IRS EXEMPT ORGANIZATIONS
COLLEGES AND UNIVERSITIES COMPLIANCE PROJECT

INTERIM REPORT – May 7, 2010

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I. INTRODUCTION

Background

This is the interim report on the Colleges and Universities Compliance Project initiated by the Exempt Organizations (EO) function of the Internal Revenue Service (IRS) Tax Exempt and Government Entities Division (TE/GE). This project is part of a larger effort by the IRS to review the largest, most complex organizations in the tax-exempt sector. For example, in 2009, the IRS published a study on tax-exempt hospitals and their community benefit and executive compensation. This project in turn studies colleges and universities which represents one of the largest segments of the tax-exempt community in terms of revenue and asset size.

The project includes a compliance check of colleges and universities principally focused on (1) the conduct and reporting of exempt or other activities that may generate unrelated business taxable income; (2) investment, management, and use of endowment funds; and (3) executive compensation practices. The compliance check also is focused on a number of issues related to governance in these areas.

A compliance check is a review conducted by the IRS to determine adherence to certain requirements. A compliance check also is a tool to help educate organizations about their reporting requirements and to increase voluntary compliance. A compliance check is not a review of the organization's book and records. Organizations may refuse to participate; however, the IRS has the option of opening a formal examination whether or not the organization agrees to participate.

In October 2008, EO sent 400 public and private colleges and universities offering four year degrees or higher compliance check questionnaires requesting information for the organization's tax year ending in 2006.[1] Given changes in the economy and other circumstances since 2006, amounts or other information provided for 2006 may not be representative of today's environment.

This interim report reflects our review to date and summarizes much of the data as reported by the colleges and universities on the questionnaires. As explained below, this interim report covers data reported by 344 colleges and universities – 177 private and 167 public organizations of various sizes. EO is in the process of conducting examinations of a subset of organizations that received the questionnaire. EO is working in collaboration with the Government Entities function of the TE/GE Division, which is responsible for administering the federal tax laws regarding public colleges and universities. The IRS anticipates issuing a final report including information learned from examinations and further analysis of the information provided in response to the questionnaire. The IRS expects that the information learned from the questionnaire responses and examinations will identify issues and areas that warrant additional guidance and further scrutiny.

[1] A copy of the questionnaire is included as Appendix A.

Sample Method

The questionnaires were mailed to a representative sample of 400 organizations thought to be exempt from federal income tax under Code[2] section 501(c)(3) or whose income is excluded from federal income tax under Code section 115. The colleges and universities were stratified into three sizes for purposes of determining the representative sample. Per the National Center for Education Statistics, small colleges and universities are defined as those with fewer than 5,000 students. Medium-sized colleges and universities are those with 5,000 to 14,999 students. Large colleges and universities are those with 15,000 students or more. Figure 1 shows the number of public and private, small, medium and large colleges and universities that were included in the population from which the representative sample was selected.

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**

A random sample in each size category (irrespective of public or private status) was chosen to receive the compliance questionnaire. EO sent out 200 questionnaires to the small organizations; 100 questionnaires to the medium organizations; and 100 questionnaires to the large organizations.

Responses to the Questionnaire

Thirteen colleges and universities that received the questionnaire failed to respond and were referred to EO Examination. The first question asked the colleges and universities to indicate what type of organization they were based on whether they were public or private, what type of degrees they granted, and certain other characteristics. Of the 387 colleges and universities that responded to the questionnaire, 31 organizations indicated that they were a type of organization that was not intended to be included in the original sample (e.g., those only offering a two-year degree or were not tax exempt), and thus not required to complete the questionnaire. These organizations were referred to the EO Review of Operations unit for verification of their responses.

Campuses of a university system were permitted to respond on a system-wide basis if (1) system-wide reporting was consistent with reporting on Forms 990 and 990-T and (2) the same method was used for all parts of the questionnaire.[3] This occurred in the case of eleven campuses. Responses from these organizations on behalf of their entire university system are not included in this interim report. A discussion of the

[2] Unless otherwise indicated, all “Code” and “section” references are to the Internal Revenue Code of 1986, as amended (“IRC”).

[3] This issue and several others related to completion of the questionnaire (including an extension of time for completion) were addressed at http://www.irs.gov/charities/article/0,,id=186865,00.html.

responses of these organizations will be included in the final report. One respondent organization was removed from the study to preserve the representative sample because it originally was assigned to an incorrect size category. Thus, the total number of organizations included in this interim report is 344.

Those organizations that returned the questionnaire, but did not substantially complete it or left specific items unanswered may be referred to EO Examination.

Some organizations reported student populations that would have placed them in a different size category than they were assigned when the sample was selected. Because the recipients of the questionnaire were chosen in a representative sample using size-based strata, with the single exception noted above, organizations have been left in the size category to which they were originally assigned, regardless of the student sizes reported in the questionnaires.

Additionally, because certain questions were only relevant to public universities and other questions were only relevant to private universities,[4] the respondents were divided into public and private groups as well as their size categories. The status of a college or university as public or private was not considered in the design of the representative sample, so colleges and universities that had not been originally assigned to the correct status as public or private were re-assigned based on their responses to Question 1 and other publicly available data.

Figure 2 below provides a break down of the size category and type of each organization that returned a questionnaire and was included in the data that is presented in this report.

Figure 2. Number of Respondents

	Small	**Medium**	**Large**	**Total**
Private Institutions	139	30	8	177
Public Institutions	20	64	83	167
Total	**159 (of 200)**	**94 (of 100)**	**91 (of 100)**	**344 (of 400)**

Figure 2 indicates that the category of small colleges and universities is predominantly private institutions, whereas the category of large colleges and universities is predominantly public colleges and universities.

Presentation of the Data in this Report

[4] For example, questions 75 through 94 asked about the process the colleges and universities used to establish the compensation of certain management officials. These questions are largely based on the requirements of IRC section 4958 to establish a rebuttable presumption of reasonableness of the compensation of certain disqualified persons. Because the provisions of section 4958 do not apply to public universities, they were instructed not to complete that portion of the questionnaire.

The data in the report is presented by size category—small, medium, and large—based on student size, as explained above. This interim report does not attempt to identify the extent to which reported differences across size categories may be a result of differences in public and private institutions rather than solely due to size.

Not every college or university answered every question and certain questions did not address the activities or organizational status of certain colleges and universities. Therefore, throughout the report the number of responses ("n") that underlie particular data is included. In general, "n" indicates the number of organizations that provided a response to the particular question. In cases in which a negative response could not be indicated (e.g., if a question did not allow a respondent to indicate expressly that it did not engage in a certain activity or did not have a particular procedure), a blank was treated as a negative response. Unless otherwise noted, the interim report reflects responses as provided by the respondents. When calculating the size of n for a particular question, if a college or university was instructed to skip a question, yet responded anyway, the response was included unless otherwise noted. No attempt was made to discard self-reported data where it appeared the organization should not have responded or to validate responses provided. However, in the case of questions that were limited to only public or only private colleges and universities, this report includes only the responses of the group to whom the question was targeted. Except in selected cases, responses provided in a narrative form are not included. Information on such responses will be provided in the final report.

Section 6103 prohibits disclosure of a taxpayer's return information. Return information includes a taxpayer's identity. Note that in a number of cases, specific responses and the number of responses to a question cannot be disclosed in order to prevent potential identification of respondent colleges and universities. In many cases, the data is presented in a way to protect potential identification of respondents, while providing a sense of the responses. For example, in several figures, data is shown as more 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.

There are additional limitations to the data presented in this interim report. Information is not weighted and should not be construed as representative of the broader population of public and private colleges and universities. Totals for all 344 organizations are not reported because the sample of small, medium and large universities does not accurately reflect those categories in the broader populations (e.g., small colleges and universities represent approximately 46% of the organizations in the sample, but approximately 78% of the sector). Data presented within each size category (small, medium and large) may be interpreted as representative of that size category, but only when the sample size (i.e., response rate) is sufficiently large. The final report will apply weights to the data and present estimates representing the colleges and universities sector as a whole.

Next Steps

Examinations

Based on the responses to the questionnaires and information on the Form 990, EO has opened examinations of more than 30 colleges and universities as part of this project. The examinations are designed to focus principally on unrelated business taxable income (including expense allocation, losses, and debt-financed property issues) and executive compensation issues (including the use of the rebuttable presumption procedure, the initial contract exception, and comparability data by private colleges and universities). The examinations also will include review of controlled entity (IRC section 512(b)(13)) issues. In addition, data on governance practices and procedures will be collected and reviewed. A summary of findings and information learned from the examinations will be included in a final report.

Further analysis of responses and related information

While this interim report summarizes much of the information provided in response to the questionnaires, there are areas that need further analysis, the results of which will be reported in the final report. The IRS will continue to analyze the data obtained from the questionnaire. Further work is expected to include the following next steps:

1. Weight the reported data so that findings can be extrapolated to the sector as a whole and analyze the reported data to determine differences reported by private and public college and universities.

2. Analyze the responses provided by the eleven colleges and universities that responded on a system-wide basis (rather than on a campus-only basis).

3. Test the reported data against other sources, including filings with the IRS (e.g., Forms 990, 990N, 990EZ, 990T, 941) and outside studies; review responses for possible inconsistencies; and analyze additional information provided as narrative responses.

4. Provide additional analysis in a number of areas, including (1) the use of and relationship with controlled entities and related organizations; (2) the reported differences in treatment by organizations of various activities as exempt or unrelated and of cost allocation practices across activities and related organizations; (3) the reporting of losses from certain exempt and unrelated activities; (4) the use of comparability data and compensation practices and procedures to establish compensation of executives and other highly paid individuals; and (5) the impact the initial contract exception might have on the setting of compensation and the use of the rebuttable presumption procedure.

5. Analyze governance responses to identify policies and practices of organizations with respect to activities with potential unrelated business income implications, related organizations, and controlled entities.

II. PRELIMINARY SUMMARY OF DATA

A. Organizational Information/Demographics

Related organizations.

- Large colleges and universities reported the highest percentage of respondents with related entities (96% compared with 82% for medium organizations and 45% for small organizations).
- Related tax-exempt organizations were the most commonly reported type of related entity for all size categories, followed by taxable corporations and trusts, disregarded entities, and then partnerships.

Controlling organizations.

- Large organizations reported the highest percentage of respondents that were controlling entities (within the meaning of IRC section 512(b)(13)) (45% compared with 34% for medium organizations and 26% for small organizations). The number of controlled organizations of an entity increased with student size of the organization.
- Only 26% of large respondents with at least one controlled entity reported receiving any income from controlled entities (29% of the small and 45% of the medium organizations did so). Less than half of the organizations reporting income from controlled entities on the questionnaire indicated that they reported income from controlled entities on their Form 990-T.

B. Activities

Filing of Form 990-T.

- Nearly half (48%) of small colleges and universities reported never filing a Form 990-T, compared with 29% for medium colleges and universities and 4% for large colleges and universities.

Engagement in and reporting of activities on Form 990-T.

- Large organizations reported the largest percentage of respondents conducting various types of activities and the largest percentage including those activities that generated unrelated business income (UBI) on their Form 990-T.
- The most frequently reported UBI activities were advertising and facility rental.
- In most cases, the percentage of colleges and universities that indicated engaging in an activity was much higher than the percentage of organizations that reported including that activity on their Form 990-T.

C. Endowment Funds

- *Endowment funds*. Almost all organizations reported either having an endowment fund or that another organization held or maintained an endowment fund on their behalf (87% of small, 97% of medium, and 100% of large organizations).
- *Target spending rate* – The average and median target spending rates reported by each size category was consistent – ranging from 4.7% to 5.0%.

Investments.

- Organizations at all sizes reported investing endowment assets in a variety of investments; U.S. fixed income and U.S. equity investments predominated.
- Although the likelihood of participation in a particular type of investment varied by size level, for those colleges or universities that invested in a particular type of investment, the average and median percentage of total assets invested within that type of investment was fairly comparable across all size levels.

International Activities and Investments.

- The majority of colleges and universities reported engaging in foreign investments (e.g., 53% of small, 67% of medium, and 82% of large respondents reported investments in non-U.S. equities).
- Many colleges and universities reported using investment entities to make foreign investments of endowment funds (34% of small, 47% of medium, and 69% of large colleges and universities). Of those, at all size levels, respondents used more than one type of entity to make foreign investments (36% of small, 48% of medium, and 47% of large organizations that reported using investment entities).
- 30% of small, 54% of medium, and 83% of large organizations reported conducting educational programs outside of the United States.

D. Compensation

Highest paid officer, director, trustee, or key employee.

- The reported compensation of the highest paid officer, director, trustee or key employee (ODTKE) was highest for the large colleges and universities (average approximately $428,000; median $361,000) and lowest for the small colleges and universities (average $202,000; median $174,000).
- In the majority of cases, the highest paid ODTKE was the chancellor/president.

Highest paid employee (other than an ODTKE).

- The reported compensation of the highest paid employee that was not an ODTKE was highest for the large colleges and universities (average approximately $798,000; median $352,000) and lowest for the small colleges and universities (average $145,000; median $98,000).
- In small and medium organizations, the highest paid employee (other than an ODTKE) was most often a faculty member (approximately half of the organizations). In the case of large organizations, the highest paid employee (other than an ODTKE) was most often a sports coach (43% of organizations). A faculty member was the highest paid non-ODTKE employee in 34% of large organizations.
- In the case of large organizations, the average amount paid to the highest compensated non-ODTKE employee was more than $350,000 higher than the average amount paid to the highest paid ODTKE (the medians were similar).

Use of rebuttable presumption process.

- More than half of the private organizations at all size levels reported using a procedure intended to satisfy the rebuttable presumption process for at least one of the six highest paid ODTKEs (55% in the case of small; 71% in the case of medium; and 63% in the case of large organizations).
- At all size levels, the use of comparability data to establish compensation was present less frequently than the other rebuttable presumption factors (contemporaneous documentation and approval by an independent governing body).

Initial contract exception.

- In the majority of cases (87% of small; 79% of medium; and 63% of large organizations), organizations reported that none of their six highest paid ODTKEs were disqualified persons immediately before entering into their compensation arrangements with the organization.
- However, relatively few organizations reported making fixed payments under the initial contract exception to any of their six highest paid ODTKEs (17% in the case of small organizations and 15% in the case of medium organizations).

E. Governance

Policies.

- In general, large organizations reported the highest percentages of colleges and universities with various governance policies.
- More than 80% of organizations in each size category reported having conflict of interest policies covering members of the ruling body and top management officials. Many organizations also reported conflict of interest policies for full-time faculty (ranging from 58% to 100%).
- Small and medium organizations that reported at least one controlled entity were less likely than large organizations to have a written policy or statute in place designed to assure transactions with its controlled entities were at arm’s length.

Audited financial statements.

- 76% of small colleges and universities reported making their audited financial statements available to the public while 91% of medium organizations and nearly all (97%) of the large college and universities reported doing so.

Use of outside advisors.

- More than 60% of the colleges and universities in each size category reported they did not rely on outside advice on unrelated business income issues, such as determining whether business activities were related or unrelated to the organization’s exempt purpose, the allocation of expenses between related and unrelated business activities, and intercompany pricing between the organization and related entities.

III. ORGANIZATIONAL INFORMATION (DEMOGRAPHICS)

Overview

Part I of the questionnaire asked the colleges and universities for organizational information. This included a number of questions related to the organization's composition of students, faculty and staff; financial statements; tuition rates and discounts; related organizations and international activities.

Faculty, Students and Staff (Questions 2 – 7)

Figure 3, below, shows the average and median number of students and faculty reported.

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

	Small	Medium	Large
2. Full-Time Equivalent Students	Average = 1,400 Median = 1,100 (n=159)	Average = 7,500 Median = 7,000 (n=94)	Average = 22,700 Median = 19,800 (n=91)
3a. Full-Time Students	Average = 1,200 Median = 900 (n=157)	Average = 6,500 Median = 5,900 (n=94)	Average = 20,200 Median = 17,900 (n=91)
3b. Part-Time Students	Average = 500 Median = 200 (n=153)	Average = 2,400 Median = 2,300 (n=94)	Average = 6,600 Median = 5,700 (n=91)
4a. Full-Time Faculty Members (rounded to nearest fifty)	Average = 100 Median = 50 (n=154)	Average = 400 Median = 350 (n=94)	Average = 1,350 Median = 950 (n=91)
4b. Part-Time Adjunct Faculty Members (rounded to nearest fifty)	Average = 100 Median = 50 (n=151)	Average = 250 Median = 200 (n=91)	Average = 600 Median = 450 (n=89)

Figure 4, below, shows the number of employees reported as included for employment tax purposes on Form 941, *Employer's QUARTERLY Federal Tax Return*, for the first quarter of 2006 by the respondents as well as the number of faculty, students, and staff included as employees on Form 941.[5]

[5] Employers report the number of employees who received wages, tips, or other compensation from the employer during the quarter on Form 941. The information in Figure 4 is based on the responses provided to the questionnaire rather than actual Form 941 data. Follow-up work will be done in the case of organizations that did not indicate employees reported on Form 941.

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

	Small	**Medium**	**Large**
5. Total Employees	Average = 650 Median = 400 (n=155)	Average = 2,800 Median = 2,300 (n=88)	Average = 10,600 Median = 7,500 (n=88)
6a. Faculty Members	Average = 150 Median = 100 (n=155)	Average = 650 Median = 550 (n=85)	Average = 2,200 Median = 1,500 (n=88)
6b. Staff	Average = 300 Median = 150 (n=152)	Average = 1,150 Median = 750 (n=85)	Average = 4,900 Median = 3,050 (n=88)
6c. Students	Average = 250 Median = 100 (n=143)	Average = 1,050 Median = 850 (n=85)	Average = 3,600 Median = 2,650 (n=88)

Figure 5, below, shows the average and median student-faculty ratio as reported by the respondents on the questionnaire (the ratios were self-reported and not derived from the figures above).

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

	Small (n=150)	**Medium** (n=92)	**Large** (n=90)
Student-Faculty Ratio	Average = 13:1 Median = 12:1	Average = 17:1 Median = 17:1	Average = 18:1 Median = 18:1

Conflict of Interest Policy and Public Disclosure of Audited Financial Statements (Questions 8 – 10)

Figure 6, below, summarizes the responses to a series of questions related to conflict of interest policies and audited financial statements. 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.[6] Note that these questions are directed to the policies and statutes existing when the questionnaire was completed (i.e., in 2009).

[6] In this question and several that follow, because in the case of public colleges and universities the question was limited to policies included in a state statute, the question does not capture those public respondents that had conflict of interest policies that were independent of a state statute.

Figure 6. Questions 8, 9 and 10 – Percentage of Colleges and Universities Reporting Conflict of Interest Policies and Whether Audited Financial Statements Are Available for Public Inspection

	Small	Medium	Large
8a. Private Organizations with a Written Conflict of Interest Policy Governing Ruling Body and Top Management Officials	81% (n=138)	>85% (n=30)	100% (n=8)
8b. Public Organizations with State Statute Governing Conflicts of Interest for Ruling Body and Top Management Officials	>85% (n=20)	>95% (n=63)	95% (n=82)
9a. Private Organizations with A Written Conflict Of Interest Policy Governing Full-Time Faculty	58% (n=139)	83% (n=30)	100% (n=8)
9b. Public Organizations with State Statute Governing Conflicts of Interest for Full-Time Faculty	84% (n=19)	79% (n=62)	80% (n=79)
10. Organizations That Make Their Audited Financial Statements Available To The Public	76% (n=156)	91% (n=93)	97% (n=90)

Specific percentages are not included in some cases to prevent potential identification of respondents.

As illustrated above, for both private and public colleges and universities, most organizations reported having conflict of interest policies covering members of the ruling body and top management officials. Many also reported having conflict of interest policies covering full-time faculty.

Tuition (Questions 11 –12)

The questionnaire asked a series of questions on tuition rates for the Fall semester of 2006. The tuition rates included all mandatory fees, but were exclusive of room and board.

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

	Small	Medium	Large
11a. In-State Tuition	Average = $13,700 Median = $14,000 (n=142)	Average = $10,600 Median = $6,000 (n=93)	Average = $7,000 Median = $5,600 (n=90)
11b. Out-of-State Tuition	Average = $14,600 Median = $14,700 (n=130)	Average = $15,100 Median = $12,900 (n=92)	Average = $15,600 Median = $15,300 (n=90)
11c. Other	Average =$11,400 Median = $11,300 (n=70)	Average = $9,900 Median = $5,300 (n=37)	Average = $5,200 Median = $0 (n=25)

Average annual full-time in-state tuition rates decreased as the size of the organization increased. A further breakout of the annual undergraduate full-time tuition rates for Fall 2006 reported by public and private colleges and universities at each size category is provided in Figure 8, below.

Figure 8. Question 11 – Public and Private Undergraduate Full-Time Tuition Rates for Fall 2006[7] (rounded to the nearest hundred)

		Small	Medium	Large
Private Institutions	In-State Tuition	Average=$15,000 Median=$16,000 (n=123)	Average=$23,000 Median=$25,000 (n=29)	Average=$27,800 Median=$30,000 (n=7)
	Out-of-State Tuition	Average=$15,100 Median=$15,900 (n=111)	Average=$23,600 Median=$25,300 (n=28)	Average=$27,800 Median=$30,000 (n=7)
Public Institutions	In-State Tuition	Average=$4,700 Median=$5,000 (n=19)	Average=$5,000 Median=$4,900 (n=64)	Average=$5,300 Median=$5,200 (n=83)
	Out-of-State Tuition	Average=$11,400 Median=$13,300 (n=19)	Average=$11,300 Median=$11,500 (n=64)	Average=$14,600 Median=$14,500 (n=83)

Private colleges and universities had average tuition rates that were higher than the average tuition rates for public colleges and universities across all size categories.

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. Colleges and universities may offer tuition discounts to certain students such as dependents of faculty, staff, or alumni or to those students that help satisfy certain enrollment objectives. The questionnaire requested information concerning the annual average tuition discount rate used to calculate the net average tuition after discounts.

Figure 9. Question 12 – Net Average Tuition Discount Rates, Fall 2006

	Small	Medium	Large
12a. In-State	Average = 22% Median = 23% (n=120)	Average = 18% Median = 17% (n=77)	Average = 19% Median = 18% (n=73)
12b. Out-Of-State	Average = 24% Median = 25% (n=113)	Average = 20% Median = 19% (n=76)	Average = 18% Median = 18% (n=70)
12c. Other	Average = 19% Median = 18% (n=76)	Average = 13% Median = 5% (n=43)	Average = 13% Median = 6% (n=40)

Financial Data (Question 13)

The questionnaire requested financial data for the tax year ending in 2006. Figure 10, below, 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 based on the gross revenue and total expenses reported by the respondents. Information also is shown in graph form in Figure 11 and Figure 12.

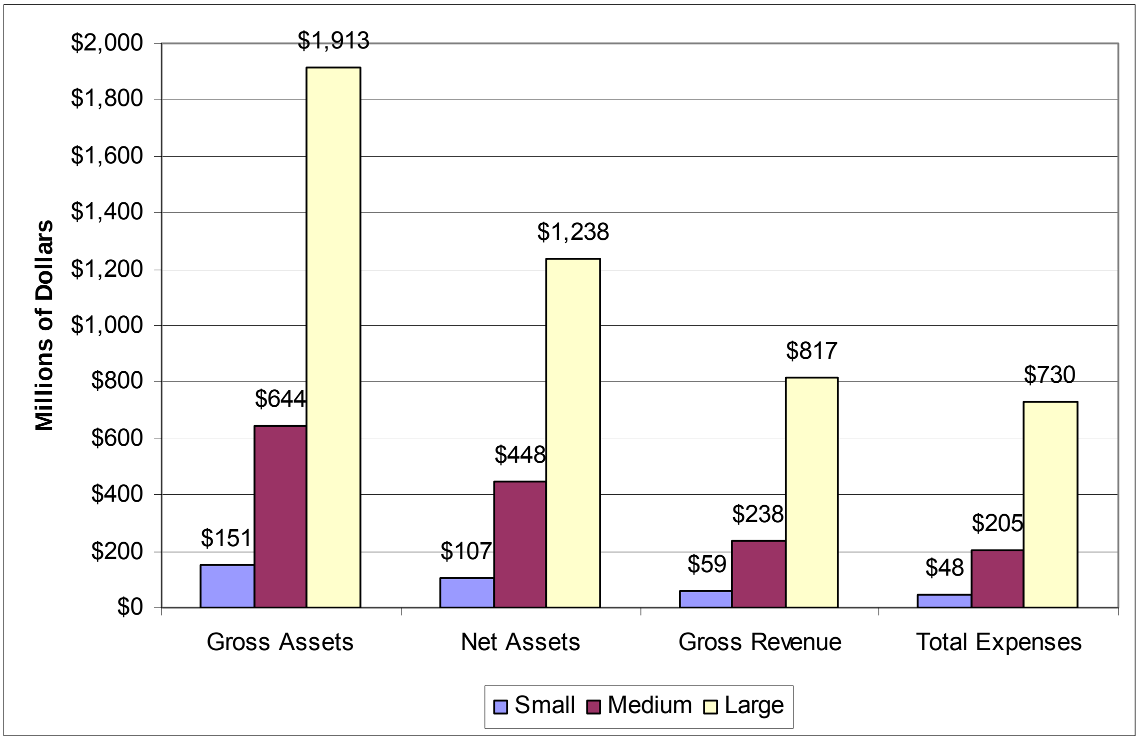
[7] As previously discussed, the distinction between public and private organizations was not used to stratify the representative sample. The relative estimates between public and private organizations may not be representative as the margins of error of the estimates are different. Note, in the case of large private institutions, the average and median in-state and out-of-state tuitions were identical.

Figure 10. 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)

	Small	**Medium**	**Large**
Gross Assets	Average = \$151 Median = \$60 (n=153)	Average = \$644 Median = \$287 (n=94)	Average = \$1,913 Median = \$765 (n=91)
Net Assets	Average = \$107 Median = \$31 (n=155)	Average = \$448 Median = \$161 (n=94)	Average = \$1,238 Median = \$498 (n=91)
Gross Revenue	Average =\$59 Median = \$24 (n=156)	Average = \$238 Median = \$145 (n=94)	Average = \$817 Median = \$457 (n=90)
Total Expenses	Average = \$48 Median = \$21 (n=157)	Average = \$205 Median = \$134 (n=94)	Average = \$730 Median = \$434 (n=90)
Excess Revenue	Average = \$11 Median = \$1 (n=156)	Average = \$33 Median = \$8 (n=94)	Average = \$87 Median = \$27 (n=90)
Percent Excess Revenue	Average = 1%[8] Median = 6% (n=156)	Average = 8% Median = 6% (n=94)	Average = 4% Median = 6% (n=90)

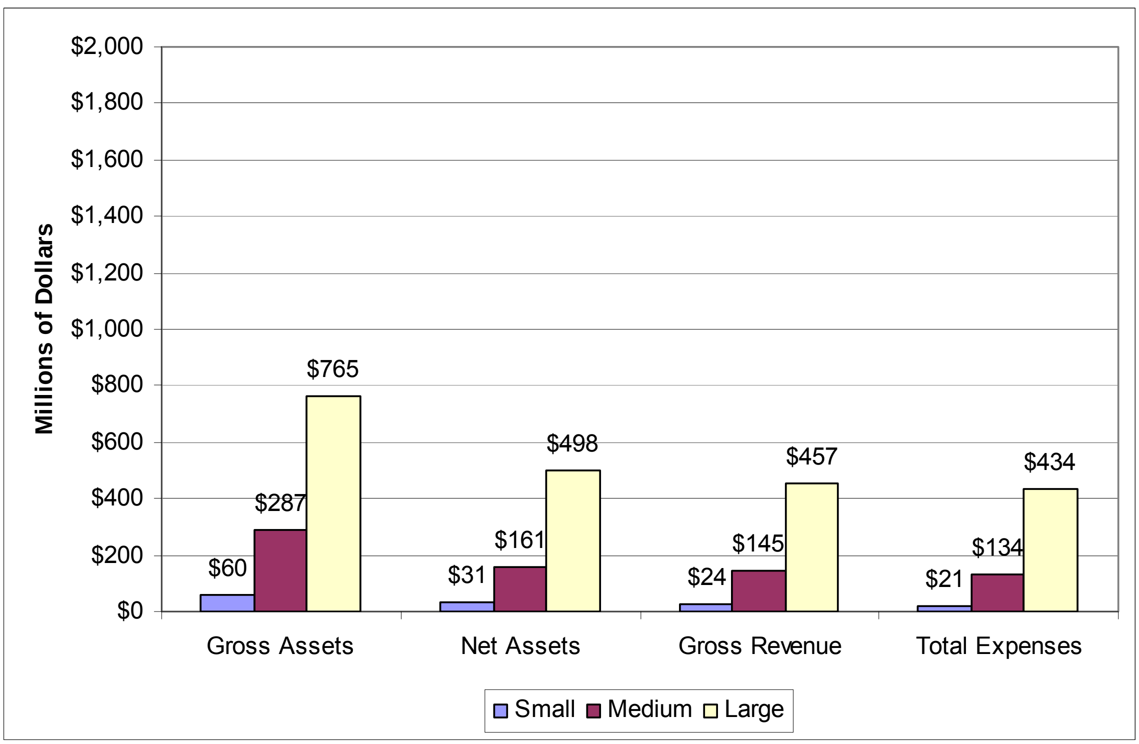
[8] The results differ significantly (average 9%; median 6%) with the removal of a small number of organizations.

Figure 11. Question 13 – Average Assets, Revenue and Expenses for Tax Year 2006 (in millions of dollars)*



*Note, see Figure 10 for the number of respondents (n).

Figure 12. Question 13 – Median Assets, Revenue and Expenses for Tax Year 2006 (in millions of dollars)*



*Note, see Figure 10 for the number of respondents (n).

Positive excess revenue was reported for each size category. The median excess revenue percentages were fairly consistent across size categories while the averages varied.

International and Other 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 13, below, shows the summary of the responses to these questions related to certain activities conducted off the main campus or outside of the United States. The percentage of organizations that reported engaging in each of these activities increased with organization size.

Figure 13. Questions 14, 15 and 16 – Percentage of Colleges and Universities Reporting Distance Learning Activities and Activities Outside of the United States

	Small	Medium	Large
14. Conducted Distance Learning Activities	54% (n=158)	96% (n=92)	99% (n=90)
15. Conducted Educational Programs Outside The United States	30% (n=159)	54% (n=91)	83% (n=90)
16. Maintained Offices, Campuses, And/Or Employees In At Least Five Countries Outside The United States	< 3% (n=159)	5% (n=93)	16% (n=90)

Specific percentages are not included in some cases to prevent potential identification of respondents.

Compensation of Highest Paid Employees that Are Not Officers, Directors, Trustees, or Key Employees (Question 17)

The questionnaire asked for compensation information related to the five highest paid employees of the organization, other than officers, directors, trustees, or key employees for calendar year 2006. Responses to this question are discussed in Part VI (Compensation) of this interim report.

Related Organizations (Questions 18 – 19)

The questionnaire asked colleges and universities to provide information about their related organizations. For purposes of the questionnaire, an organization is generally considered related to the college or university if the organization is (a) a parent that owns or controls the college or university; (b) a subsidiary owned or controlled by the college or university; (c) commonly controlled by the same parent that also controls the college or university; (d) a supporting organization that supports the college or university;[9] or (e) a supported organization that the college or university supports.

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[9] A supporting organization is a charitable organization that derives its public charity status from its relationship with another public charity (the supported organization).

Figure 14 shows the percentage of colleges and universities that reported having any related organizations,[10] and the percentage of organizations that reported having each type of related organization (disregarded entities, tax-exempt organizations, partnerships, and corporations or trusts).[11]

Figure 14. Question 18 – Percentage of Colleges and Universities Reporting Having at Least One of the Various Types of Related Organizations

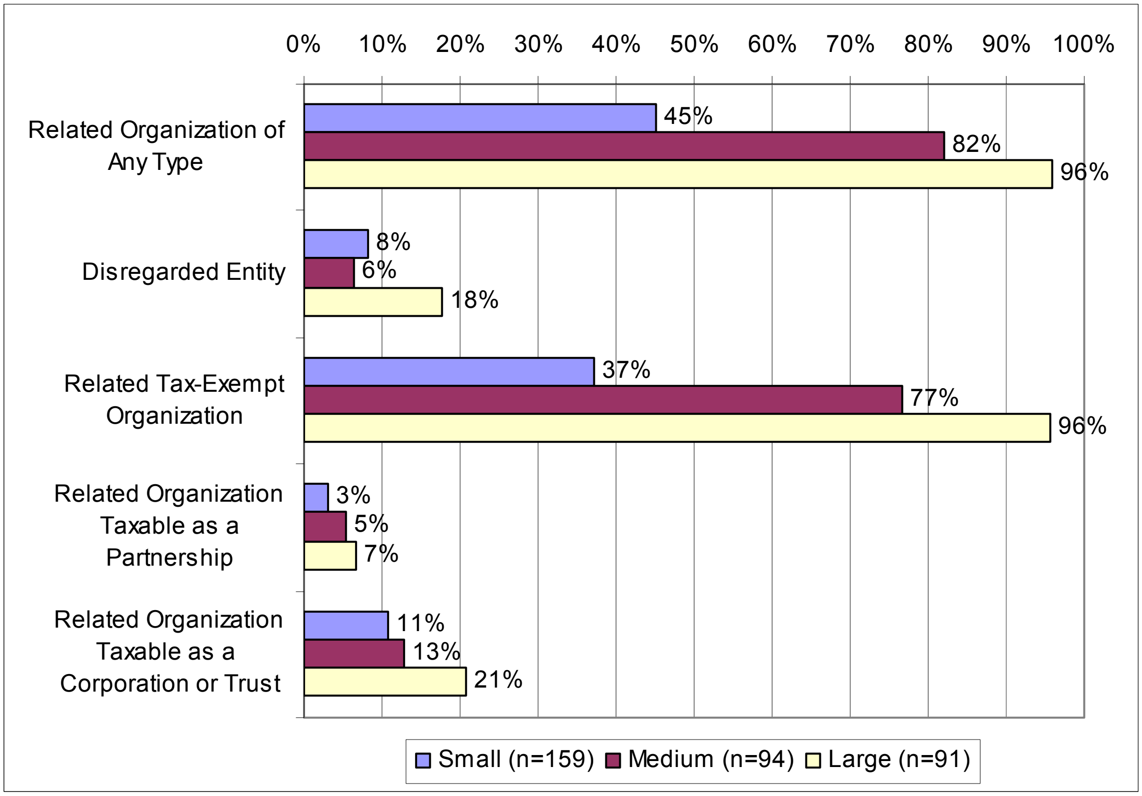


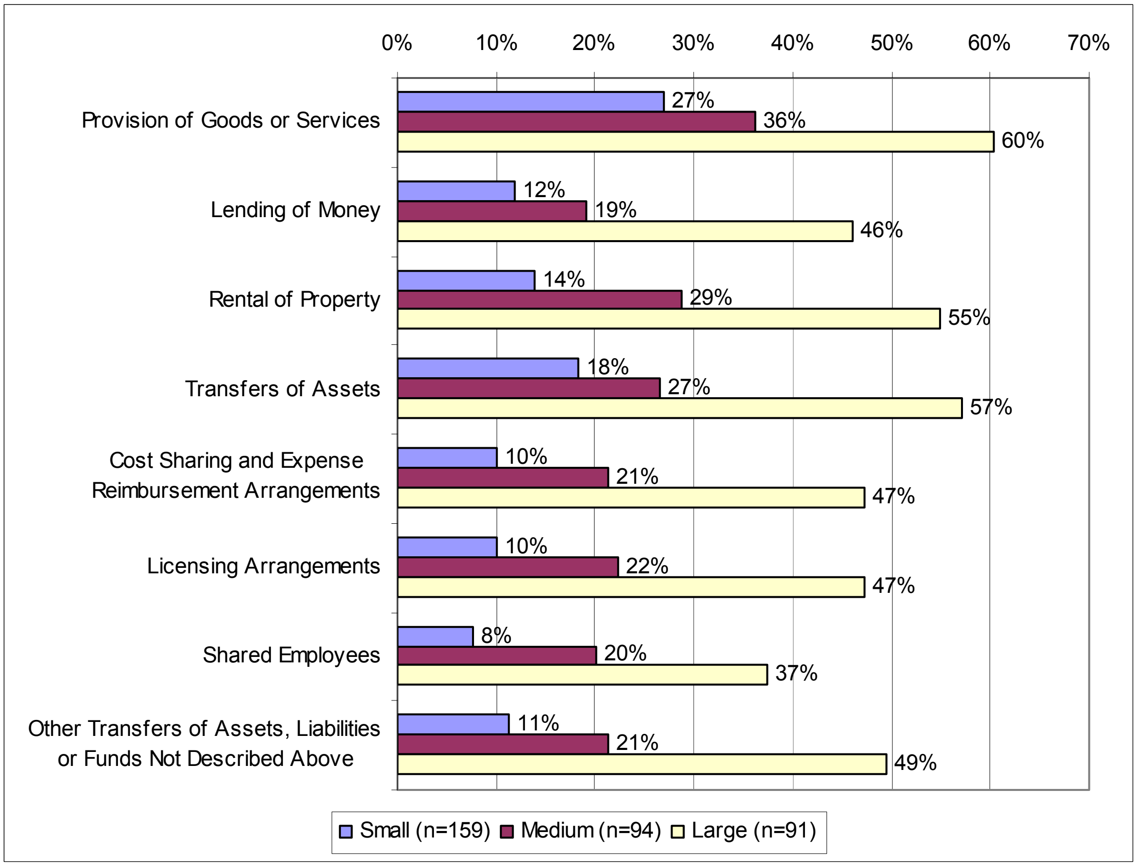
Figure 14 reveals almost half of the small and nearly all of the large colleges and universities reported they had at least one related organization and the most common type of organization related to colleges and universities of each size category was related tax-exempt organizations. The large colleges and universities reported the highest percentage of each type of related organization. Of those colleges and universities that reported at least one related organization, 35% of small, 19% of medium, and 36% of large organizations reported at least one non-exempt related organization.

Question 19 asked whether written policies, or statute in the case of public colleges and universities, were in place at the time of completion of the questionnaire to assure that transactions with their non-section 501(c)(3) related entities are made at

[10] Narrative (organizational chart) responses are not included in this interim report.
[11] A disregarded entity is an entity wholly owned by the organization that is not a separate entity for Federal tax purposes (generally a single member limited liability company (LLC)).

arm's length.[12] Specifically, colleges and universities were asked to designate which types of transactions were the subject of written policies or statute as summarized by Figure 15 below. The respondents to this question were not limited to those that reported having related organizations, as an organization might have a policy or statute in place even if there was no related organization for the period covered by the questionnaire.

Figure 15. Question 19 – Percentage of Organizations that Reported a Written Policy or Statute Ensuring Certain Transactions with Non-501(c)(3) Related Organizations Are Made at Arm's Length



Controlling Organizations (Questions 20 and 22)

The questionnaire asked whether the respondent was a controlling organization within the meaning of Code section 512(b)(13) for the tax year ending in 2006. Control for purposes of section 512(b)(13) is generally represented by ownership of more than 50 percent of another entity.[13] Figure 16 shows the percentage of respondents that

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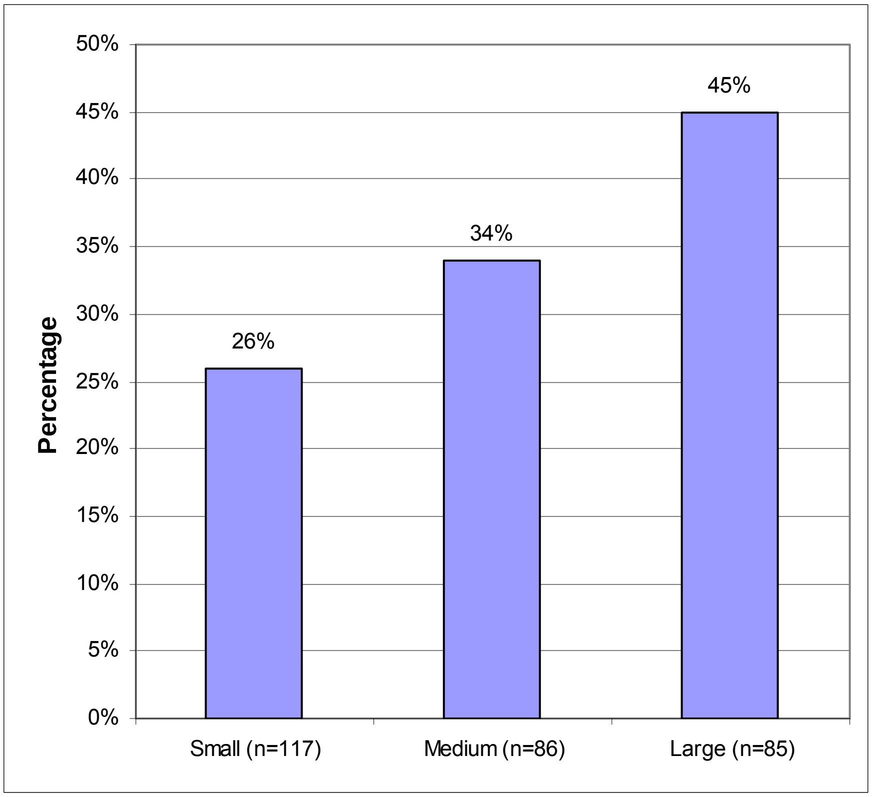
[12] A transaction is considered made at arm's length if the results of the transaction are consistent with the results that would have been realized if unrelated taxpayers had engaged in the same transaction under the same circumstances (see Treas. Reg. 1-482-1(b)).

[13] Specifically, control for purposes of IRC section 512(b)(13) is represented by ownership (whether directly and/or indirectly through a subsidiary) of more than 50% of the vote or value of a corporation's stock, more than 50% of the profits or capital interests in a partnership, or more than 50% of the

reported controlling at least one other entity within the meaning of Code section 512(b)(13).

Figure 16. Question 22 – Percentage of Colleges and Universities that Control at Least One Other Entity within the Meaning of IRC section 512(b)(13)



Thirty-one small, 29 medium, and 38 of the large colleges and universities reported having at least one controlled entity. Of these 9 small, 13 medium-sized, and 10 large colleges and universities reported having income from a controlled entity (29%, 45%, and 26%, respectively).[14] While there may be cases in which organizations had no reportable income, the difference may suggest a possible reporting inconsistency that will be reviewed further.

Figure 17 shows the average and median number of controlled entities reported by colleges and universities that responded they had at least one controlled entity. The number of controlled entities increased as the size of the organization increased.

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beneficial interests in any other entity. In the case of a tax-exempt subsidiary, control can be represented by a management or board overlap where a majority of the controlled organization's directors or trustees are trustees, directors, officers, employees, or agents of the controlling organization. Also, control can be represented by the power to remove and replace (or to appoint or elect, if such power includes a continuing power to appoint or elect periodically or in the event of vacancies) a majority of the tax-exempt subsidiary's directors or trustees.

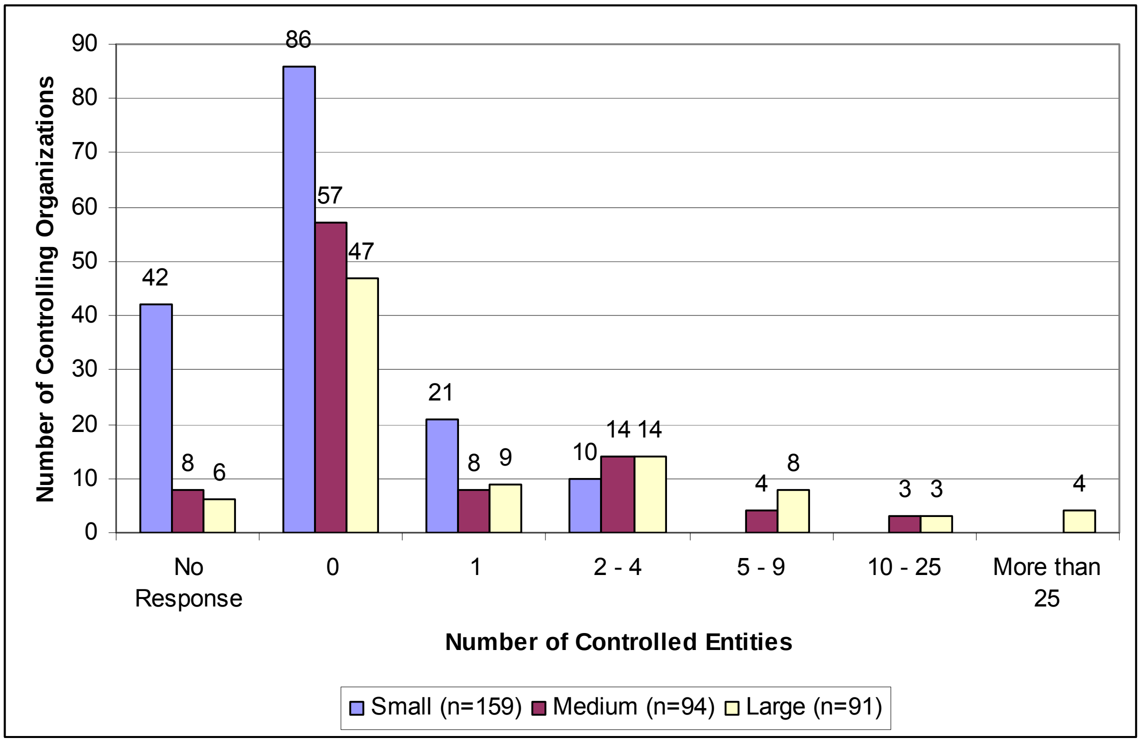
[14] See Figure 24 regarding the reporting of various activities. A small number of large colleges and universities reported income from controlled entities yet did not report having any controlled entities.

Figure 17. Question 22 – Number of Controlled Entities in Tax Year Ending in 2006

	Small	Medium	Large
22a. Number Of Entities Controlled By An Organization With At Least One Controlled Entity Within The Meaning Of IRC Section 512(b)(13)	Average = 1 Median = 1 (n=31)	Average = 4 Median = 2 (n=29)	Average = 9 Median = 4 (n=38)

Figure 18 shows a distribution of the number of controlled entities reported by each of the respondent colleges and universities.

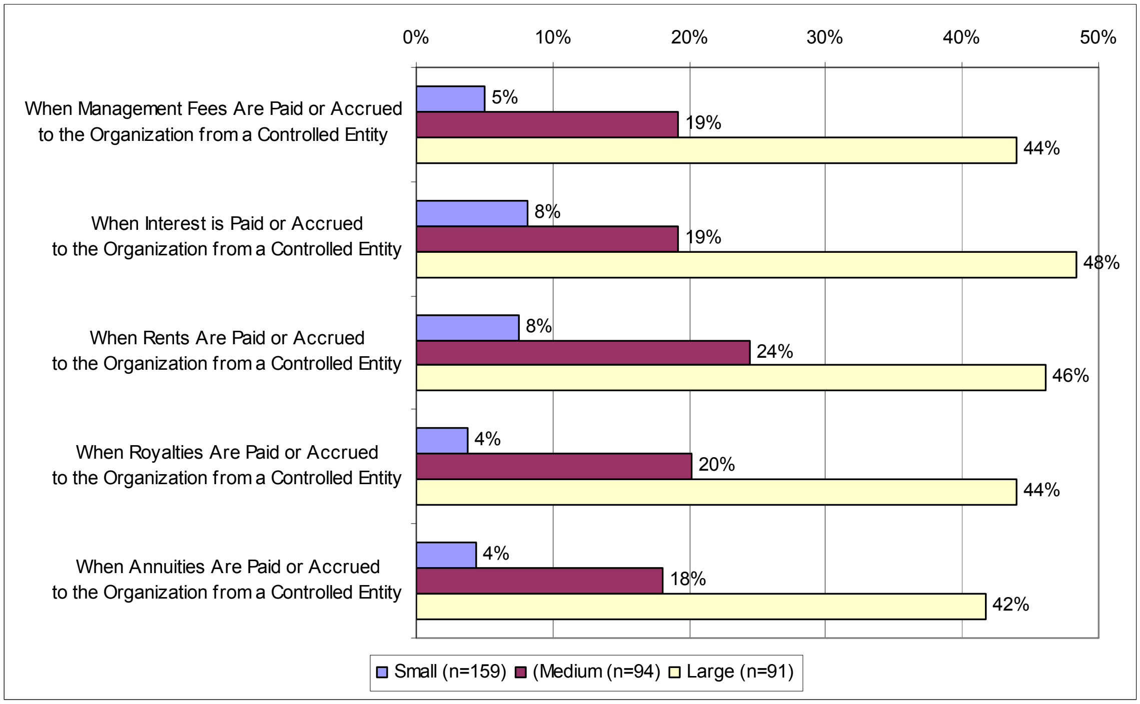
Figure 18. Distribution of Number of Controlled Entities Reported



No small colleges or universities reported controlling more than four entities while some large colleges and universities reported controlling more than 25 entities.

Transactions in which controlled entities pay interest, rents, royalties, or annuities to the college or university may be subject to unrelated business income tax unless such transactions are made at arm's length pursuant to a binding written contract that was in effect on August 17, 2006. The questionnaire asked whether transactions with controlled entities involving these types of income as well as management fees were governed by a written policy in the case of private colleges and universities, or by statute in the case of a public college or university, to assure the transactions were made at arm's length. Figure 19 shows the percentage of organizations that reported a written policy or statute applicable to certain transactions.

Figure 19. Question 20 – Percentage of Organizations Reporting Written Policies or Statute Regarding Transactions with Controlled Entities



The percentage of large colleges and universities that reported a written policy or statute in place is comparable to the percentage of large colleges and universities that reported at least one controlled entity. This was not the case for the small and medium-sized colleges and universities where the percentage of organizations with a written policy or statute in place was less than the percentage reporting at least one controlled entity.

IV. ACTIVITIES

Overview

Part II of the questionnaire focused on the activities of colleges and universities and the potential unrelated business income tax treatment of such activities. Public and private colleges and universities are subject to tax under sections 511-514 of the Code on their unrelated business income (UBI). Generally, UBI is income from a trade or business that is regularly carried on and is not substantially related to furthering the exempt purposes of the organization. The Code provides a number of exceptions for certain types of income, such as interest and dividends, as well as certain modifications in computing unrelated business taxable income.

Participation in Activities (Question 23)

The questionnaire listed 47 different activities that colleges and universities might engage in that may result in UBI. This interim report focuses on whether the organizations reported engaging in any of the identified activities during their tax year ending in 2006 and to a limited extent, the treatment of certain activities as exempt or subject to unrelated business income tax. The final report will include additional data on the responses to the remainder of the questions concerning these activities, including whether such activities are treated in whole or in part as unrelated business activities and whether the activities generate a loss. In responding to question 23, organizations were requested to report only those activities they engaged in directly, and not any activities conducted through related organizations, without regard to whether the activity was reported on a Form 990-T, *Unrelated Business Income Tax Return*.

The activities were reported in four categories – advertising, corporate sponsorship, rentals, and other. Advertising, corporate sponsorship, and rentals were divided into sub-categories. Figure 21 through Figure 24 show the percentages of organizations that reported engaging in the listed activities.

Figure 20. Question 23a – Percentage of Organizations that Reported Engaging in Advertising Activities

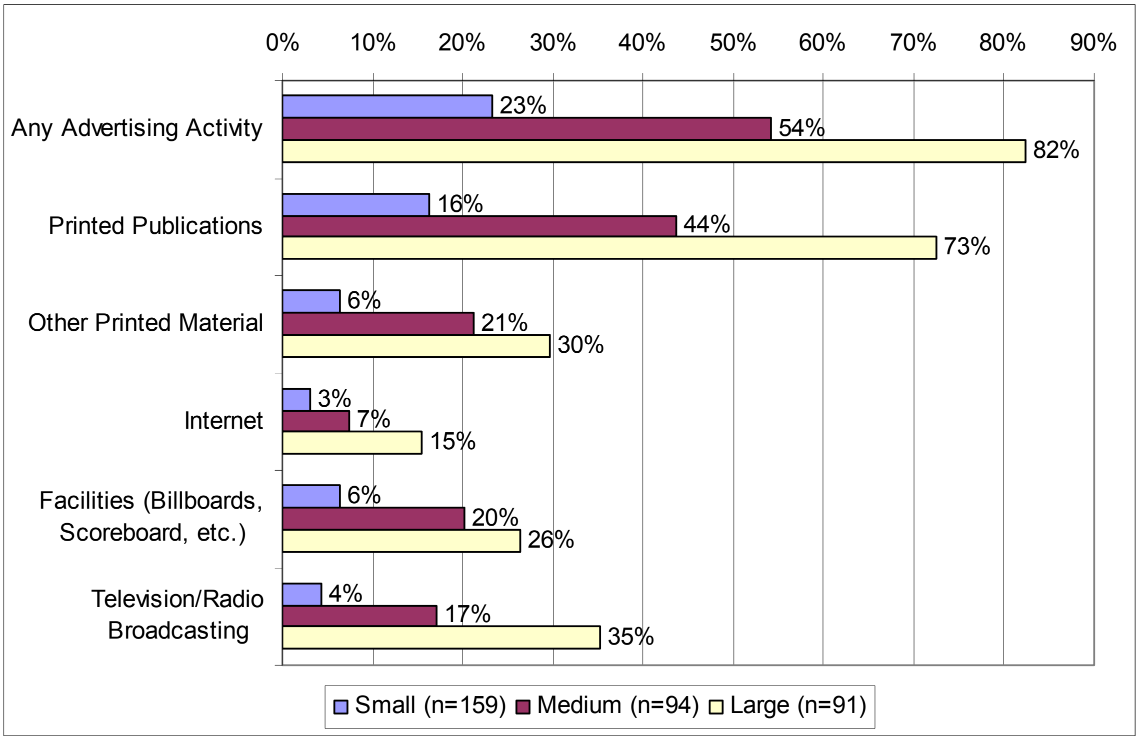


Figure 21. Question 23b – Percentage of Organizations that Reported Engaging in Corporate Sponsorship Activities

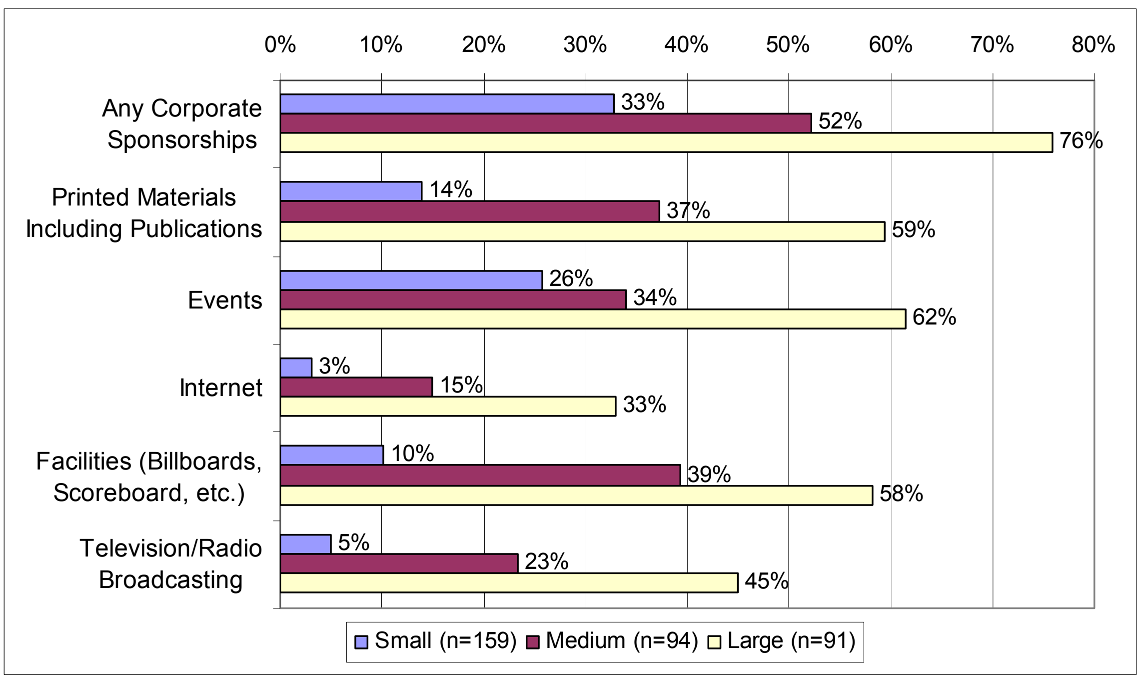


Figure 22. Question 23c – Percentage of Organizations that Reported Engaging in Rental Activities

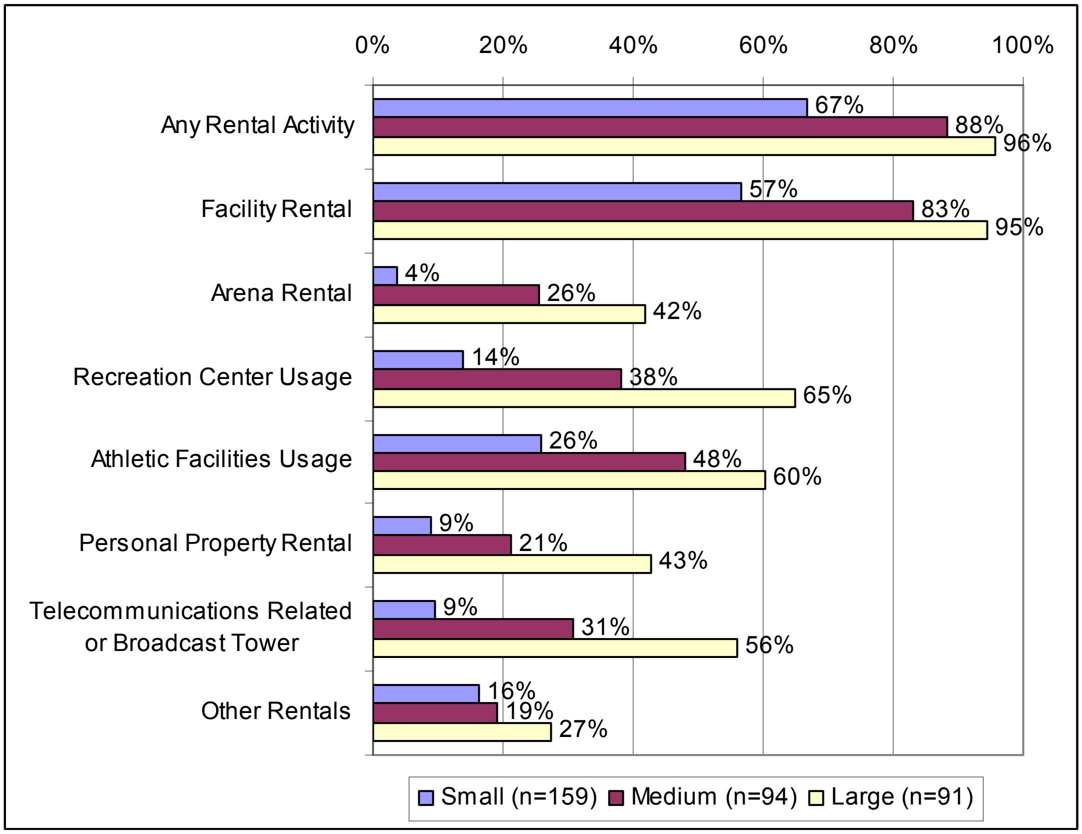
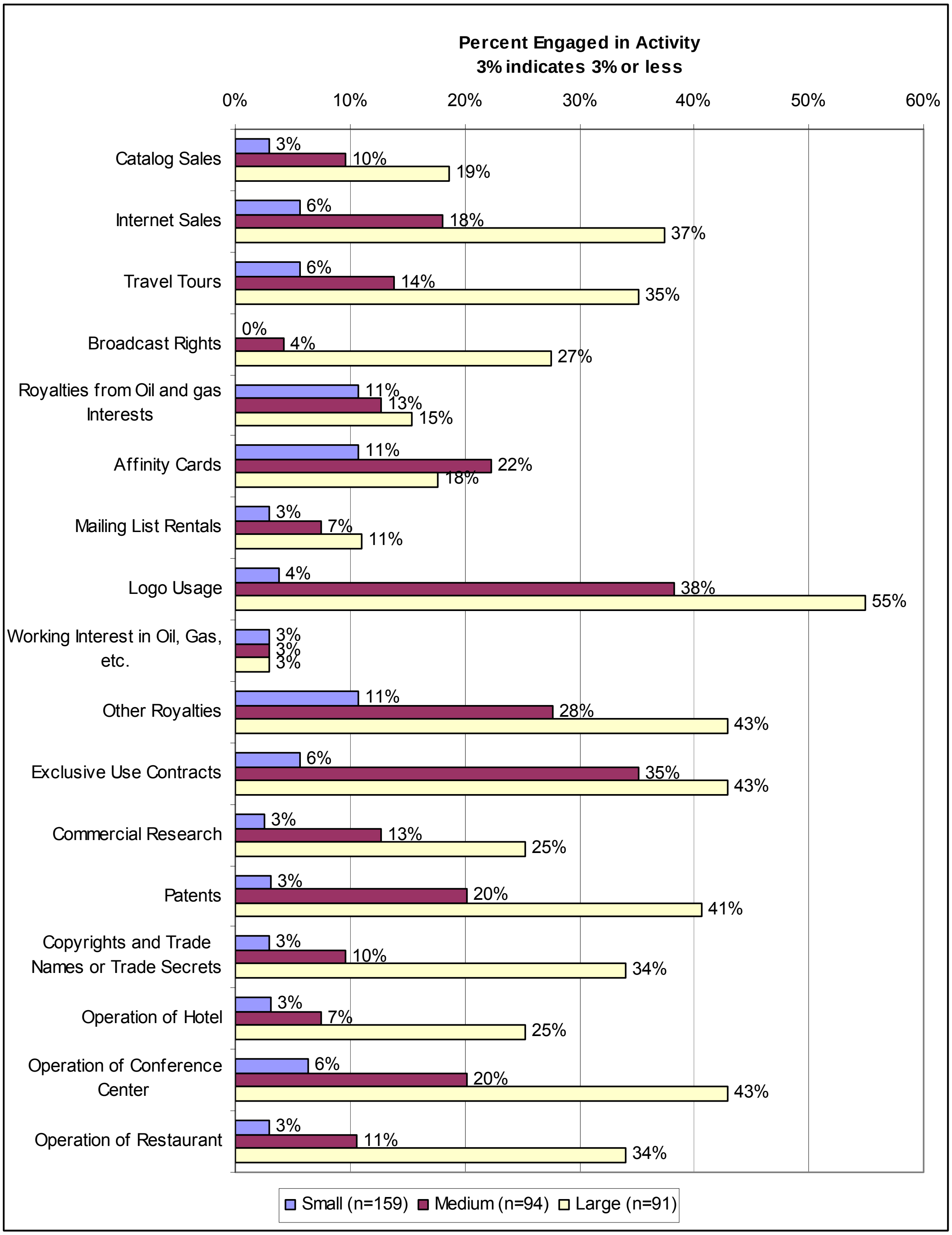
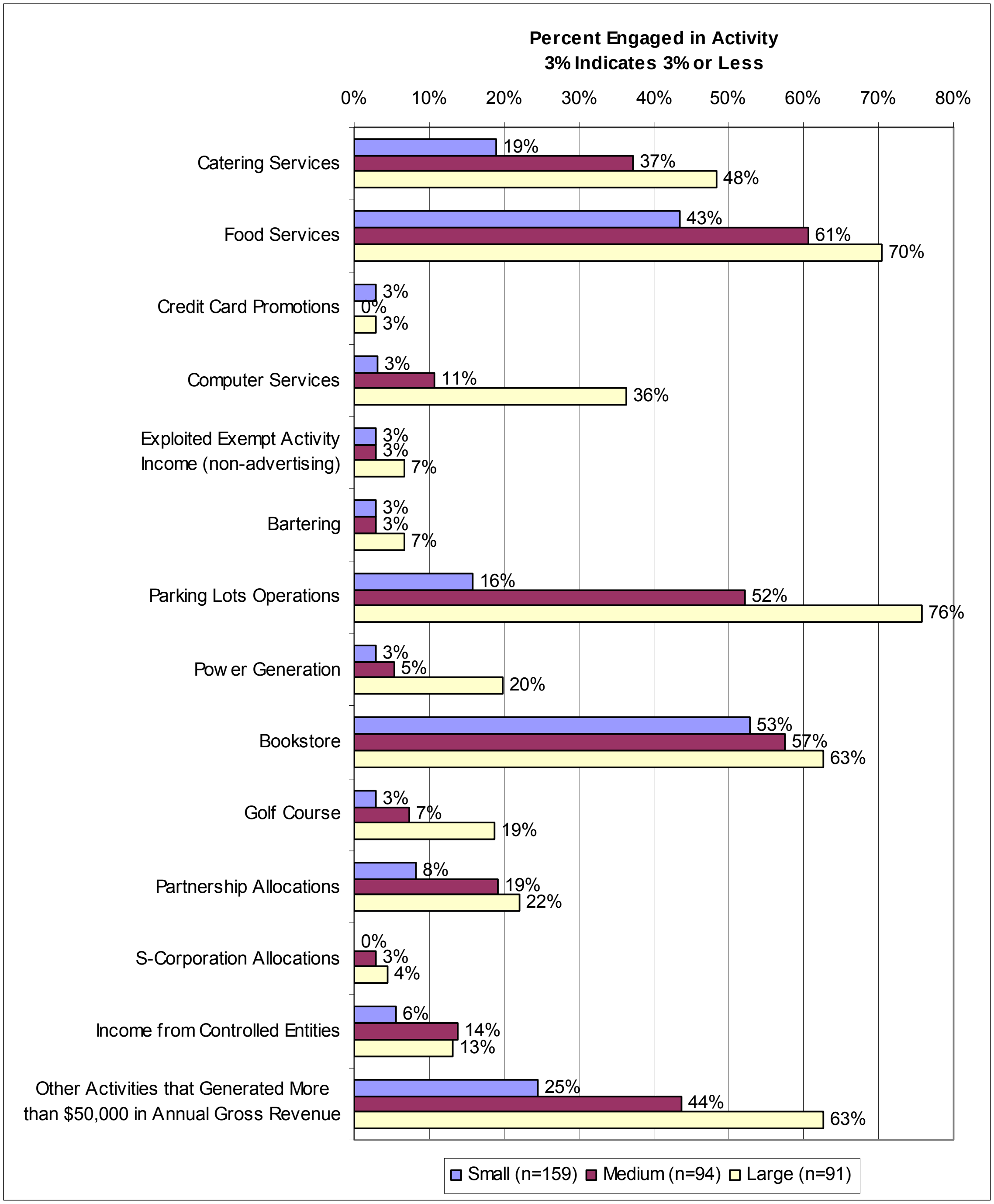


Figure 23. Question 23d – Percentage of Organizations that Reported Engaging in Other Listed Activities



Specific percentages are not included in some cases to prevent potential identification of respondents.

Figure 24. Question 23d and 23e – Percentage of Organizations that Reported Engaging in Other Activities (cont.)



Specific percentages are not included in some cases to prevent potential identification of respondents.

In general, large colleges and universities had the highest percentage of organizations that reported they were engaged in any particular activity and the small colleges and universities had the lowest percentage. In most cases, the exceptions occurred where 3% or less of the organizations reported engaging in the activity. Facility rental was the most frequently reported activity across all size categories. A substantial percentage of colleges and universities at all size levels indicated that they were engaged in activities other than those enumerated in the questionnaire. The final report will include additional information on these activities.

Unrelated Business Income Treatment (Questions 26 – 27)

Question 26 asked organizations to indicate if they never filed a Form 990-T.

Figure 25. Question 26 – Percentage of Organizations Reporting They Never Filed a Form 990-T[15]

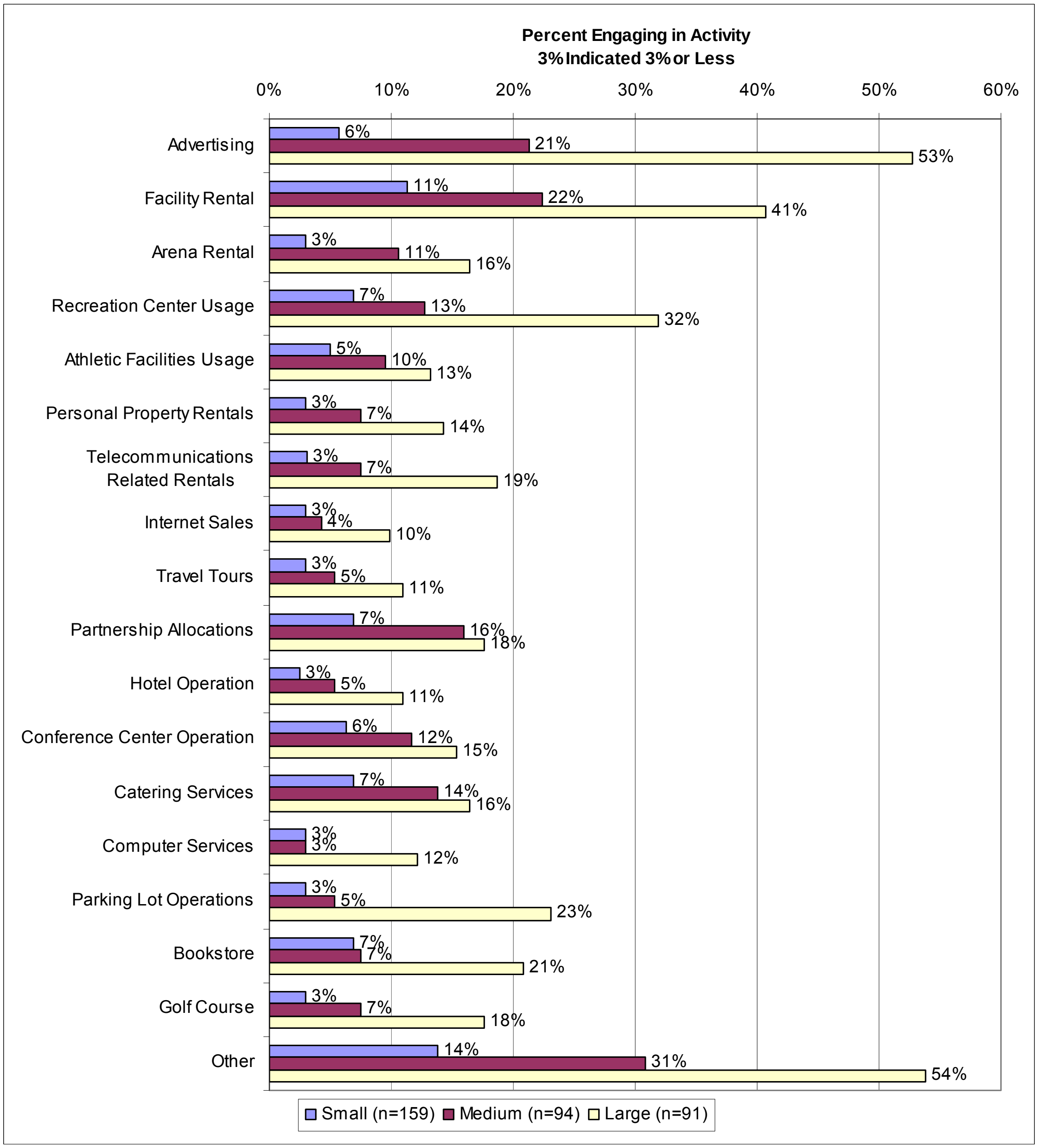
	Small	Medium	Large
Organizations That Reported Never Filed a Form 990-T	48% (n=159)	29% (n=94)	4% (n=91)

Question 27 provided a list of unrelated business activities and requested information concerning the income and expenses reported on the Form 990-T for those activities for the tax years ending in 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. Six small, three or fewer medium, and four large organizations provided information for a year other than their tax year ending in 2006 because they had not filed a Form 990-T for that year.

This report includes responses on whether the colleges and universities reported the listed activities on their Form 990-T. Figure 26 shows those activities for which at least 10% of any size category reported including the activity on their Form 990-T. Activities with Form 990-T reporting rates below 10% not shown in Figure 26 include debt-financed income, catalog sales, allocations with S-corporations, working interests in oil and gas, exclusive use contracts, commercial research, patents, intellectual property, restaurant operation, food services, income from controlled organizations, credit card promotions, exploited exempt activity income, bartering, and power generation activities.

[15] The final report will include data derived from actual Form 990-T filings.

Figure 26. Question 27 – Percentage of Organizations that Indicated Unrelated Business Activities Reported on Form 990-T[16]



Specific percentages are not included in some cases to prevent potential identification of respondents.

Consistent with the responses to whether the colleges and universities engaged in particular activities, generally, the large colleges and universities reported the highest percentage indicating that they reported the listed activities on their Form 990-T and the small colleges and universities had the lowest percentage doing so.

Of the listed activities, facility rental and advertising generally had the highest percentage of respondents indicating they reported the activity on their Form 990-T. At

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[16] The percentages are out of the total number of respondents to the questionnaire.

all size levels, the highest percentage reported was for “Other” unrelated business activities that were not specified on the questionnaire (this category likely includes a number of separate activities that will be analyzed in the final report).

Additional work will be conducted to compare the responses to question 23 (regarding activities of the colleges and universities) included in Figure 20 through Figure 24 to the responses to question 27 included in Figure 26 (regarding activities reported on the Form 990-T). For example, while the percentage of colleges and universities reporting they engaged in advertising activity ranged from 23% for small organizations to 82% for large organizations (see Figure 20), the percentage reporting that they included advertising income on their Form 990-T ranged from 6% for small organizations to 53% for large organizations. The responses reported for activities that were included in question 23 and question 27 are compared below. Note, in some cases, the descriptions of activities in question 23 are slightly different from the descriptions in question 27 (e.g., Question 23 refers to “Copyrights and Trade Names or Trade Secrets” while Question 27 refers to “Intellectual Property”); thus, responses may not be directly comparable.[17]

[17] For this reason, exploited exempt activity income is not included.

Figure 27. Questions 23 and 27 – Comparison of the Percent of Organizations Engaging in Certain Activities and Reporting Activity on Form 990-T

	Small (n=159)		Medium (n=94)		Large (n=91)	
Activity	**Percent Reporting Activity**	**Percent Reporting Activity on Form 990-T**	**Percent Reporting Activity**	**Percent Reporting Activity on Form 990-T**	**Percent Reporting Activity**	**Percent Reporting Activity on Form 990-T**
Advertising	23%	6%	54%	21%	82%	53%
Facility Rental	57%	11%	83%	22%	95%	41%
Arena Rental	4%	≤2%	26%	11%	42%	16%
Recreation Center Usage	14%	7%	38%	13%	65%	32%
Athletic Facilities Usage	26%	5%	48%	10%	60%	13%
Personal Property Rental	9%	2%	21%	7%	43%	14%
Telecommunications Related Rental	9%	3%	31%	7%	56%	19%
Catalog Sales	≤3%	≤2%	10%	5%	19%	4%
Internet Sales	6%	2%	18%	4%	37%	10%
Travel Tours	6%	2%	14%	5%	35%	11%
Working Interest in Oil and Gas	2%	3%	≤3%	≤3%	≤3%	≤3%
Exclusive Use Contracts	6%	≤2%	35%	3%	43%	4%
Commercial Research	3%	2%	13%	3%	25%	5%
Patents	3%	≤2%	20%	≤3%	41%	≤3%
Intellectual Property	2%	≤2%	10%	≤3%	34%	≤3%
Hotel Operation	3%	3%	7%	5%	25%	11%
Conference Center Operation	6%	6%	20%	12%	43%	15%
Restaurant Operation	2%	2%	11%	4%	34%	4%
Catering Services	19%	7%	37%	14%	48%	16%
Food Services	43%	2%	61%	6%	70%	7%
Credit Card Promotions	≤2%	≤2%	0%	≤3%	≤3%	≤3%
Computer Services	3%	2%	11%	≤3%	36%	12%
Bartering	≤2%	≤2%	≤3%	≤3%	7%	≤3%
Parking Lots	16%	2%	52%	5%	76%	23%
Power Generation	≤2%	2%	5%	3%	20%	5%
Bookstore	53%	7%	57%	7%	63%	21%
Golf Course	≤2%	≤2%	7%	7%	19%	18%
Partnership Allocations	8%	7%	19%	16%	22%	18%
S-corporation Allocations	0%	≤2%	≤3%	≤3%	4%	3%
Income from Controlled Organizations	6%	3%	14%	≤3%	13%	3%

Specific percentages are not included in some cases to prevent potential identification of respondents.

In many cases, colleges and universities reported conducting an activity they did not report on their Form 990-T. This is expected in cases where the activity is conducted exclusively for the exempt purpose of the organization. For example, this would be the case for a bookstore that only sells books and supplies to students. In other cases, it was common that an activity was usually reported on Form 990-T, such as operating golf courses, which many colleges and university make available for public use. Characterization of an activity as exempt or unrelated depends upon facts and circumstances and many activities may appropriately fit within the "convenience" exception or other exceptions to unrelated business income. In addition, modifications in computing unrelated business taxable income may also be relevant (e.g., rental of real property). This is an area of further study for the IRS.

Expense Allocations and Use of Outside Counsel (Questions 28, 30 and 31)

For the activities reported on Form 990-T for the tax year ended in 2006 (or for those that did not file a Form 990-T for that year, the most recent tax year for which the Form 990-T was filed), question 28 requested a breakdown of direct and indirect expenses. Figure 28 shows the percentage of respondents that reported having indirect expenses greater than zero, and, for those organizations, the average and median percentage for their indirect expenses compared to total expenses.

Figure 28. Question 28 – Organizations Reporting Indirect Expenses

	Small	**Medium**	**Large**
Percentage and Number of Organizations that Reported Having Indirect Expenses	56% (28) (n=50)	60% (34) (n=57)	80% (66) (n=82)
Average and Median of the Reported Percentage of Indirect Expenses*	Average = 34% Median = 22% (n=28)	Average = 27% Median = 23% (n=34)	Average = 28% Median = 20% (n=66)

* Averages and medians do not include organizations that reported zero percent.

More than half of the respondents in all size categories indicated that they had indirect expenses, with the large organizations having the highest percentage and the small organizations the lowest. Note the number of respondents to this question is less than the number of organizations that responded having filed a Form 990-T.

Question 30 requested a breakdown of inter-company expenses (expenses paid or accrued to related organizations) compared to other expenses for the same tax year. The response rate to this question varied between the size categories. The highest response rate was by the large colleges and universities who reported the highest percentage of organizations with a related entity. Fewer than 20% of each size category indicated that they had inter-company expenses greater than zero, as illustrated in Figure 29.

Figure 29. Question 30 – Organizations Reporting Breakdown of Inter-Company Expenses

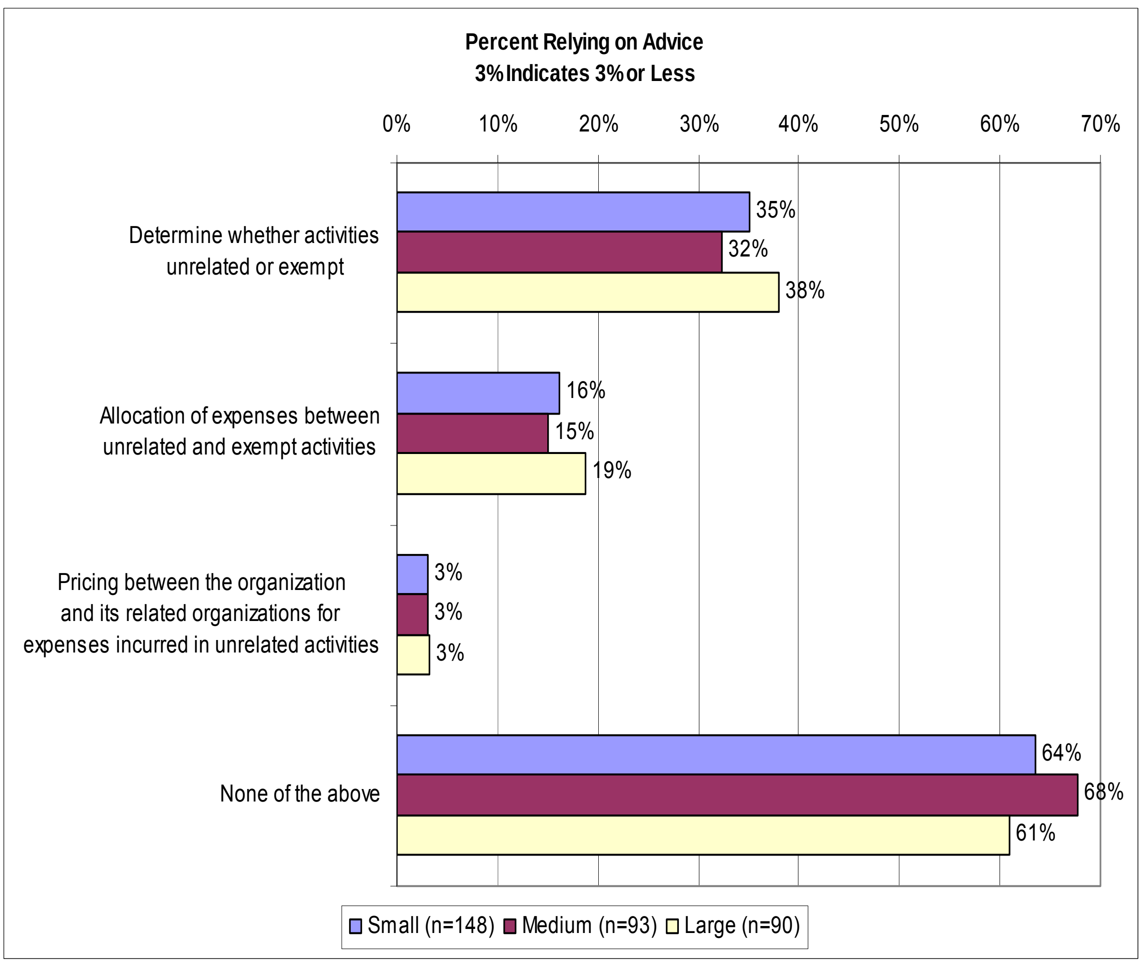
	Small	Medium	Large
Percentage and Number of Organizations that Reported Having Inter-Company Expenses	17% (8) (n=48)	13% (7) (n=53)	11% (9) (n=82)
Average and Median of the Reported Percentage of Inter-Company Expenses*	Average = 53% Median = 47% (n=8)	Average = 46% Median = 42% (n=7)	Average = 16% Median = 9% (n=9)

* Average and medians do not include organizations that reported zero percent.

Further analysis will be conducted to compare these results to the respondents that reported having one or more related organizations and having filed a Form 990-T, to determine what percentage of organizations with related organizations did not report paying or accruing expenses for related organizations.

Question 31 asked the colleges and universities whether they relied on the advice of independent accountants or counsel for certain unrelated business issues for the 2006 tax year.

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



Specific percentages are not included in some cases to prevent potential identification of respondents.

At least 60% of the colleges and universities at each size level reported that they did not rely on advice from independent accountants or counsel for any of these determinations concerning unrelated business income. Of those that did rely on such advice, most did so with respect to determining whether any activities were unrelated.

V. ENDOWMENT FUNDS

Overview

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.

Endowment Funds and Management by Other Organizations (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 respondents reported that they had endowment funds and/or that another organization managed or maintained endowment funds on their behalf.[18]

Figure 31 shows the percentage of respondents within each size category that indicated they had endowment funds and/or that another organization held or maintained endowment funds on their behalf. Figure 31 also shows the percentage of respondents that indicated they did not have endowment funds nor did another organization hold or maintain endowment funds on their behalf.

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

Percentage of Organizations Responding that:	**Small**	**Medium**	**Large**
32. Had endowment funds	83% (n=155)	88% (n=94)	>95% (n=90)
33. Another Organization Held or Maintained Endowment Funds on Their Behalf	52% (n=154)	73% (n=94)	90% (n=90)
Had Endowment Funds and Another Organization Held or Maintained Endowment Funds on Their Behalf (yes to 32 and 33)	47% (n=156)	65% (n=94)	88% (n=90)
Did Not have Endowment Funds and Did Not Have Another Organization that Held or Maintained Endowment Funds on Their Behalf (no to 32 and 33)	13% (n=156)	3% (n=94)	0% (n=90)

The responses indicate that nearly all organizations (87% to 100% across the size categories) reported having endowment funds or that another organization held or maintained endowment funds on their behalf.

Investment Policy and Fund Managers (Questions 34 – 35)

[18] 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.

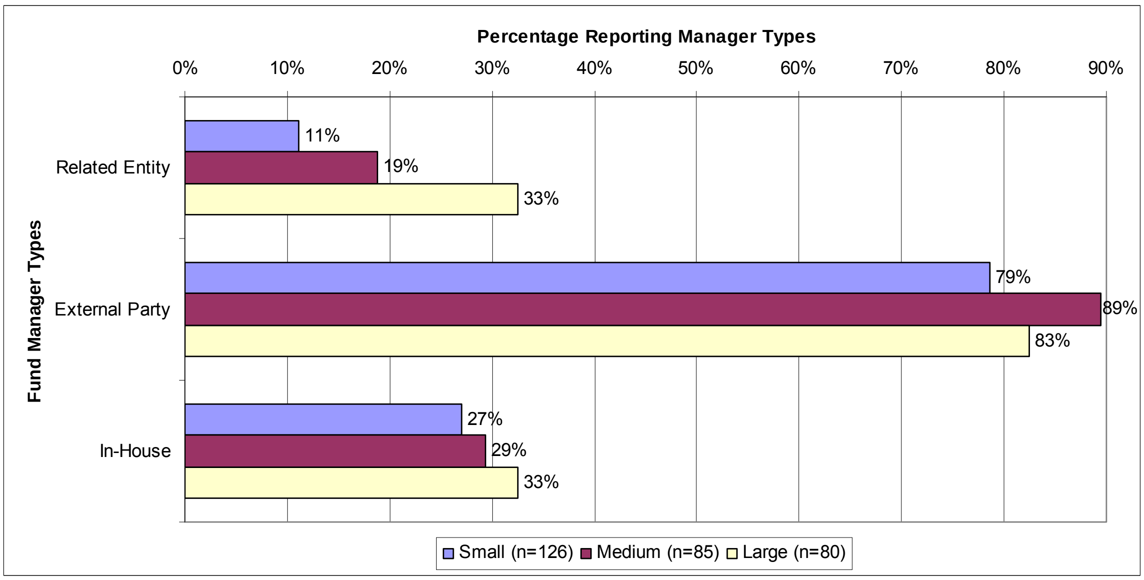
The questionnaire asked a number of questions related to management of endowment funds.

Figure 32. Question 34 and 35a – Management by State Treasury or Other State Agency and Presence of Investment Policy[19]

	Small	Medium	Large
34. Percentage of Public Institutions Reporting having Endowments Managed by State Treasury or other State Agency	20% (n=20)	<5% (n=61)	10% (n=82)
35a. Percentage of Organizations Reporting an Investment Policy for Endowment Funds.	94% (n=126)	94% (n=85)	96% (n=80)

Specific percentages are not included in some cases to prevent potential identification of respondents.

Figure 33. Question 35b – Percentage of Fund Manager Types Used to Manage Endowment Funds



Nearly all colleges and universities within each size category reported having an endowment fund investment policy. External party managers were the most commonly used type of fund manager for each size category. Note, for question 35b, organizations could have indicated more than one type of fund manager type.

Investment Committees, External Managers, Internal Managers and External Consultants (Questions 36 – 41)

The questionnaire asked respondents about the use, makeup and activities of investment committees.

[19] The responses to Question 35 do not include public institutions that reported their endowment was managed by a state treasury or other state agency.

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

	Small	Medium	Large
36. Percentage of Organizations that Used Investment Committee to Oversee Endowment Fund Assets	85% (n=133)	93% (n=89)	94% (n=84)
37. Number of Committee Members that Oversaw Endowment Funds	Average = 7 Median = 7 (n=108)	Average = 8 Median = 7 (n=81)	Average = 12 Median = 9 (n=79)

Most colleges and universities reported having investment committees and large universities tended to have the most members on their investment committees. Organizations also reported the number of individuals that were on staff whose primary responsibility was investment management of endowments (Question 40). The median number of individuals for each size category was zero showing that the majority of organizations had no individual on staff whose primary job was investment management of endowment funds (averages were 0 for small; 1 for medium and 3 for large).

Responses to questions related to the use of outside consultants and external parties are summarized in Figure 35 below.

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

Percentage of Organizations that Reported:	Small	Medium	Large
41. Engaged an Outside Consultant for Investment Guidance	60% (n=131)	74% (n=89)	84% (n=83)
38. Investment Committee Approved the Selection of External Parties used to Manage the Investment of Endowment Funds	94% (n=112)	>95% (n=83)	95% (n=74)
39. Investment Committee Approved Investment Guidance Recommendations made by Outside Consultants	86%* (n=110)	80% (n=82)	91% (n=77)
Engaged Outside Consultant for Investment Advice and Investment Committee Approved Selection of External Parties and Investment Guidance (yes to questions 38, 39 and 41)**	52% (n=133)	66% (n=89)	71% (n=84)

* Note, fewer organizations responded to question 39 related to approval of investment guidance by outside consultants than responded to question 41 related to the use of an outside consultant.
** n represents number of organizations that answered any of questions 38, 39 or 41.

A higher percentage of large and medium colleges and universities reported using an outside consultant for investment guidance than did small colleges and universities. In most cases, the investment committee had responsibility for approval of selection of external fund managers. At least 80% of organizations in each size category reported having investment committees approve investment guidance made by outside consultants. More than half of the organizations in each size category reported engaging an outside consultant and that the investment committee approved the selection of external parties and approved their investment advice.

Compensation to Fund Managers (Questions 42 – 45)

The questionnaire asked about compensation arrangements with fund managers – both internal investment managers and external investment managers. The percentage of organizations providing various types of compensation to internal investment managers is included in Figure 36. Figure 37 includes this information for external investment managers.

Figure 36. Question 42 – Percentage of Colleges and Universities Providing Various Types of Compensation to *Internal* Investment Fund Managers

	Small (n=36)	**Medium (n=25)**	**Large (n=39)**
Wages or Salary	78%	96%	100%
Asset-Based Fees	<10%	<15%	<10%
Mutual Fund Fees	<10%	<15%	0%
Performance Based-Fees	<10%	<15%	15%
Other	22%	<15%	10%

Specific percentages are not included in some cases to prevent potential identification of respondents.

Figure 37. Question 43 – Percentage of Colleges and Universities Providing Various Types of Compensation to *External* Investment Fund Managers

	Small (n=114)	**Medium (n=87)**	**Large (n=80)**
Wages or Salary	0%	<5%	0%
Asset-Based Fees	85%	89%	91%
Mutual Fund Fees	32%	31%	61%
Performance Based-Fees	13%	26%	50%
Other	8%	7%	4%

Specific percentages are not included in some cases to prevent potential identification of respondents.

As shown in Figure 33, the number of organizations that reported using internal fund mangers was much smaller than the number reporting using external fund managers. Wages or salary was the most commonly reported type of compensation paid to internal fund mangers. Fees and other compensation arrangements were more commonly used to compensate external fund managers than internal fund managers.

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

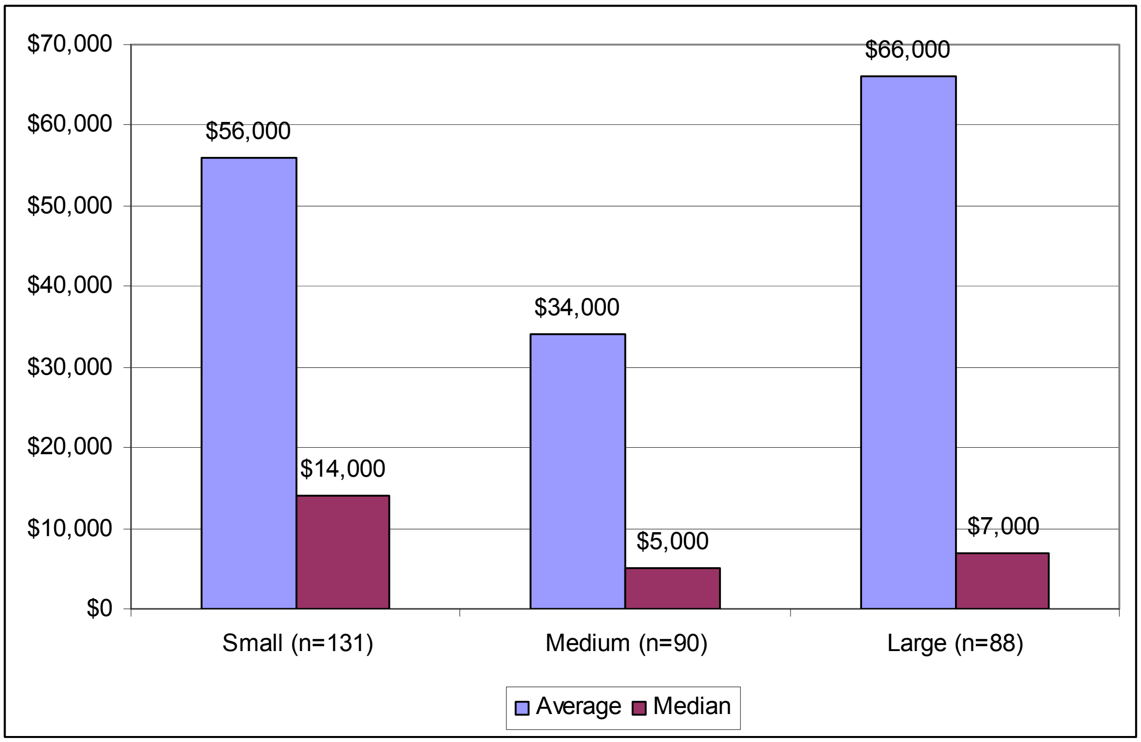
Percentage of Organizations that Reported:	**Small**	**Medium**	**Large**
44. Compensation Arrangements for Internal Investment Managers were Reviewed and Approved by Committee or Full Board	38% (n=56)	49% (n=41)	65% (n=49)
45. Compensation Arrangements for External Investment Managers were Reviewed and Approved by Committee or Full Board	88% (n=116)	93% (n=86)	92% (n=79)

A higher percentage of respondents from each size category indicated that a committee of the board or the full board reviewed and approved compensation to external investment managers than they did for compensation to internal investment managers.[20]

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 and Median of Endowment Assets per Full-Time Equivalent Student: Fiscal Year Ending 2006 (rounded to the nearest thousand)



[20] The number of respondents to Question 44 regarding the review and approval of compensation arrangements for internal managers exceeded the number of organizations reporting they used internal managers.

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

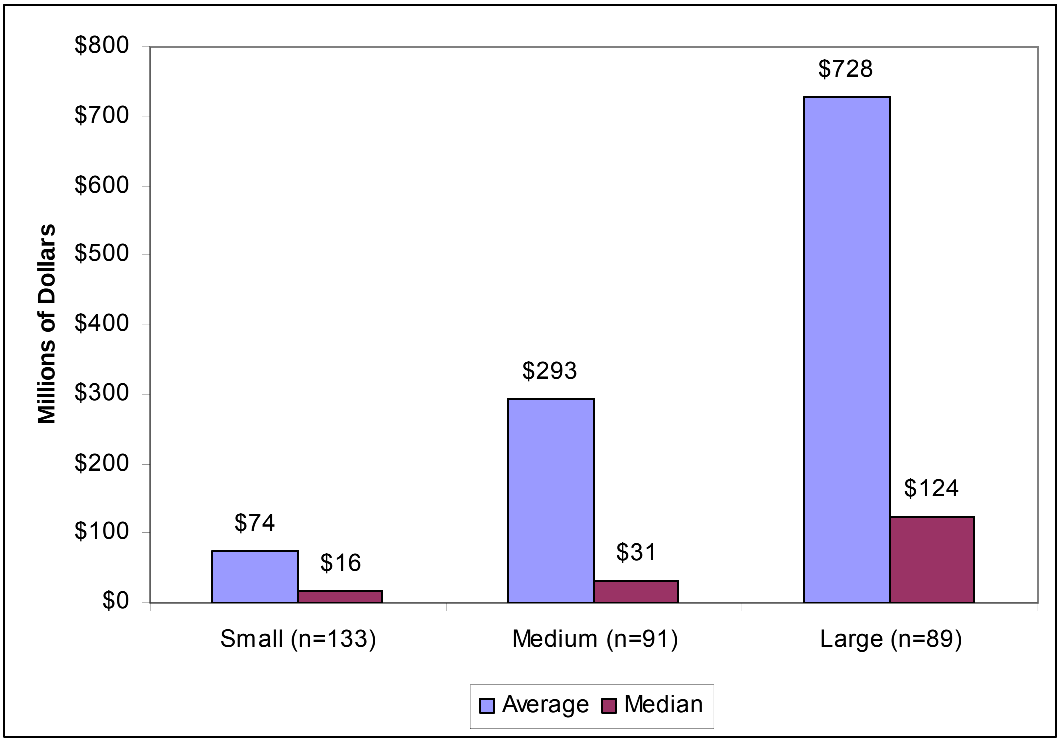


Figure 41 shows the responses to questions related to target spending rates.

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

	Small	Medium	Large
47a. Percentage of Organizations that Reported Investment Committee or Board Adopted Target Spending Rate for All Endowments	76% (n=130)	81% (n=91)	95% (n=88)
47b. Percentage of Organization that Met the Adopted Target Spending Rate	89% (n=95)	92% (n=72)	89% (n=84)
47c. Target Spending Rate Reported	Average = 4.9% Median = 5.0% (n=133)	Average = 4.7% Median = 5.0% (n=90)	Average = 4.7% Median = 4.8% (n=89)

Most colleges and universities reported adopting and meeting their target spending rate. The reported target spending rates were similar (approximately 5%) throughout the size categories.

Types of Endowment Funds (Questions 48 – 50)

Colleges and universities may have multiple types of endowment funds. The questionnaire asked respondents to provide the 2006 fiscal year end balance of quasi endowment funds, term endowment funds and true endowment funds.[21] 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 – Percentage of Organizations that Reported Having Quasi, Term or True Endowment Funds with Reported Positive Values

Percentage of Organizations that Reported Having the Following Endowment Funds:	Small	Medium	Large
Quasi	78% (n=130)	76% (n=91)	89% (n=89)
Term	29% (n=130)	29% (n=89)	49% (n=88)
True	94% (n=132)	98% (n=91)	100% (n=89)

The highest percentage of colleges and universities of all size categories responded as having true endowment funds, followed by quasi endowment funds and then by term endowments. The average and median fair market values of these organizations reporting having the various endowment fund types are shown below.

Figure 43. Questions 48, 49 and 50 – Average and Median Fair Market Values of Quasi, Term and True Endowment Funds (in millions of dollars)

Year-End Fair Market Value of :	Small	Medium	Large
48. Quasi Endowments	Average = $27 Median = $5 (n=101)	Average = $112 Median = $11 (n=69)	Average = $166 Median = $29 (n=79)
49. Term Endowments	Average = $16 Median = $3 (n=38)	Average = $182 Median = $1 (n=26)	Average = $509 Median = $4 (n=43)
50. True Endowments	Average = $49 Median = $10 (n=124)	Average = $105 Median = $18 (n=89)	Average = $309 Median = $80 (n=89)

*Amounts do not include those that reported a value of zero.

[21] The types of endowments funds and their definitions are based on Financial Accounting Standards Board (FASB) rules.

Figure 44. Questions 48, 49 and 50 – Average Fair Market Values of Quasi, Term and True Endowment Funds (in millions of dollars)

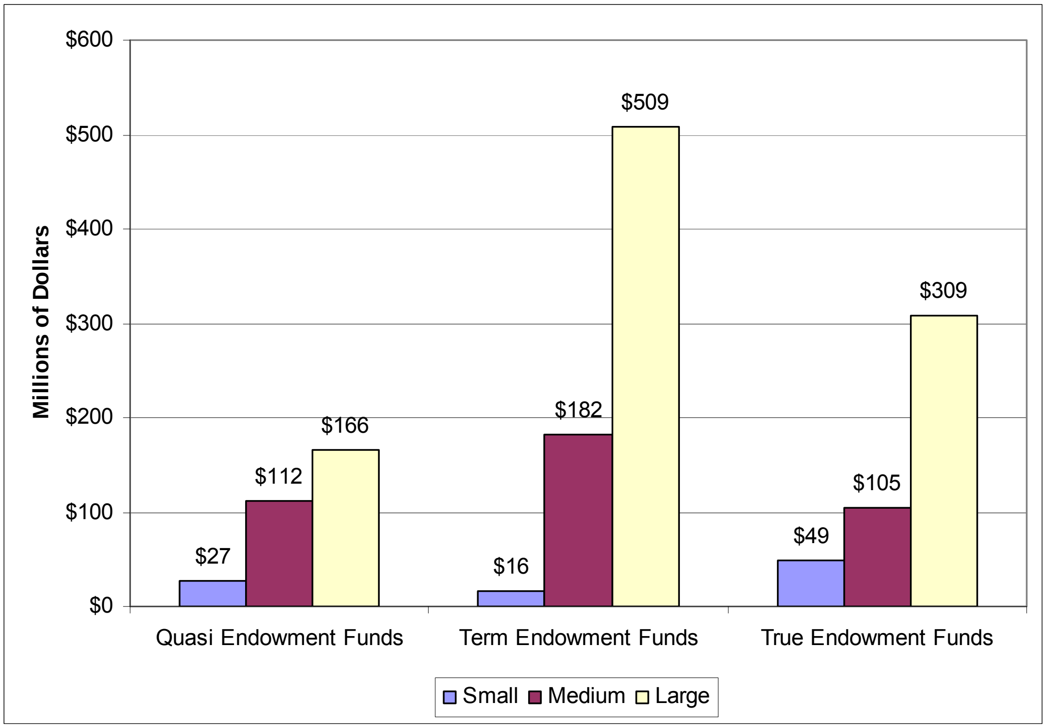
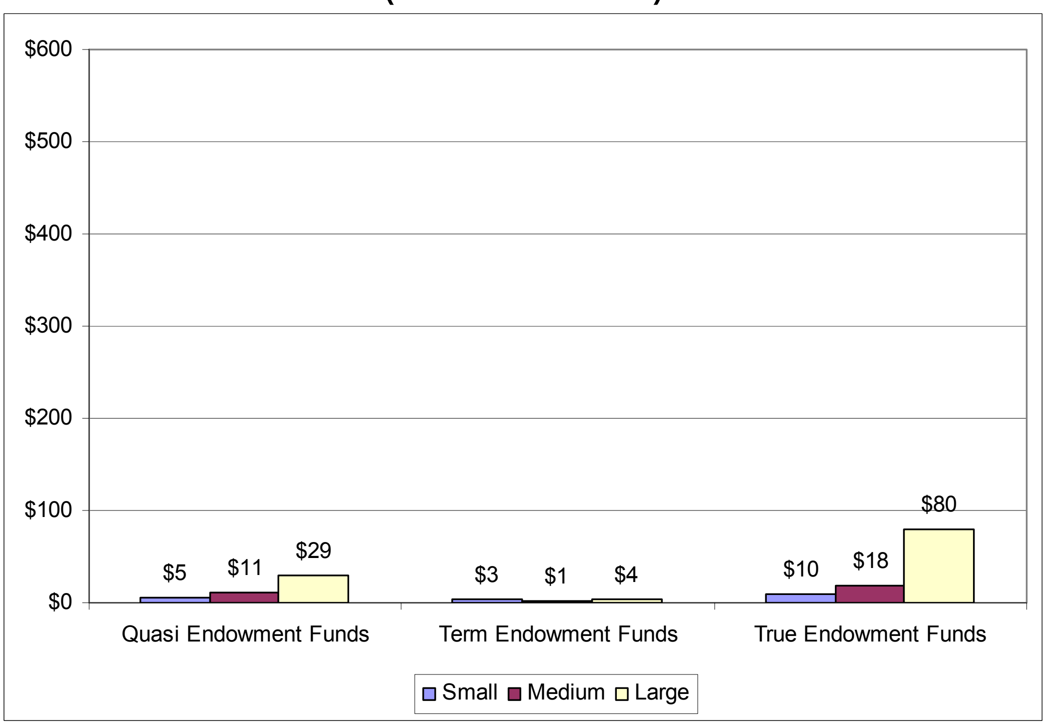


Figure 45. Questions 48, 49 and 50 – Reported Median Fair Market Values of Quasi, Term and True Endowment Funds (in millions of dollars)



* Note, see Figure 43 for the number of respondents (n).

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.

Figure 46. Question 51a, b, c –Life Income Funds

Percentage of Organizations that Reported Having the Following (including those of Related Entities):	**Small**	**Medium**	**Large**
Charitable Gift Annuities	61% (n=133)	58% (n=91)	84% (n=89)
Charitable Remainder Trusts	56% (n=131)	51% (n=91)	81% (n=89)
Pooled Income Funds	15% (n=130)	24% (n=91)	41% (n=88)

For all size categories, pooled income funds were the least prevalent. Figure 47 shows the percentage of endowment funds comprised of each of these three types of assets for those that reported having such assets. Note the number of organizations reporting this information is fewer than the number of organizations reporting having the particular asset.

Figure 47. Question 51a, b and c – Percentage of the Organization's Endowment Funds Comprised of Certain Life Income Funds

Percentage of Endowments Comprised of:	**Small**	**Medium**	**Large**
Charitable Gift Annuities	Average = 3.5% Median = 1.5% (n=46)	Average = 1.2% Median = 0.6% (n=24)	Average = 1.3% Median = 1.0% (n=42)
Charitable Remainder Trusts	Average = 5.5% Median = 2.0% (n=42)	Average = 3.2% Median = 2.7% (n=21)	Average = 4.9% Median = 1.0% (n=41)
Pooled Income Funds	Average = 19.4% Median = 0.6% (n=8)	Average = 38.1% Median = 0.8% (n=13)	Average = 11.9% Median = 0.2% (n=19)

Foreign Investments (Question 52)

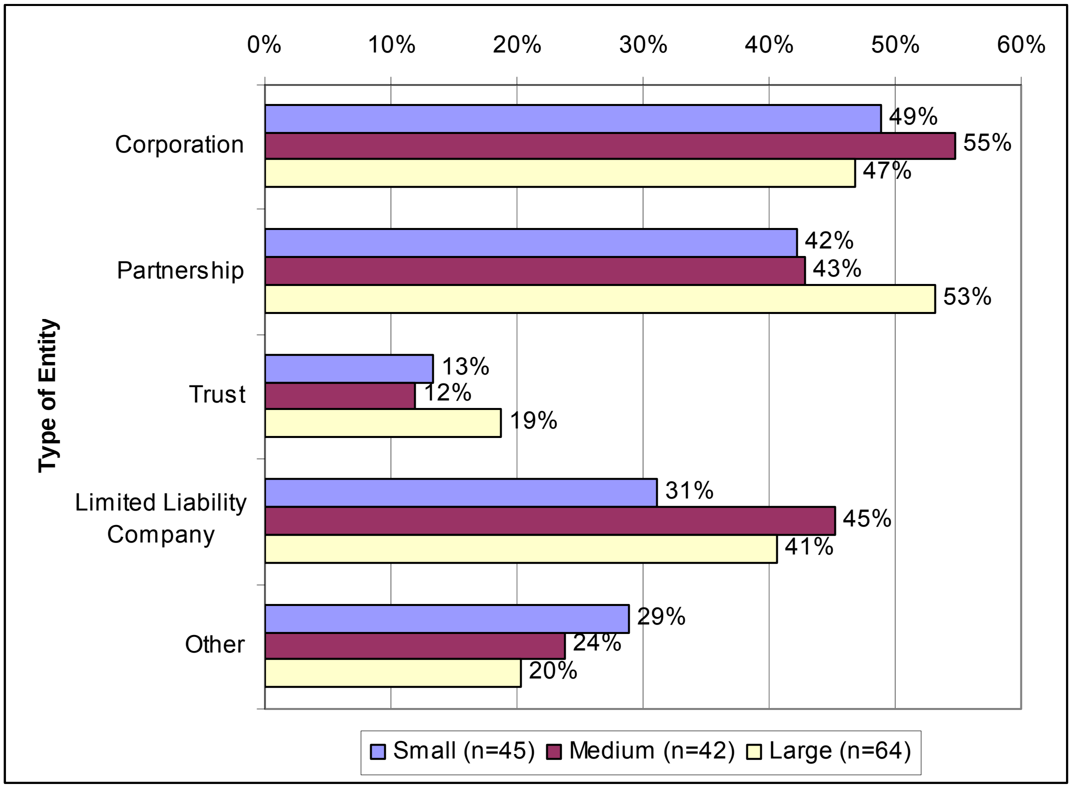
The questionnaire also asked whether organizations made foreign investments of endowment funds through an investment entity. As indicated in Figure 48, this was most common in the case of large colleges and universities.

Figure 48. Question 52 – Foreign Investments through an Investment Entity

	Small	**Medium**	**Large**
Percentage of Organizations Making Foreign Investments of Endowment Funds through an Investment Entity	34% (n=132)	47% (n=90)	69% (n=89)

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.

Figure 49. Question 52a, b, c, d, e – Entity Type Used to Make Foreign Investments[22]



Large colleges and universities reported having made foreign investments through a partnership entity more than any other entity. Both small and medium size colleges and universities reported having used a corporation more than any other entity. The lowest percentage of colleges and universities at all size levels engaged in foreign investments through the use of a trust.

At all size levels, some colleges and universities used more than one type of entity to make foreign investments (36% of small, 48% of medium, and 47% of large organizations that reported using entities to make foreign investments). Eighteen percent of small, 14% of medium and 16% of large colleges and universities that used investment entities for foreign investments reported making use of corporations, partnerships, and LLCs to do so.

Investments (Questions 53 – 55)

[22] More large organizations indicated the use of a particular type of investment entity than responded that they used an entity to make foreign investments.

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 that was invested 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 50 shows the percentage of small, medium and large colleges and universities that reported holding 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 reported having any investment in that category of investment, followed by the breakdown for the specific asset types within that category.

Figure 50. Question 53 – Percentage of Organization Investing in Various Asset Classes

	Small (n=131)	**Medium (n=91)**	**Large (n=89)**
53a. Alternatives			
Any Alternative Investment	44%	62%	78%
53ai. Hedge Funds	34%	47%	70%
53aii. Private Equity	24%	36%	61%
53aiii. Venture Capital	13%	20%	38%
53aiv. Natural Resources	19%	24%	33%
53av. Other	13%	15%	15%
53b - Fixed Income Funds			
Any Fixed Income Fund	95%	≥97%	100%
53bi. U.S. Fixed	93%	≥97%	100%
53bii. Non - U.S. Fixed Income	18%	19%	24%
53biii. Other	8%	12%	19%
53c - Equity Funds			
Any Equity Fund	95%	96%	100%
53ci. U. S. Equity	95%	95%	100%
53cii. Non - U.S. Equity	53%	67%	82%
53ciii. Other	5%	5%	10%
53d - Real Estate			
Any Real Estate	40%	46%	63%
53di. Public Real Estate	20%	16%	38%
53dii. Private Real Estate	29%	41%	45%
53e - International Funds	18%	12%	11%
53f - Cash	78%	75%	76%
53g - Other Investments	19%	21%	22%

Generally, large colleges and universities reported the highest percentage of organizations that invested in a particular type of investment and the small colleges reported the lowest percentage. There were some exceptions. International funds were most common for small colleges and universities and least common for large organizations.

All of the responding large colleges and universities and nearly all of the medium and small colleges and universities reported having investments in U.S. fixed investment funds and U.S. equity funds. Approximately three-quarters of the responding colleges and universities across all size levels reported holding cash in their endowments.

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 taxable year ending in 2006.

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

	Small	Medium	Large
53a(i). Hedge Funds	Average = 13% Median = 11% (n=45)	Average = 15% Median = 12% (n=43)	Average = 14% Median = 10% (n=62)
53a(ii). Private Equity	Average = 5% Median = 3% (n=31)	Average = 8% Median = 3% (n=33)	Average = 4% Median = 3% (n=54)
53a(iii). Venture Capital	Average = 3% Median = 3% (n=17)	Average = 3% Median = 2% (n=18)	Average = 2% Median = 1% (n=34)
53a(iv). Natural Resources	Average = 6% Median = 5% (n=25)	Average = 5% Median = 5% (n=22)	Average = 4% Median = 3% (n=29)
53a(v). Other Alternative Investments	Average = 4% Median = 3% (n=17)	Average = 14% Median = 10% (n=14)	Average = 7% Median = 8% (n=13)

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

	Small	Medium	Large
53b(i). U.S. Fixed Income Funds	Average = 26% Median = 23% (n=122)	Average = 24% Median = 21% (n=89)	Average = 21% Median = 18% (n=89)
53b(ii). Non-U.S. Fixed Income Funds	Average = 5% Median = 3% (n=24)	Average = 3% Median = 2% (n=17)	Average = 3% Median = 2% (n=21)
53b(iii). Other Fixed Income Funds	Average = 8% Median = 3% (n=11)	Average = 7% Median = 3% (n=11)	Average = 5% Median = 4% (n=17)

Figure 53. Question 53c – Percentage of Endowment Assets Invested in Equity Funds

	Small	Medium	Large
53c(i). U.S. Equity Funds	Average = 46% Median = 47% (n=124)	Average = 42% Median = 45% (n=86)	Average = 41% Median = 43% (n=89)
53c(ii). Non-U.S. Equity Funds	Average = 14% Median = 13% (n=69)	Average = 14% Median = 14% (n=61)	Average = 17% Median = 17% (n=73)
53c(iii). Other Equity Funds	Average = 16% Median = 5% (n=6)	Average = 17% Median = 12% (n=5)	Average = 9% Median = 5% (n=9)

Figure 54. Question 53d-g – Percentage of Endowment Assets Invested in Other Investments

	Small	Medium	Large
53d(i). Public Real Estate	Average = 4% Median = 4% (n=26)	Average = 3% Median = 3% (n=15)	Average = 4% Median = 4% (n=34)
53d(ii). Private Real Estate	Average = 6% Median = 4% (n=38)	Average = 5% Median = 4% (n=37)	Average = 3% Median = 3% (n=40)
53e. International Funds	Average = 13% Median = 11% (n=24)	Average = 9% Median = 9% (n=11)	Average = 12% Median = 13% (n=10)
53f. Cash	Average = 12% Median = 4% (n=102)	Average = 8% Median = 4% (n=68)	Average = 4% Median = 2% (n=68)
53g. Other Investments	Average = 14% Median = 3% (n=25)	Average = 11% Median = 4% (n=19)	Average = 4% Median = 1% (n=20)

Although the likelihood of participation in a particular type of investment generally varied by size level, for those colleges or universities that invested in a particular type of asset investment, the average and median percentage of total endowment assets reported for that investment was fairly consistent across size categories. There were a few exceptions to this general pattern. For example, of the colleges and universities that invested in other alternative investments, the average percentage invested by the medium colleges and universities was double that of the large colleges and universities and more than three times greater than that of the small colleges and universities. For those that invested in cash, the average percentage invested by the large colleges and universities was half the average invested by the medium colleges and universities and one-third the average invested by the small colleges and universities.

Not only did the highest percentage of colleges and universities at all size levels report having investments in U.S. fixed income funds and U.S. equity funds, but those that did so invested on average the highest percentage of their total endowment assets in those funds. The colleges and universities that invested in U.S. equity funds had an average investment in those funds between two-fifths and one-half of their total endowment assets and those that invested in U.S. fixed income funds had an average investment in those funds between approximately one-fifth and one-quarter of their total endowment assets.

The questionnaire asked the colleges and universities to provide their primary investment objective (the total real return net of investment fees) for their investment portfolio for the next five year period. Most of the organizations at all size categories reported a primary investment objective of 5% to 10% (89% of small, 94% of medium, and 93% of large organizations).

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. Fifteen percent of the organizations in each size category responded that they did place such restrictions.

Distributions from Endowments (Questions 56 – 59)

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.[23]

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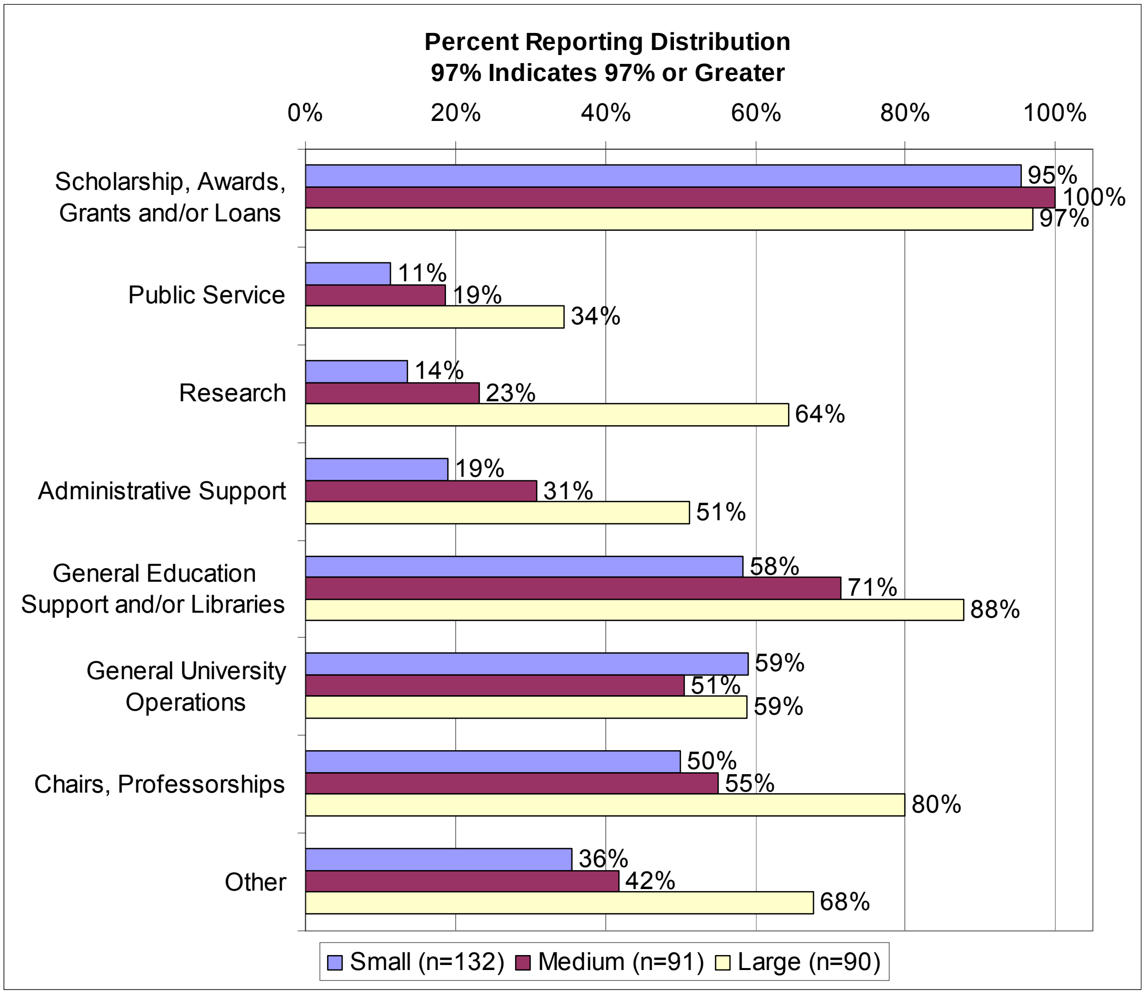
[23] This interim report focuses solely on whether the organization reported that it had any distributions for the specified category. Additional information will be included in the final report.

Figure 55. Question 56 – Percentage of Organizations that Reported Distribution of Endowment Funds for the Following Categories

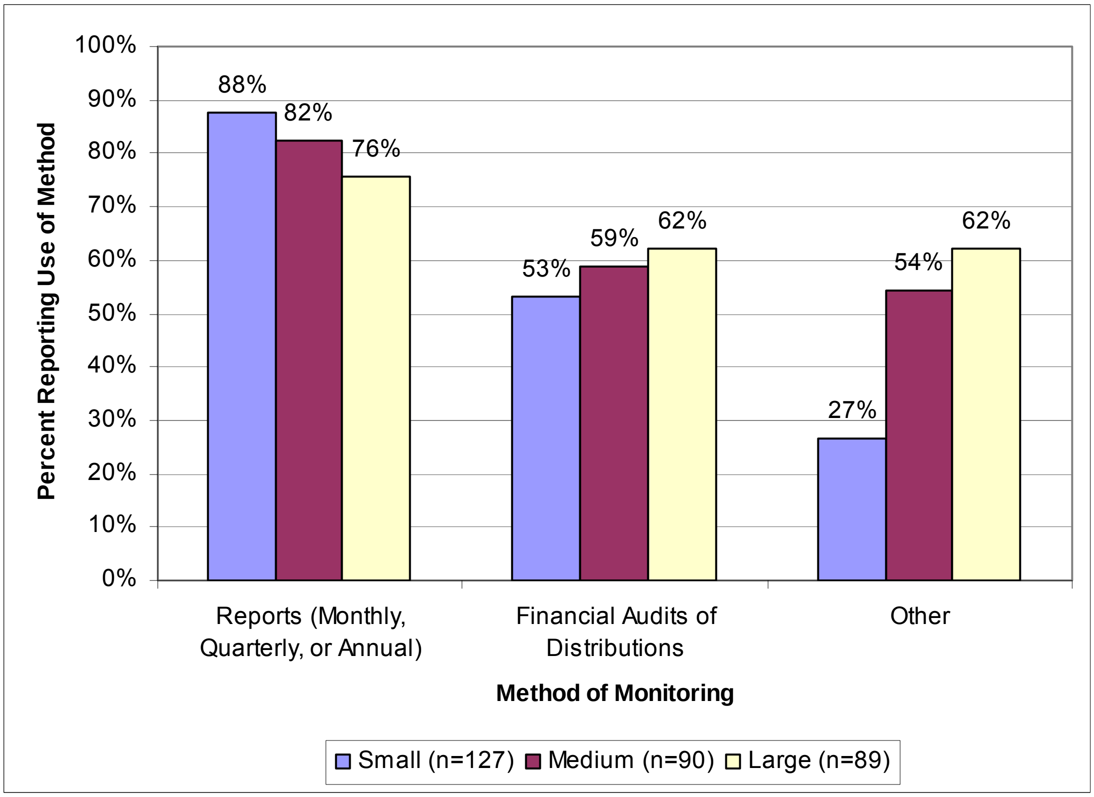


Specific percentages are not included in some cases to prevent potential identification of respondents.

All of the medium colleges and universities and nearly all of the small and large colleges and universities reported that they made distributions for scholarships, awards, grants and/or loans from their endowment funds. Except for (1) scholarships, awards, grants and/or loans and (2) general university operations, the percentage of respondents reporting distributions for a particular use increased with size category.

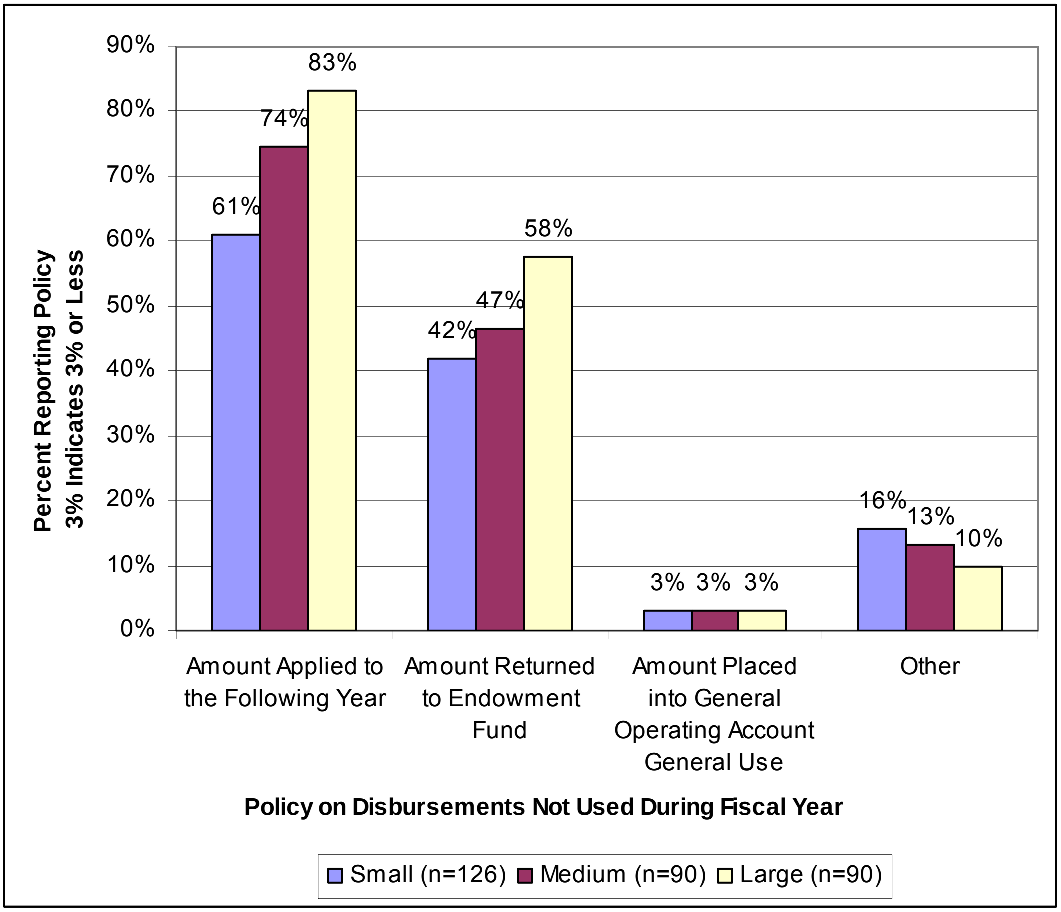
Question 58 asked if the organization monitored endowment distributions to ensure they were used for the donor's intended purpose and how distributions were monitored. Nearly all colleges and universities that responded to the question stated that they monitored distributions to ensure use for the intended purpose. Figure 56 reflects the responses concerning the method used by the colleges and universities to monitor endowment distributions.

Figure 56. Question 58 – Method of Monitoring Distributions



Question 59 requested information concerning the college's or university's policy when any disbursement made from its endowment fund was not used during the fiscal year the disbursement was made.

Figure 57. Question 59 – Policy on Disbursements Not Used During Fiscal Year



Specific percentages are not included in some cases to prevent potential identification of respondents.

For all sizes, the most common policy reported was that they applied the amount not used to a following year and the least common was that they placed the amount not used into a general operating account for general use.

VI. COMPENSATION

Overview

Part I, Question 17, of the questionnaire (Organization Information) asked for compensation and other information related to the five highest paid employees of the organization, other than officers, directors, trustees and key employees.[24] Information reported for the highest paid employee and responses to Question 17 are included below. Part IV of the questionnaire (Executive Compensation) asked for compensation information for the six highest paid officers, directors, trustees and key employees of the organization (referred throughout this section as “ODTKEs” or “executives”) as well as a number of questions related to practices and procedures used to determine compensation amounts. Information reported for the highest paid ODTKE is included below. With the exception of general compensation policies and practices, all other information is shown to the extent a particular response was provided for any of the six highest paid ODTKEs. Additional information, including compensation information for the other five highest paid ODTKEs, will be included in the final report.

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

Highest Paid Employee

Figure 58 provides a breakout of the job titles reported for the highest paid employee (other than an ODTKE) based on compensation reported as paid by the respondent and by related organizations. In the case of small and medium colleges and universities, the highest paid employee was most often a faculty member. In 43% of the large organizations, the highest paid employee was a sports coach.

Figure 58. Question 17 – Job Title of Highest Paid Employee other than an ODTKE

	Small (n=153)	Medium (n=93)	Large (n=91)
Faculty (Instructional and Research)	55%	49%	34%
Heads of Departments	10%	11%	7%
Sports Coach	*	16%	43%
Administrative/Managerial	19%	11%	5%
Investment Manager	*	0%	0%
Other	*	*	3%
No Title Provided	12%	11%	8%

* Not included to prevent potential identification of respondents.

Figure 59 shows the average and median compensation for the highest paid employee (other than an ODTKE) for calendar year 2006 reported as paid by the

[24] For purposes of the questionnaire, 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 trustees. Key employees include the chief management and administrative officials of an organization (such as an executive director or chancellor). A chief financial officer and the officer in charge of administration or program operations are key employees if they have the authority to control the organization’s activities, or its finances.

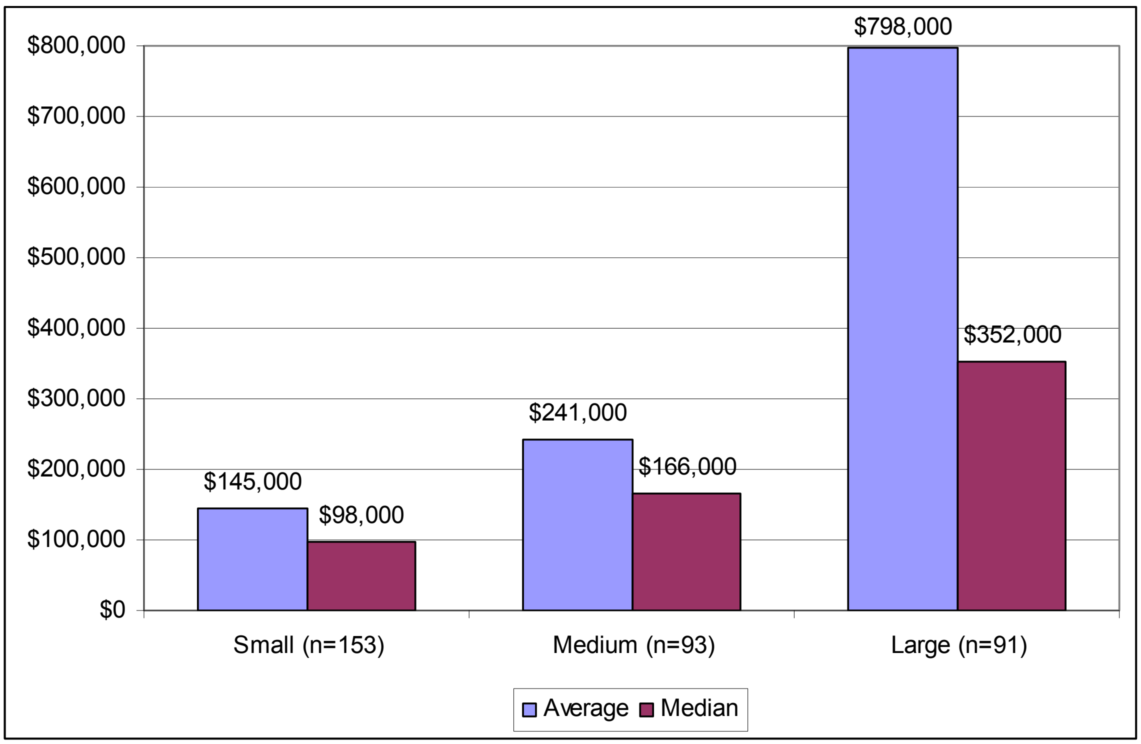
respondent and by related organizations. The average and median total of these reported amounts is shown in Figure 60 below.

Figure 59. Question 17 – Average and Median Compensation of the Highest Paid Employee (other than an ODTKE) (rounded to the nearest thousand)

	Small	Medium	Large
Compensation paid by respondent	Average = $142,000 Median = $98,000 (n=152)	Average = $236,000 Median = $165,000 (n=93)	Average = $727,000 Median = $285,000 (n=91)
Compensation paid by related organizations*	Average = $129,000 Median = $121,000 (n=5)	Average = $166,000 Median = $47,000 (n=3)	Average = $498,000 Median = $204,000 (n=13)

* Organizations that reported related organization compensation of zero were not included.

Figure 60. Question 17 – Average and Median Total Compensation of the Highest Paid Employee (other than an ODTKE)



Of these highest paid employees, a relatively small number reportedly received compensation from related organizations (5 in the case of small, 3 in the case of medium, and 13 in the case of large organizations). For these individuals, in the case of small and large organizations, on average approximately half of the compensation paid was from related organizations (approximately one-quarter in the case of medium organizations). The average and median total compensation (compensation from the respondent and from related organizations) for these 21 individuals was: $269,000 average, $202,000 median in the case of small organizations; $410,000 average, $203,000 median in the case of medium organizations; and $936,000 average, $698,000 median in the case of large organizations.

Related Organization and NCAA Athletic Income to Any of the Highest Paid Employees

Figure 61 shows the percentage of organizations that indicated that at least one of their five highest paid employees (other than an ODTKE) received compensation from a related organization.

Figure 61. Question 17d – Percentage of Organizations Reporting Any of the Five Highest Paid Employees Received Compensation from a Related Organization

	Small	Medium	Large
17d. One Or More Of The Five Highest Paid Employees Received Compensation From A Related Organization	4% (n=153)	6% (n=93)	21% (n=91)

The percentage of organizations that reported their highest compensated employee received compensation from a related organization increased with organization size. In the case of small organizations, in most cases (83%) the position of the employee (other than an ODTKE) paid the highest compensation from a related organization was a faculty member. In the case of medium and large organizations, the position of the employee (other than an ODTKE) paid the highest compensation from a related organization was most often a sports coach (approximately 50%).

Figure 62 shows the percentage of colleges and universities that reported that their athletic coaches were not employees of the organization[25] and whether any of the five highest paid employees received National Collegiate Athletic Association (NCAA) Athletic Income (NCAA Athletic Income).

Figure 62. Question 17 – Percentage of Organizations Reporting Athletic Coaches Were Not Employed by the Organization and Whether Any of Five Highest Employees Received NCAA Athletic Income

	Small	Medium	Large
17. Athletic Coaches Are Not Employed By The Organization	7% (n=153)	0% (n=93)	3% (n=91)
17f. One Or More Of The Five Highest Paid Employees Received NCAA Athletic Income	<3% (n=153)	13% (n=93)	34% (n=91)

Specific percentages are not included in some cases to prevent potential identification of respondents.

Overall, very few colleges and universities reported that their coaches are not employees of the organization. The percentage of employees who received NCAA Athletic Income increased with organization size.

Executive Compensation – In general

[25] Note that failure to check the box for this question could indicate athletic coaches were employed by the organization, the organization did not have an athletic program, or the organization did not respond to the question.

The executive compensation portion of the questionnaire (Part IV) requested public and private colleges and universities to provide information concerning the compensation paid from the respondent and related organizations to the college's or university's six highest paid officers, directors, trustees and key employees for calendar year 2006 ("six highest paid ODTKEs"). The questionnaire also requested a breakout of the various forms of remuneration paid and information related to loans. Public and private organizations were instructed to respond to these questions. The final part of the executive compensation portion of the questionnaire focused on the processes used to establish compensation. 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.

Executive Compensation Amounts and Types of Remuneration (Questions 60 – 61)

Figure 63 provides a breakout of the job titles reported for the highest paid ODTKE based on compensation paid by the respondent and by related organizations. In the majority of the cases for all size categories, the highest paid ODTKE was identified as the Chancellor or President of the organization.

Figure 63. Question 60 – Job Title of Highest Paid ODTKE[26]

	Small (n=149)	Medium (n=94)	Large (n=87)
CEO	13%	7%	*
Chancellor/President	62%	69%	77%
Executive Director	*	0%	5%
CFO	3%	*	0%
Treasurer/Vice President	2%	7%	4%
Dean of School	9%	6%	*
Other Officer	4%	*	3%
Other Director	*	0%	4%
Other	3%	6%	*

* Not included to prevent potential identification of respondents.

Figure 64 show the average and median compensation amounts reported as paid to the highest paid ODTKEs for calendar year 2006 by the respondent and by related organizations. The total of these is shown in Figure 65.

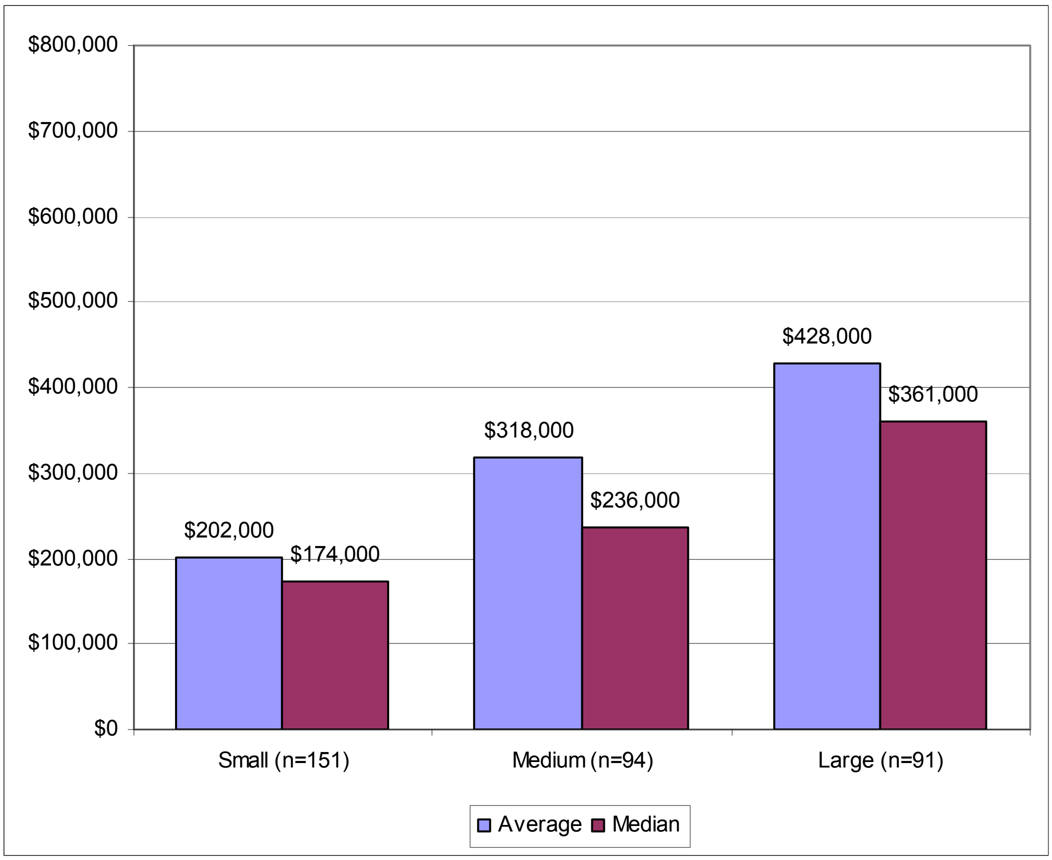
[26] The percentage of organizations reporting key employees, institutional trustees, individual trustees (or no title provided) as the top paid executive were either zero percent or not disclosable, so these results are not reported in this figure.

Figure 64. Question 60 – Compensation Amounts Paid to Highest Paid ODTKE (rounded to the nearest thousand)

	Small	Medium	Large
Compensation paid by respondent	Average = $200,000 Median = $174,000 (n=151)	Average = $312,000 Median = $231,000 (n=94)	Average = $420,000 Median = $357,000 (n=91)
Compensation paid by related organizations*	Average = $113,000 Median = $113,000 (n≤3)	Average = $104,000 Median = $27,000 (n=5)	Average = $104,000 Median = $50,000 (n=7)

* Organizations that reported related organization compensation of zero were not included.

Figure 65. Question 60 – Average and Median Total Compensation of the Highest Paid ODTKE (rounded to the nearest thousand)



Large colleges and universities reported the highest average and median compensation paid to the highest paid ODTKE while small colleges and universities reported the lowest average and median compensation. While in most cases the average and median reported compensation of the highest ODTKE is greater than the average and median compensation of the highest paid employee, in the case of large colleges and universities, the average total compensation reported for the highest paid ODTKE is less than the average total compensation reported for the highest paid employee (see Figure 60).

Of these highest paid ODTKEs, a relatively small number received compensation from related organizations (3 or fewer in the case of small, 5 in the case of medium, and

7 in the case of large organizations). Of these, in all size categories, on average less than one-third of the compensation paid was from related organizations. The average and median total compensation (compensation from the respondent and from related organizations) for these individuals was: $357,000 average and median in the case of small organizations; $337,000 average, $256,000 median in the case of medium organizations; and $451,000 average, $439,000 median in the case of large organizations.

In general, the remainder of this interim report will include information reported by the organizations to the extent a particular response was indicated for any of the six highest paid ODTKEs.[27] Additional information, including the extent to which certain responses were provided, will be included in the final report.

Figure 66 shows the percentage of colleges and universities that reported that any of their six highest paid ODTKEs received compensation from related organizations.

Figure 66. Question 60d – Percentage of Organizations that Reported that Any of the Highest Paid ODTKEs Received Compensation from Related Organizations

	Small	Medium	Large
One or more of the highest paid ODTKEs received compensation from a related organization	2% (n=151)	10% (n=94)	19% (n=91)

In all size categories, the position of the ODTKE paid the highest compensation from a related organization varied.

Figure 67 shows the percentage of organizations that reported specific types of remuneration paid to at least one of the six highest paid ODTKEs.

[27] Thus, the information included in the following discussion may not represent how an organization operates generally for most executives. For example, an organization would be treated as following a particular practice when the practice was reported as adopted for only one executive even though the organization responded that the practice was not followed for the remaining five executives for example.

Figure 67. Question 61 – Percentage of Organizations that Reported Specific Type of Remuneration Paid to at Least One of the Six Highest Paid ODTKEs

	Small (n=153)	**Medium (n=93)**	**Large (n=91)**
a. Individual's Base Salary	96%	≥97%	100%
b. Bonuses	30%	33%	36%
c. Contributions to Employee Benefit Plans	86%	95%	≥97%
d. Incentives	4%	4%	16%
e. Contributions to Life, Disability, Long-Term Care	72%	78%	84%
f. Split-Dollar Life Insurance	7%	12%	4%
g. Loans/Credit Extension (Forgiveness of Debt/Interest)	3%	0%	9%
h. Stock or Stock Options	0%	0%	0%
i. Severance or Change of Control Payments	3%	6%	5%
j. Personal Use of Organization Credit Cards	≤2%	0%	≤3%
k. Personal Use of Organization Vehicles	40%	49%	58%
l. Personal Travel for the Person or Family Members	8%	5%	12%
m. Expense Reimbursement (Non-accountable plan)	6%	6%	16%
n. Value of Organization Provided Housing and Utilities	32%	55%	52%
o. Value of Organization Provided Vacation Home	≤2%	0%	0%
p. Personal Services Provided at Person's Residence	11%	15%	16%
q. Other Personal Services Provided	≤2%	11%	5%
r. Health/Social Club Dues	20%	18%	42%
s. Personal Use of Organization Owned Aircraft or Boat	≤2%	≤3%	0%
t. First-Class Travel	≤2%	5%	4%
u. Scholarship and Fellowship Grants (Taxable)	≤2%	6%	≤3%
v. Other Fringe Benefits (Not Section 132 Fringe Benefits)	6%	8%	15%
w. Other Compensation	21%	31%	54%

Specific percentages are not included in some cases to prevent potential identification of respondents.

Base salary was the form of compensation reported by the highest percentage (more than 95%) of organizations in all size categories. This was followed closely by contributions to employee benefit plans and contributions to life, disability and long-term care insurance.

Figure 68 shows the percentage of organizations that reported specific types of deferred compensation for at least one of the six highest paid ODTKEs.

Figure 68. Question 61 – Percentage of Organizations that Reported Specific Type of Deferred Compensation for at Least One of the Six Highest Paid ODTKEs

	Small (n=153)	Medium (n=93)	Large (n=91)
x. Organization's Contributions to an IRC 401(a) plan	12%	35%	63%
y. Participant's Contributions to an IRC 401(a) plan	7%	28%	45%
z. Organization's Contributions to an IRC 403(b) plan	61%	52%	45%
aa. Participant's Contributions to an IRC 403(b) plan	75%	89%	≥97%
bb. Organization's Contributions to an IRC 457(b) plan	6%	12%	9%
cc. Participant's Contributions to an IRC 457(b) plan	20%	49%	69%
dd. Organization's Contributions to an IRC 457(f) plan	8%	15%	11%
ee. Participant's Contributions to an IRC 457(f) plan	≤2%	≤3%	≤3%
ff. Organization's Contributions to an IRC 415(m) Qualified Governmental Excess Benefit Arrangement	0%	0%	8%
gg. Participant's Contributions to an IRC 415(m) Qualified Governmental Excess Benefit Arrangement	0%	≤3%	≤3%
hh. Other Deferred Compensation Arrangements (Qualified or Unqualified)	8%	16%	9%

Specific percentages are not included in some cases to prevent potential identification of respondents.

Executive Loans/Extensions of Credit (Questions 62 – 74)

Questions 62 through 74 asked a number of questions related to whether the college or university provided loans and/or extensions of credit to any of its six highest paid ODTKEs. The responses to the loan-related questions are shown in absolute numbers, rather than percentages. Note that some organizations answered questions related to loans even if they reported no loans to ODTKEs.

Figure 69. Question 62 – Organizations that Provided Loans and/or Extensions of Credit to any of the Six Highest Paid ODTKEs

	Small (n=148)	Medium (n=92)	Large (n=88)
Number of organizations that provided loans and/or extensions of credit.	9	9	10

Figure 70. Question 63 – Form of Loan Agreements[28]

Number of organization reporting that:	Small (n=26)	Medium (n=13)	Large (n=16)
Loan terms were written	5	4	10
Loan terms were verbal	0	*	0

* Not included to prevent potential identification of respondents.

The figures above show that some reported loans were not documented by a written agreement.

[28] An organization may have reported more than one type of loan form. 18 small, 4 medium and 6 large organizations checked the box that loans were neither verbal nor written. This includes some organizations with undocumented loans and some organizations that did not provide loans.

Figure 71. Loan Related Activities

Number of Organizations that Reported Activity for Any of the Six Highest Paid ODTKEs:	Small	Medium	Large
64. Maintained Written Loan /Credit Extension Documents	10 (n=19)	9 (n=12)	9 (n=12)
65. Board Approved the Loans/Credit Extensions	8 (n=18)	7 (n=11)	9 (n=12)
66. Cash Repayments made under a Specified Repayment Schedule	7 (n=18)	5 (n=11)	7 (n=12)
68. Loan Made on Interest Terms that Met Requirements of the Applicable Federal Rate	6 (n=16)	6 (n=10)	7 (n=11)
70. Loans for Which Security/Collateral Was Provided	6 (n=16)	4 (n=11)	7 (n=11)
71. Portion of Loan Considered Compensation	≤3 (n=15)	≤3 (n=11)	3 (n=11)
73. Loan Indebtedness Forgiven	4 (n=19)	≤3 (n=11)	3 (n=12)

Specific percentages are not included in some cases to prevent potential identification of respondents.

For those organizations that checked that they did not have a specified repayment schedule, more than three-quarters of the small and medium respondents and approximately half of the large respondents indicated that neither termination, retirement, asset sale, nor some other event would trigger repayment of these loans and/or extensions for at least one of the six highest paid ODTKEs (Question 67). For those that did report a triggering event, termination was most common.

Question 69 asked colleges or universities that indicated that loans were not made on terms that met the requirements of the Applicable Federal Rate (AFR) to report whether the loan/credit extension interest rate charged was above the AFR, below the AFR, or at rates comparable to commercial bank rates. The highest percentage of respondents, at all size levels, reported making loans/extensions of credit on terms below the AFR.

Some respondents indicated that loans or loan forgiveness considered as compensation for services was not reported on either Form W-2 or Form 1099. To the extent loans or loan forgiveness were reported as compensation, respondents indicated that amounts were reported on Form W-2 rather than Form 1099 (Questions 72 and 74).

Compensation Policies and Practices including Rebuttable Presumption (Questions 75 – 94)

Background

Questions 75 through 94 asked for information regarding the process the colleges and universities used to set compensation of the six highest paid ODTKEs. A principal focus of the college and university study is to gather a better understanding of how organizations use the rebuttable presumption procedure and other governance practices in setting compensation. This section includes responses to questions related to general compensation policies and practices followed by responses to questions related to the use of the rebuttable presumption procedure.

Section 4958, the intermediate sanction on excess benefit transactions, provides that an excess benefit transaction occurs when a disqualified person (any person in a position to exercise substantial influence over the affairs of the tax-exempt organization) receives an economic benefit from an exempt organization that exceeds the value of consideration received by the organization. In addition to or in lieu of revoking the charity's tax-exempt status, section 4958 imposes an excise tax against the disqualified person and possibly the organization manager. The section 4958 regulations provide a rebuttable presumption process that public charities may (but are not required to) use when establishing what appropriate compensation is for a disqualified person.[29] This process involves three criteria – an independent body to review and establish the amount of compensation in advance of actual payment, use of appropriate comparability data to establish the compensation, and contemporaneous documentation of the process used to establish the compensation in the particular instance. Under the regulations, compensation determined pursuant to a process that satisfies the rebuttable presumption requirements is presumed to be reasonable in amount, and the IRS has the burden of proving that the compensation is excessive for section 4958 excess benefit transaction tax purposes. If the rebuttable presumption is not met, the burden is on the organization to prove that the compensation is reasonable.

The regulations under section 4958 of the Code provide for an "initial contract" exception. An initial contract is a binding written contract between an organization and a person who was not a disqualified person immediately before entering into the contract. Fixed amounts paid under initial contracts that satisfy the exception are not subject to IRC section 4958.[30]

Public colleges and universities are not subject to the provisions of section 4958; therefore, they were instructed not to complete this portion of the questionnaire. To the extent public organizations responded to these questions, their responses were not included in the results. In many cases, because the number of large private organization respondents is small, the specific responses cannot be disclosed to prevent identification of the respondents. These are indicated with an asterisk (*). It is anticipated that these responses will be included when data is weighted and aggregated with other size categories for the final report.

General policies and practices

Question 75 through Question 80 dealt with policies applicable to the organization's officers, directors, trustees and key employees, generally.

[29] Treas. Reg. sec. 53.4958-6.
[30] Treas. Reg. sec. 53.4958-4(a)(3).

Figure 72. Question 75, 77 and 78 – Written Compensation Policies and Use of Outside Consultants

Percentage of Organizations that Reported the Following:	Small	Medium	Large
75. Formal Written Compensation Policy	34% (n=136)	61% (n=28)	63% (n=8)
77. Hired Outside Consultant to Provide Comparable Compensation Data	20% (n=137)	50% (n=28)	50% (n=8)
78. Consultant Provided Other Services	30% (n=33)	27% (n=15)	*

* Not included to prevent potential identification of respondents.

The percentage of medium and large organizations that reported having a formal written compensation policy was almost twice the percentage reported by small organizations. Large and medium organizations reported a higher use of an outside consultant to provide comparable compensation data.

The questionnaire asked who set the compensation for the organization's officers, directors, trustees and key employees. The organizations were asked to check all that apply, so a particular organization may have identified more than one decision maker in its response. Responses to this question by the large colleges and universities are not included in the figures to prevent potential identification of respondents.

Figure 73. Question 80-1 – Decision Makers for Setting Compensation of Officers

	Small (n=125)	Medium (n=28)
80-1a. Set by the officers	34%	46%
80-1b. Set by the board of directors	74%	75%
80-1c. Set by the compensation committee	20%	46%
80-1d. Set by some other decision maker	23%	18%

Figure 74. Question 80-2 – Decision Makers for Setting Compensation of Directors

	Small (n=92)	Medium (n=21)
80-2a. Set by the officers	17%	24%
80-2b. Set by the board of directors	24%	0%
80-2c. Set by the compensation committee	4%	5%
80-2d. Set by some other decision maker	25%	38%

Figure 75. Question 80-3 – Decision Makers for Setting Compensation of Trustees

	Small (n=85)	Medium (n=21)
80-3a. Set by the officers	<5%	0%
80-3b. Set by the board of directors	14%	0%
80-3c. Set by the compensation committee	<5%	<15%
80-3d. Set by some other decision maker	32%	48%

Specific percentages are not included in some cases to prevent potential identification of respondents.

Figure 76. Question 80-4 – Decision Makers for Setting Compensation of Key Employees

	Small (n=125)	Medium (n=26)
80-4a. Set by the officers	61%	62%
80-4b. Set by the board of directors	29%	35%
80-4c. Set by the compensation committee	10%	38%
80-4d. Set by some other decision maker	24%	23%

Officer compensation was most frequently set by either the board of directors (in the case of small and medium organizations) or a compensation committee of the board of directors (in the case of large organizations). Compared with officers, it was less common for compensation levels of directors or trustees to be set by any of the groups specifically listed. In the case of small and medium colleges and universities, it was most common for officers to set the compensation for key employees. The final report will provide additional information on the other decision makers used to determine compensation.

The remainder of the questions dealt with the six highest paid ODTKEs and the policies and processes used in determining compensation with regard to any of them.

Figure 77. Question 81 – Percentage of Private Colleges and Universities that Had an Employment or Independent Contractor Agreement With Any of the Six Highest Paid ODTKEs

	Small	Medium	Large
81. Employment Or Independent Contractor Agreement	77% (n=129)	86% (n=28)	100% (n=8)

The vast majority of private colleges and universities in all size categories reported having some kind of employment or independent contractor agreement with at least one of their six highest paid ODTKEs. The reported form of the agreements is shown in Figure 78. At all size categories, a much higher percentage reported that they had a written agreement with at least one of their six highest paid ODTKEs than reported having a verbal agreement.

Figure 78. Question 82 – Percentage of Private College and Universities Reporting Agreement with Any of Their Six Highest Paid ODTKEs was Written, Verbal or Neither[31]

	Small (n=110)	Medium (n=28)	Large (n=8)
82a. Written	87%	86%	100%
82b. Verbal	8%	<15%	*
82c. Neither	35%	43%	38%

* Not included to prevent potential identification of respondents.

Rebuttable presumption procedure

The questionnaire asked whether the organization used a process intended to satisfy the rebuttable presumption procedure of Code section 4958 to determine the compensation of their six highest paid ODTKEs and also asked questions related to the components of the procedure, and the use of the initial contract exception.

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[31] Because the organizations were requested to provide information for each of the six highest paid executives, a particular organization may have provided different responses for different individuals, with both responses reflected.

Figure 79. Questions 83 – Percentage of Private Colleges and Universities that Used the Rebuttable Presumption Procedure of Section 4958 for Any of the Six Highest Paid ODTKEs

	Small	Medium	Large
83. Used Rebuttable Presumption Process	55% (n=122)	71% (n=28)	63% (n=8)

Over half of the respondents at all size levels reported using a process to satisfy the rebuttable presumption procedure for at least one of their six highest paid ODTKEs (45% of small, 29% of medium, and 38% of large organizations reported <u>not</u> using the procedures for any of their six highest paid ODTKEs).[32]

Figure 80 shows the percentage of private colleges and universities reporting they used the "initial contract" exception for any of their six highest paid ODTKEs and those organizations that identified any of their six highest paid ODTKEs as a disqualified person before entering into the employment or independent contractor arrangement.

Figure 80. Questions 85 and 86 – Private Colleges and Universities that Identified ODTKEs as Prior Disqualified Persons and Reported Use of Initial Contract Exception for any of the Six Highest Paid ODTKEs

	Small	Medium	Large
85. Fixed Payments Made Pursuant to the Initial Contract Exception	17% (n=119)	15% (n=27)	*
86. Executive was a Prior Disqualified Person	13% (n=119)	21% (n=28)	38% (n=8)

* Not included to prevent potential identification of respondents.

In the majority of cases (87% of small, 79% of medium, and 63% of large organizations)[33] organizations reported that none of their six highest paid ODTKEs were prior disqualified persons. Thus, fixed payments made pursuant to an initial contract would not be subject to the excess benefit transaction rules under section 4958. Still, relatively few organizations reported making fixed payments under the initial contract exception to any of their six highest paid ODTKEs.

The following figures show responses to the questions related to the three components of the rebuttable presumption procedure—documentation, approval process, and use of comparable data.

1. Documentation

Figure 81. Question 84 – Private Organizations that Reported Documenting Basis for Setting Compensation Before Compensation was Received for any of the Six Highest Paid ODTKEs

	Small	Medium	Large
84. Documented Basis For Setting Compensation	74% (n=121)	>85% (n=28)	* (n=8)

* Not included to prevent potential identification of respondents.

[32] Percentages do not sum to 100% due to rounding.
[33] Percentages do not sum to 100% due to rounding.

The majority of respondents at all size levels reported documenting the basis for setting compensation prior to paying the compensation for at least one of their six highest paid ODTKEs.

2. Approval Process

Figure 82. Questions 87, 88 and 89 – Private Organizations that Reported Approval by Independent Governing Body and Recusal from Compensation Discussions and Vote for any of the Six Highest Paid ODTKEs

	Small	Medium	Large
87. Approval by Independent Governing Body	97% (n=124)	>85% (n=28)	*
88. Recusal from Compensation Discussions	93% (n=116)	100% (n=27)	100% (n=8)
89. Recusal from Compensation Vote	>95% (n=114)	100% (n=27)	100% (n=8)

* Not included to prevent potential identification of respondents.

Almost all of the organizations in all size categories reported approval of compensation for at least one of the six highest paid ODTKEs by an independent governing body and recusal from compensation discussion and votes for at least one of these ODTKEs.

3. Use of Comparable Data

Figure 83. Questions 90 and 91 – Private Organizations that Used Independent Comparability Survey and Set Compensation Within the Range of Comparability Data

	Small	Medium	Large
90. Independent Comparability Survey	54% (n=123)	79% (n=28)	63% (n=8)
91. Within Range of Comparability Survey Data	89% (n=66)	100% (n=22)	100% (n=5)

More than half of the organizations in all size categories obtained an independent comparability survey that was used to set compensation for at least one of their six highest paid ODTKEs. For each size category, these percentages were less than those reported for the other two components of the rebuttable presumption procedure. The percentage of organizations with an independent comparability survey was comparable to the percentage of organizations that reported using the procedure.[34] As noted, this is an area of continued focus for the IRS. Almost all of the organizations reported that they set the compensation within a range of comparability data for at least one of their six highest paid ODTKEs.

[34] Because the data presented in this section shows the organizations that reported using a particular practice for at least one executive, conclusions can not be drawn as to whether all of the elements of the rebuttable presumption procedure were reported to be met with respect to any one individual. Such analysis will be included in the final report.

Figure 84 shows the types of comparability data that were reported as used by private colleges and universities or their outside compensation consultants in setting the compensation for at least one of the organizations' six highest paid ODTKEs.

Figure 84. Question 93 – Types of Comparability Data Used in Setting the Compensation for Any of the Six Highest Paid ODTKEs

Compensation Factors	Small (n=106)	Medium (n=26)	Large (n=8)
93a-1. Compensation Levels Paid By Similar Taxable Organizations	15%	19%	0%
93a-2. Compensation Levels Paid By Similar Tax-Exempt Organizations	88%	>85%	100%
93b. Level Of The Person's Education And Experience	87%	73%	63%
93c. Specific Responsibilities Of The Position	94%	96%	100%
93d. Previous Salary Or Compensation Package	66%	69%	*
93e. Similar Services In The Same Geographic Or Metropolitan Area	64%	81%	50%
93f. Similar Number Of Employees	40%	65%	50%
93g. Similar Number Of Students	58%	77%	50%
93h. Annual Budget And/Or Gross Revenue/Assets	78%	81%	*
93i. Nature Of The Curriculum	62%	92%	*
93j. Other Factors	10%	27%	*

* Not included to prevent potential identification of respondents.

Compensation levels paid by similar tax-exempt organizations and the responsibilities of the position were the most commonly cited factors included across all sizes. Compensation levels paid by similar taxable organizations and other factors not listed in the question were the least commonly cited factors across all sizes. Level of education and experience of the person, annual budget of the organization and nature of the curriculum of the organization were commonly cited across all sizes.

Figure 85 shows the reported sources used to obtain comparability data for at least one of the six highest paid ODTKEs.

Figure 85. Question 94 – Sources of Comparability Data for at Least One of the Six Highest Paid ODTKEs

Compensation Sources	Small (n=99)	Medium (n=27)	Large (n=8)
94a. Published Surveys Of Compensation At Similar Institutions	88%	85%	*
94b. Internet Research On Compensation At Similar Institutions	35%	37%	0%
94c. Phone Surveys Of Compensation At Similar Institutions	16%	19%	38%
94d. Outside Expert Hired Specifically To Provide Comparable Compensation Data And Report	20%	44%	63%
94e. Report Prepared By An Expert Compensation Analyst Employed By Your Organization	11%	41%	*
94f. Written Offers Of Employment From Similar Institutions	3%	0%	0%
94g. Forms 990 Filed By Other Colleges And Universities	40%	41%	38%
94h. Annual Budget Or Gross Revenue/Assets	55%	44%	63%
94i. Nature Of The Curriculum	44%	63%	50%
94j. Other Sources	7%	<15%	0%

* Not included to prevent potential identification of respondents.

The most commonly used factor across all sizes was a published survey of compensation at similar institutions. The least commonly cited sources across all sizes were written offers of employment from other institutions and other sources not listed in the question.

VII. GOVERNANCE

Overview

Every section of the questionnaire included questions related to the governance of colleges and universities. The governance questions addressed conflict of interest policies, the setting of compensation, endowment policies, unrelated business activities, transactions with related parties, and other policies and practices. Note, that unlike most of the questions included in the questionnaire, some of the governance questions relating to the presence of a certain policy asked whether the policy was currently in place (i.e., at the time of completion of the questionnaire), rather than for 2006. The governance questions previously discussed include those listed below. While not directly addressing a specific governance practice, other questions included in the questionnaire also have governance implications.

Organizational Information:

- Q. 8 and Q. 9 – Conflict of interest policy (Figure 6)
- Q. 10 – Public availability of audited financial statements (Figure 6)
- Q. 19 – Policy assuring arm's length transactions with related entities (Figure 15)
- Q. 20 – Policy assuring arm's length transactions with controlled entities (Figure 19)

Activities:

- Q. 31 – Use of independent accountants or counsel with regard to selected unrelated business and allocation issues (Figure 30)

Endowment Funds:

- Q. 34 and Q. 35 – Management of endowment funds (Figure 32 and Figure 33)
- Q. 36, Q. 37, Q. 38, Q. 39 – Use, composition and actions of investment committee (Figure 34 and Figure 35)
- Q. 40 – Individuals on staff with primary responsibility for investment management of endowments
- Q. 41 – Outside consultant for investment advice (Figure 35)
- Q. 44 and Q. 45 – Board review and approval of compensation arrangements for internal and external investment managers (Figure 38)
- Q. 47a – Investment committee or board adoption of target spending rate (Figure 41)
- 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 (Figure 56)
- Q. 59 – Policy on disbursements made from endowment fund that were not used in the fiscal year (Figure 57)

Compensation:

- Q. 63 and 64 – Documentation of loan terms (Figure 70 and Figure 71)
- Q. 65 – Board approval of loans/extension of credit (Figure 71)
- Q. 75 – Formal written compensation policy (Figure 72)

- Q. 77 and Q. 78 – Use of outside compensation consultants (Figure 72)
- Q. 80 – Determination of compensation (Figure 73, Figure 74, Figure 75 and Figure 76)
- Q. 81 and Q. 82 – Employment agreements (Figure 77 and Figure 78)
- Q. 83 – Use of rebuttable presumption procedure (Figure 79)
- Q. 84 – Document basis for setting compensation (Figure 81)
- Q. 87 – Board or other independent approval of compensation (Figure 82)
- Q. 88 and Q. 89 – Recusal from compensation discussion and voting (Figure 82)
- Q. 90 – Independent compensation comparability survey (Figure 83)

The specific responses to these questions are included in the previous sections. The following discussion summarizes the responses to governance related questions.

Written Policies

A number of questions asked whether colleges and universities had policies in place that governed various operations of the organization. Public colleges and universities were asked about policies dictated by State statute. The written and statutory policies addressed by the questionnaire include those related to compensation, loans, conflicts of interest, endowments, and transactions with related entities.

Most organizations reported having conflict of interest policies covering members of the ruling body and top management officials (ranging from 81% to 100%) (Figure 6). Many also reporting having conflict of interest policies covering full-time faculty (ranging from 58% to 100%) (Figure 6).

The percentage of colleges and universities that reported having conflict of interest policies or a statute in place to ensure specific transactions with related entities are made at arm’s length ranged widely (Figure 15). Policies or statutes governing the provision of goods and services between the organizations and their related entities were most common for all size categories (ranging from 27% to 60%). For all types of transactions, large colleges and universities reported the highest percentage of organizations with such policies (generally ranging from 37% to 60% depending on the specific transaction). In many cases, the percentage of large organizations that reported the presence of such policies was much higher than the percentage reported by the small and medium organizations. Many organizations did not have policies or statutes in place to ensure certain transactions, such as the lending of money and shared employee arrangements are made at arm’s length. Note, however, that an organization without a statute or policy in place addressing a certain transaction may not have necessarily engaged in such a transaction. Large colleges and universities also reported a much higher percentage of organizations with policies covering transactions with controlled entities than small and medium-sized colleges and universities (Figure 19).

Most organizations reporting having an investment policy for endowment funds (94% to 96%) (Figure 32).

Approximately one-third of the small colleges and universities and about two-thirds of the medium-sized and large colleges and universities reported having a formal written policy that governed compensation of at least some of their officers, directors, trustees, or key employees (Figure 72).

Most of the private organizations reported having an employment or independent contractor agreement with at least one of the six highest paid ODTKEs. The percentages ranged from 77% in the case of small organizations to 100% in the case of large organizations (Figure 77). Of those colleges and universities reporting an employment or independent contractor agreement with at least one of their six highest paid ODTKEs, most reported having at least one written agreement, but more than one-third of the organizations in each size category reported neither a written nor verbal agreement for at least one ODTKE (Figure 78).

Some of the respondents reported providing loans to at least one of their six highest paid ODTKEs. Not all organizations that provided loans maintained written documentation of loan agreements or repayment schedules (Figure 70 and Figure 71).

Public Disclosure of Financial Statements

Approximately one-quarter of small colleges and universities reported that they did not make their audited financial statements available to the public while nearly all of the medium and large colleges and universities reported making their statements publicly available (91% and 97%, respectively) (Figure 6).[35]

Use of Outside Advisers

The questionnaire asked questions related to the use of outside advisers in a number of areas.

More than 60% of the organizations in each category reported not relying on outside advice for selected issues related to unrelated business income (Figure 30). These included the determination of whether activities were unrelated or exempt, allocation of expenses between unrelated and exempt activities, and pricing between the organization and related organizations.

The majority of colleges and universities in each size category reported use of an external party to manage investments in the endowment fund (79% to 89%) (Figure 33). Large organizations reported the highest percentage of organizations that engaged an

[35] In general, charitable organizations are required to make available for public inspection their annual information returns and tax returns (if any) filed with the IRS (IRC sec. 6104(d)). The questionnaire did not include any questions addressing such public disclosure.

outside consultant for investment guidance (84%, compared to 60% in the case of small and 74% in the case of medium organizations) (Figure 35).

Half of the medium and large organizations (20% in the case of small organizations) reported the use of an outside compensation consultant to provide comparable compensation data to determination compensation of ODTKEs (Figure 72). In some cases, the consultant provided other services to the organization.

The percentage of organizations that reported obtaining an independent compensation comparability survey for at last one of the six highest paid ODTKEs was 54% in the case of small organizations, 79% in the case of medium organizations and 63% in the case of large organizations (Figure 83).

The Board of Directors and Committees

The questionnaire asked the colleges and universities about the involvement of the board of directors and its various committees.

Endowment Funds

A large majority of colleges and universities reported having an investment committee to oversee their endowment funds (85% in the case of small organizations, 93% in the case of medium organizations, and 94% in the case of large organizations) (Figure 34). The average number of members on the committee ranged from 7 to 12; with medians of 7 and 9 (Figure 34). In each size category, more than 94% of the organizations reported that the investment committee approved the selection of external parties used to manage endowment investments; 80% (medium organizations) to 91% (large organizations) reported that the investment committee approved investment guidance recommendations made by outside consultants (Figure 35). The percentage of organizations that reported that the investment committee adopted a target spending rate for endowments ranged from 76% in the case of small organizations to 95% in the case of large organizations (Figure 41).

Approximately 90% of organizations in each size category reported that compensation arrangements for *external* investment managers were reviewed and approved by a committee of the board or the full board. The percent of organizations that reported such review and approval for *internal* investment mangers was much lower (38% in the case of small organizations to 65% in the case of large organizations) (Figure 38).

The percentage of organizations that reported that the investment committee or board adopted a target spending rate for all endowments ranged from 76% (small organizations) to 95% (large organizations) (Figure 41).

Fifteen percent of organizations in each size category reported that the board or a committee placed restrictions on the purchase or sale of securities because of particular donor restrictions or requests (Question 55).

Nearly all of the colleges and universities reported monitoring endowment distributions to ensure they were used for the donors' intended purposes (Question 58).

Compensation

Of those organizations that responded to the question (11 to 18 in each size category), board approval of loans/extensions of credit was reported by 44% of small, 64% of medium, and 75% of the large organizations. (Figure 71).

Compensation of officers was most often set by either the Board of Directors (in the case of small and medium organizations) or a compensation committee (in the case of large organizations) (Figure 73). In the case of key employees of small and medium organizations, compensation was most commonly set by officers (Figure 76).

In all size categories, more than half of the organizations reported using a process intended to satisfy the rebuttable presumption procedure (Figure 79).

Most private colleges and universities reported that the compensation of at least one of the six highest paid ODTKEs was approved by the Board of Directors or by another authorized governing body that did not have a conflict of interest (Figure 82). In most cases, organizations reported that executives recused themselves from approving and voting on their own compensation (Figure 82).

In all size categories, greater than 60% of private colleges and universities reported documenting the basis for setting the compensation of at least one of their six highest paid ODTKEs (Figure 81).

TABLE OF FIGURES

APPENDIX A. Compliance Questionnaire Colleges and Universities