, director, trustee, or key employee.

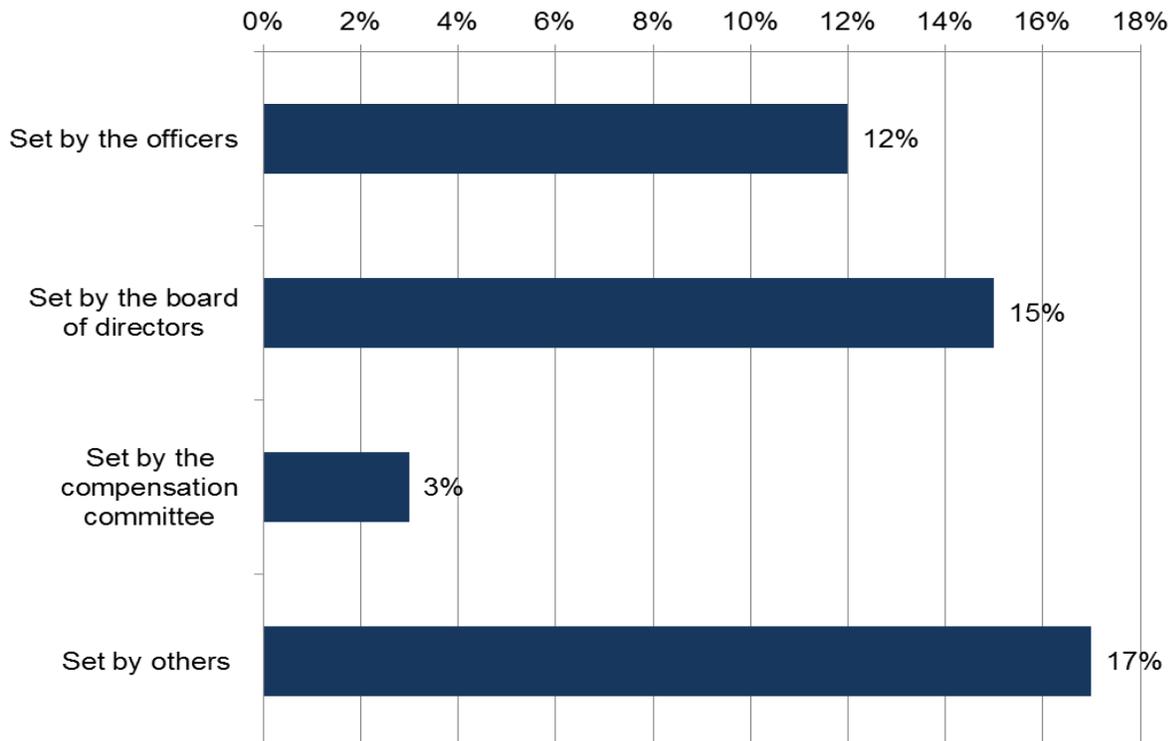
<sup>39</sup> For private colleges and universities in Figure 65, Margin of Error = 15% for “Consultant Provided Other Services.”



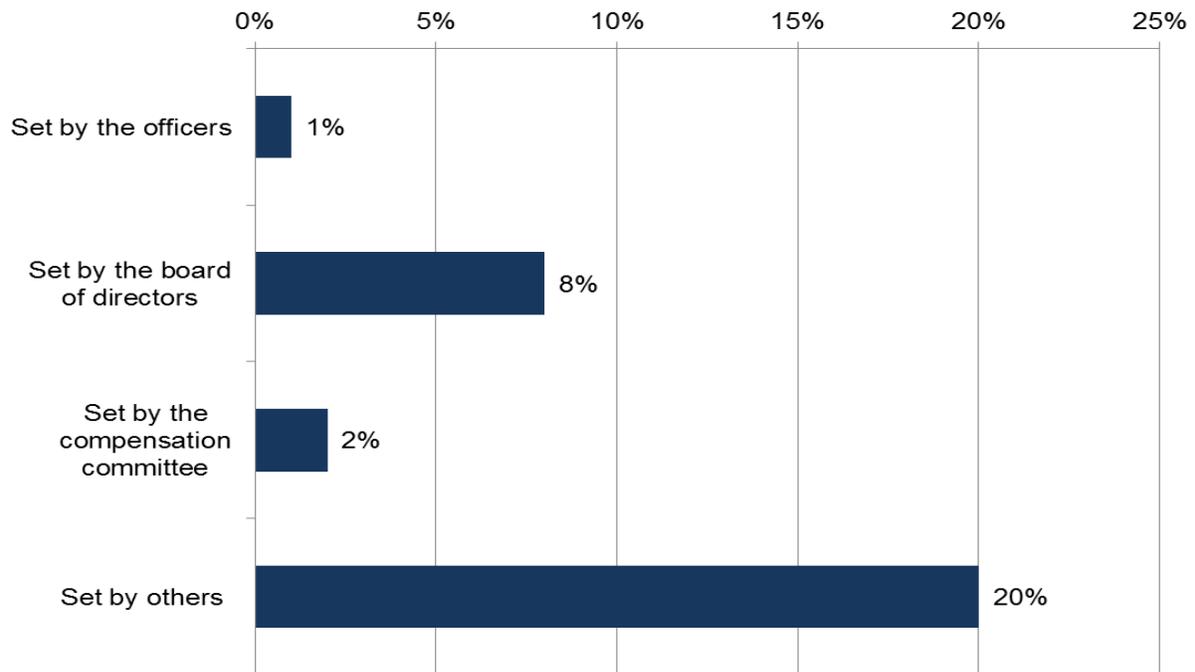
**Figure 66. Question 80-1 – Decision Makers for Setting Compensation of Officers**



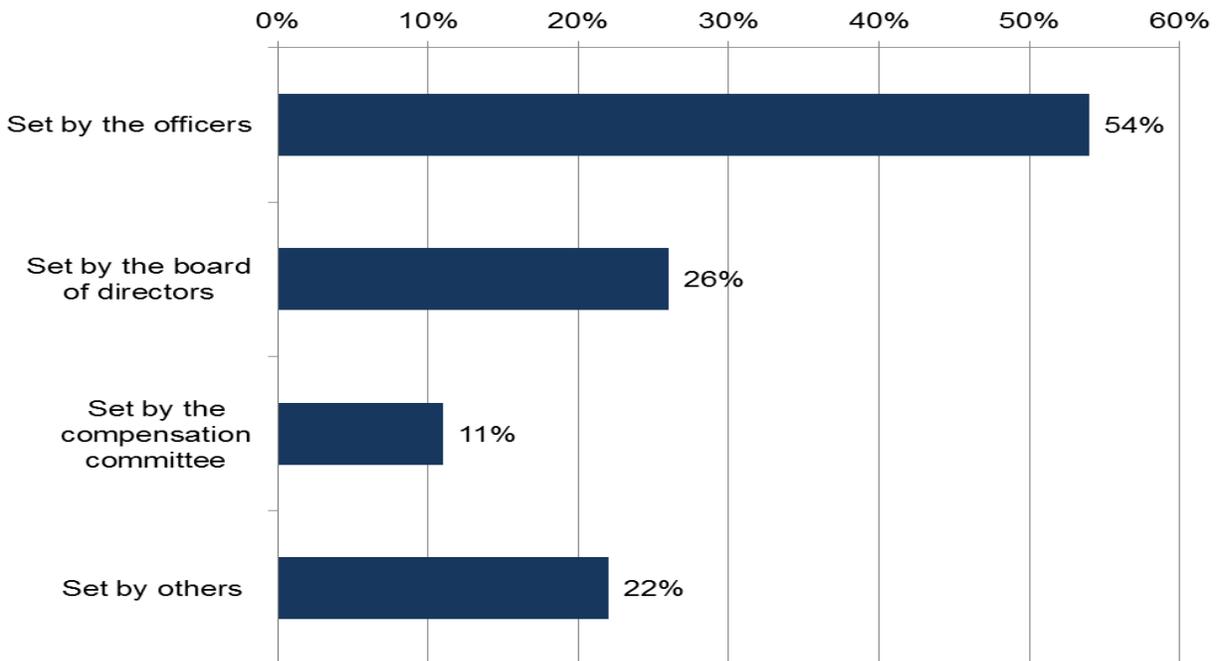
**Figure 67. Question 80-2 – Decision Makers for Setting Compensation of Directors**



**Figure 68. Question 80-3 – Decision Makers for Setting Compensation of Trustees**



**Figure 69. Question 80-4 – Decision Makers for Setting Compensation of Key Employees**



## VI. GOVERNANCE

Governance is the exercise of authority and control in an organization. The IRS has viewed governance as an important topic for many years, and in June 2007, introduced the redesigned draft Form 990, which included a section on governance. Effective for tax years beginning with 2008 tax year, exempt organizations were required to file a Form 990 that included a section on governance topics. As a measure of the IRS' continued interest in this area, every section of the Questionnaire included questions related to the governance of colleges and universities. The governance questions addressed policies on conflicts of interest, compensation, endowments, unrelated business activities, and transactions with related parties. In this section, we have compiled a list of the questions related to governance in the Questionnaire that are included in the Additional Data Analysis to facilitate reference to that information.

### Organizational Information:

- Q. 8 and Q. 9 – Conflict of interest policy
- Q. 10 – Public availability of audited financial statements
- Q. 19 – Policy assuring arm's length transactions with related entities
- Q. 20 – Policy assuring arm's length transactions with controlled entities

### Activities:

- Q. 31 – Use of independent accountants or counsel with regard to selected unrelated business and allocation issues

### Endowment Funds:

- Q. 34 and Q. 35 – Management of endowment funds
- Q. 36, Q. 37, Q. 38, Q. 39 – Use, composition and actions of investment committee
- Q. 40 – Individuals on staff with primary responsibility for investment management of endowments
- Q. 41 – Outside consultant for investment advice
- Q. 44 and Q. 45 – Board review and approval of compensation arrangements for internal and external investment managers
- Q. 47a – Investment committee or board adoption of target spending rate.
- Q. 55 – Restrictions placed by board or committee on purchase or sale of certain securities because of donor requests
- Q. 58 – Monitoring of endowment distributions
- Q. 59 – Policy on disbursements made from endowment fund that were not used in the fiscal year

### Compensation:

- Q. 75 – Formal written compensation policy
- Q. 77 and Q. 78 – Use of outside compensation consultants
- Q. 80 – Determination of compensation

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