



STATEMENT ON THE IRS COMPLIANCE QUESTIONNAIRE FOR COLLEGES AND UNIVERSITIES

DECEMBER 17, 2009

Introduction

In late 2008, the IRS sent a compliance questionnaire to approximately 400 colleges and universities, the majority of which were four-year, public or independent, degree-granting institutions. This questionnaire focused on institutional governance practices, endowment management, employee compensation, and activities that generate unrelated business income (UBI) during the tax year ending in 2006.

Upon the announcement of the questionnaire, the Association of Governing Boards of Universities and Colleges (AGB) and the National Association of College and University Business Officers (NACUBO) partnered on a voluntary parallel analysis of the submitted survey data to assess the information collected and offer our own conclusions. The effort was supported by seven additional higher education associations representing all sectors: the American Association of Community Colleges (AACCC), the American Association of State Colleges and Universities (AASCU), the American Association of Universities (AAU), the American Council on Education (ACE), the Association of Public and Land-Grant Universities (APLU), the National Association of Independent Colleges and Universities (NAICU), and the National Collegiate Athletic Association (NCAA).

The IRS did not disclose which institutions received the questionnaire or its methodology in selecting institutions. The AGB/NACUBO effort, therefore, required us to ask all higher education institutions to voluntarily submit their completed surveys for analysis by the independent accounting firm Ernst and Young (E&Y). The resulting “2008 Internal Revenue Service Colleges and Universities Compliance Questionnaire Analysis” is enclosed. The report analyzes the submitted responses of 146 surveys, representing over one-third of the institutions responding to the questionnaire.

Governance in Higher Education is Working

The distinguishing characteristic of American higher education is its unique form of independent, citizen governance. This contributes to the robustness and diversity of our institutions, which have long been the envy of the world for their contributions to new knowledge, innovations in research, and service to the communities, regions, and states in which they reside and their alumni live. While there is always room for improvement—and this report indicates areas for improvement—board and institutional leaders have shown willingness to make necessary and appropriate changes to strengthen governance.

Higher Education Practices Good Governance

Public colleges and universities already operate under significant governmental oversight with considerable transparency. Private universities and colleges also have strong governance programs to ensure their educational mission is achieved while protecting against conflicts. The enclosed report indicates that 97 percent of universities and colleges reported written conflict of interest policies in place to govern top management officials. Additionally, 91 percent of the respondents currently make their audited financial statements available to the public.

Higher Education Leaders Practice Sound Endowment Management

Nearly all higher education endowments employ a spending rule that is part of the institution's formal investment policy. For many endowments, the spending rate is a set moving average (generally a three-year rolling average) of the endowment's market value. In the E&Y study:

- Ninety-nine percent of the respondents had a formal investment policy and 94 percent had an investment committee for their endowment fund.
- Investments committees are almost universally involved in selecting external managers.
- Endowment distributions are carefully monitored and reported on.
- Ninety-seven percent of the respondents reported target spending rates from their endowments of four percent or more; 70 percent reported five percent or more.
- The most frequent expenditure from the endowment was to support student financial aid.

Compensation Continues to Be a Concern

Compensation of higher education leaders is regularly studied, most notably by the *Chronicle of Higher Education* and by the College and University Professional Association for Human Resources (CUPA-HR), as well as by the American Association of University Professors (AAUP). The IRS Compliance Survey asked for detailed information on the five highest-compensated employees of the institution for the calendar year 2006 and the six highest-compensated executives. The attached report indicates that 81 percent of public institution respondents show a CEO salary of above \$200,000, with 38 percent in the \$200,000 to \$300,000 range. 65 percent of private institution respondents indicate CEO salaries above \$200,000; with 27 percent in the \$300,000 to \$400,000 range. As a benchmark, the *Chronicle of Higher Education's* 2006–07 salary study indicated CEO median salary was \$207,999. The E&Y report seems to reflect that respondents may skew high on reported compensation compared to national data.

Practices related to determining presidential compensation are fundamentally sound. AGB's work indicates 80 percent of boards use comparative data. The Form 990 requires documentation of the compensation process, so transparency of compensation practices should continue to improve. According to this report, institutions need to pay more attention to using a process intended to satisfy the rebuttable presumption procedure of IRS section 4958 to determine compensation of chief executives.

Reported compensation levels for faculty and senior academic and administrative leadership are consistent with the many and regular compensation reports produced by the *Chronicle of Higher Education*, CUPA-HR, and AAUP. Athletic coach salaries are an area of concern. According to the recent report of the Knight Commission on Intercollegiate Athletics, "Presidents view the upward trends

for coaches' salaries as well as the increasing costs of the expanding number of sports-specific personnel as one of the greatest threats to sustainability." Coaches represented 13 percent of the top five highest-compensated employees in the analysis. The average salary was \$684,000 and the median salary of those coaches was \$404,000. It is likely the 13 percent of coaches among the 146 respondents in the NACUBO/AGB study are almost certainly football and men's basketball coaches at the Division I Football Bowl Subdivision level. Comparable data from the NCAA for the 2005-06 academic year shows that the mean salary for NCAA member head football coaches was \$259,900 and the median was \$88,000. The mean salary for NCAA member head basketball coaches during the same period was \$172,000 and the median was \$67,000.

Median faculty salary ranges of high-earning faculty reported were consistent, if not higher, than other surveys of faculty salaries. This is not surprising, since this study reflects only faculty salaries that fell into the definition of the five most highly-compensated individuals at an institution, rather than the broader compensation data reflected in other salary surveys. The E&Y analysis found the following median salaries by position type represented among the top five earners:

- Median faculty: \$149,000
- Median Department Head: \$152,000
- Median Administrator: \$147,000

Overall, the data on use of fringe benefits showed nothing striking or unusual. Among the presidents and highest compensated employees, more than 91 percent of total compensation came in the form of salary, health and other insurance benefits, and retirement contributions. Interestingly, only about half of the institutions eligible to use the IRS rebuttable presumption rules actually did so for their top executives.

Institutions Conduct Wide Range of Activities That Generate at Least Modest Amounts of Unrelated Business Income but Pay Little Tax

- At least one institution reported conducting activities that could generate UBI in 47 different forms, from facility rentals to their bookstores and food service operations.
- Respondents listed on their most recent 990-T total gross receipts or sales of \$146 million, and a total current net operating loss of \$5 million.
- Data do not shed significant light on why many activities that generate UBI fail to also generate federal tax revenue. The data are almost certain to reinforce the perception among some policymakers that the UBI tax rules need to be reviewed.

Conclusions and Recommendations

This report represents an early look at what might result from the full IRS Compliance Survey. While the AGB/NACUBO effort resulted in a statistically significant sample of respondents, we recognize that the IRS effort may produce different results when the full data set is analyzed and a report is released. Nonetheless, there are a number of key takeaways for the higher education community.

Significant financial transparency and accountability currently exist among institutions of higher education. The vast majority of institutions are responsible stewards of the resources that have been

given to their endowment. Compensation practices and levels for college and university employees are already publicly available and widely covered in the media. However, the data are likely to renew the public debate about the salaries among higher education leaders and athletic coaches. While conversations should continue in earnest about compensation, it is critical to reiterate that the salary data collected by the IRS in the questionnaire were collected only for the institution's top five highest-paid employees and the top six highest-paid executives. Median salaries reported across all categories relate only to that small subset.

The unrelated business income tax rules and regulations in which public and private non-profit universities and colleges operate were imposed on institutions to prevent "unfair competition" primarily between exempt colleges and the for-profit sector. To some, the fact that our institutions may not be paying a significant amount of tax may be interpreted as a sign that these tax rules are somehow "not working." Our job is to demonstrate not just how these rules work, but how they compare to the tax burdens that fall on the business sector. Indeed, there are ample data to suggest that unrelated business income taxes collected from nonprofits and corporate income taxes paid by small businesses are comparable.

2008 Internal Revenue Service Colleges and Universities Compliance Questionnaire Analysis

A Report Prepared by Ernst & Young LLP
For the
Association of Governing Boards of Universities and Colleges and
National Association of College and University Business Officers

December 17, 2009

Sponsored by:

American Association of Community Colleges
American Association of State Colleges and Universities
American Council on Education
Association of American Universities
Association of Governing Boards of Universities and Colleges
Association of Public and Land-Grant Universities
National Association of College and University Business Officers
National Association of Independent Colleges and Universities
National Collegiate Athletic Association

Executive Summary

The Internal Revenue Service (IRS), as part of its focused effort to study key areas in the tax-exempt community, has undertaken a compliance project for colleges and universities. The project was launched in fall 2008 with the issuance of a Compliance Questionnaire which requested tax year 2006 information from approximately 400 public and private colleges and universities. "The information gathered will help us identify issues and areas that may need more outreach and education or further scrutiny," said Douglas Shulman, IRS commissioner.

Given the scope and complexity of the IRS Compliance Questionnaire, the Association of Governing Boards of Universities and Colleges (AGB) and the National Association of College and University Business Officers (NACUBO) engaged Ernst & Young LLP (E&Y) to tabulate and analyze responses to the questionnaires submitted by higher education institutions to the IRS. NACUBO and AGB, along with the other sponsoring organizations, hope the Ernst & Young analysis will promote transparency and a greater understanding of the complex challenges facing colleges and universities.

Ernst & Young received copies of the submissions from 146 colleges and universities, over one-third of the institutions responding to the IRS questionnaire. This report presents the key findings from these responses on higher education governance and operations. Due to the length of the IRS questionnaire (33 pages, with over 1,500 possible responses), only certain key questions are analyzed in this report. Based on a review of the questionnaires submitted to E&Y by participating AGB and NACUBO members, it appears that, for the most part, the participating colleges and universities have adopted many governance best practices, provide strong oversight of endowment investments, set reasonable endowment spending rates, and follow a range of practices with regard to the realization and reporting of unrelated business income. Many of the participating private colleges and universities have meaningful policies for the review of executive compensation, but some have room for improvement.

Key Survey Findings

The colleges and universities sharing their responses to the IRS Compliance Questionnaire vary widely in their financial resources and related activities. Despite the differences, colleges and universities have adopted many well-recognized best practices, especially in the areas of governance and financial management.

- Ninety-eight percent of public institutions and 97 percent of private institutions have a written conflict of interest policy, or a

state statute explicitly governing conflicts of interest, for the ruling/governing body and top management officials. Seventy-five percent of public institutions and 78 percent of private institutions have a written or statutory conflict of interest policy for full-time faculty.

- Ninety-one percent of respondents make their audited financial statement available to the public.
- Ninety-nine percent of respondents indicate that they have an investment policy for their endowment fund. Ninety-four percent indicate they have a specific investment committee that oversees the investment of the endowment fund, with 67 percent of these committees having seven or more members.
- All of the respondents monitor their endowment distributions to ensure they match the donors' intent. Many institutions use multiple methods to monitor their endowment distributions, with the most frequent methods being reports (84 percent) and financial audits (60 percent).
- The survey reports that 97 percent of respondents indicated a target endowment spending rate of four percent or higher; 70 percent indicated that their target was five percent or higher. Distributed funds most frequently were applied to scholarships, awards, grants, and/or loans (45 percent of all distributions on average).
- In setting compensation, 29 percent of the participating private institutions¹ report hiring an outside executive compensation consultant to provide comparable data, and 41 percent had a formal written policy governing compensation of at least some of the officers, directors, trustees or key employees.
- A majority (53 percent) of private colleges and universities reported the use of a process intended to satisfy the rebuttable presumption procedure to determine compensation.
- Regarding compensation of college and university presidents and chancellors, the largest group of public institutions reported compensation between \$200,000 and \$300,000 (38 percent); the largest group of private institutions reported compensation between \$300,000 and \$400,000 (27 percent). Compensation of more than \$400,000 was reported by 21 percent of public institutions and 20 percent of private institutions.

¹ Public colleges and universities were not asked this question.

- Both public and private institutions reported substantial level of compensation for sports coaches. Although wide ranges in compensation were reported, 38 percent of public institutions and 43 percent of private institutions report paying amounts greater than \$500,000.
- Over 70 percent of respondents offer tuition discounts (institutionally funded grants or scholarships used to offset a portion of tuition and fees) of greater than 10 percent. Over one-third of public university respondents offer tuition discounts greater than 20 percent, while 46 percent of private colleges offer tuition discounts greater than 30 percent.
- The questionnaire asked about 47 specific types of unrelated business activities on campus, thirteen of which are undertaken by more than one-third of the respondents.

Observations

Each questionnaire represents a financial snapshot of the college or university as of tax year 2006. The economic environment these institutions operate in is volatile. The financial picture of many colleges and universities has dramatically worsened since 2006, due to the economic downturn and the decline in the value of the financial markets.

- The questionnaire respondents in the AGB/NACUBO study were mostly public institutions and generally larger than the general population of nonprofit colleges and universities in the United States. It is not clear whether the IRS sample was representative when designed or whether institutions with these characteristics were more likely to send their questionnaires to E&Y for analysis.
- The IRS Compliance Questionnaire attempted to request information through yes/no, specific numeral, or check-the-box questions. Space for detailed answers was not provided. Many of the respondents provided additional written responses to clarify their IRS-formatted responses. This additional detail is important in understanding many of the responses. Responses to certain questions appear to vary due to lack of clear definitions of terms.
- Responses to certain questions appear to vary due to lack of clarity in survey questions themselves.

Overview of Project

The Association of Governing Boards of Universities and Colleges (AGB) and the National Association of College and University Business Officers (NACUBO) engaged Ernst & Young (E&Y) to tabulate and analyze the responses of their members' submissions of the IRS Compliance Questionnaire. E&Y received copies of 146 of the approximately 400 Compliance Questionnaires submitted to the IRS in late 2008 and early 2009. The Compliance Questionnaire requested data for tax year 2006, related to financial and governance issues in four-year nonprofit colleges and universities, both public and private. This report summarizes the key findings from the analysis.

Background on IRS Compliance Questionnaire

The Compliance Questionnaire was designed by the Internal Revenue Service as part of its "ongoing efforts to increase voluntary compliance." An IRS compliance check is used to determine whether an organization is adhering to recordkeeping and information reporting requirements and whether an organization's activities are consistent with their stated tax-exempt purpose.

As part of the IRS' effort to "work to build a better understanding of the largest, most complex organizations in the tax-exempt sector,"² and to better understand colleges and universities, specifically, they surveyed a number of public and private institutions. The Compliance Questionnaire focused on the following areas: information about the organization and its governance, activities, endowments, and executive compensation. A copy of the Compliance Questionnaire is included in Appendix A of this report.

This report presents key finding from 146 colleges' and universities' Compliance Questionnaires. The responding colleges and universities have reported many common practices in the areas of governance and financial management.

Process and Methodology

AGB and NACUBO requested that colleges and universities that had received a Compliance Questionnaire send a copy of their completed response to E&Y. All responses were kept confidential, and only aggregated information is included in this report.

² "IRS Sends Compliance Questionnaires to 400 Colleges and Universities" IR-2008-112, Oct. 1, 2008

E&Y developed a database containing the transcribed data fields. If a marginal notation was made outside of an open-ended field on the questionnaire, this was noted separately. For some questions, the additional text explanations of marginal notations provided important insights to the institution's answers.

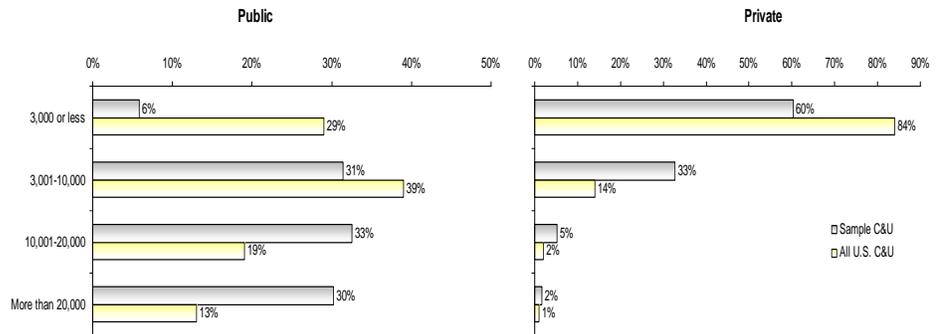
Respondents

The analysis examined the submitted IRS questionnaires from 146 colleges and universities, representing over one-third of the total institutions responding to the IRS survey. When compared with the profile of all U.S. nonprofit colleges and universities with a four-year program, the 146 respondents in the AGB/NACUBO study are more heavily weighted to large public universities.

The colleges and universities that submitted their questionnaires to E&Y were mostly public institutions (60 percent of respondents). This differs from the general population, in which only 29 percent of nonprofit colleges and universities with a four-year program are public. It is not clear if the IRS over sampled public institutions or if public institutions were more likely to send their completed questionnaires to E&Y for analysis.

The colleges and universities that submitted their questionnaires to E&Y are also larger than the average U.S. nonprofit four-year institution, as shown in Figure 1. Of those that submitted their questionnaire to E&Y, 28 percent of the respondents had a full-time student enrollment of 3,000 students or fewer, compared to 68 percent for all U.S. nonprofit four-year institutions. Only 4 percent of U.S. schools have an enrollment of 20,000 or more students, whereas 19 percent of those that sent their questionnaire to E&Y had an enrollment of this size. Again, it is not clear if the IRS sample drew upon generally larger institutions or if larger colleges and universities were more likely to send their questionnaires to E&Y for analysis.

Figure 1: Comparison of Study Participants and All U.S. Four Year Colleges and Universities, Number of Students Enrolled



Source: E&Y tabulations from the IRS Compliance Questionnaire; U.S. Department of Education's Integrated Postsecondary Education Data System (IPEDS), Fall Enrollment and Finance Surveys for 2007-08

Principal Findings from the Questionnaire

Despite wide variations in financial resources and activities, the Compliance Questionnaire results show that, for the most part, the participating colleges and universities have adopted many recommended governance practices, provide strong oversight of endowment investments, set reasonable endowment spending rates, and follow a variety of practices with regard to the realization and reporting of unrelated business income. Many of the participating private colleges and universities have meaningful policies for the review of executive compensation, but some have room for improvement.

Governance

Both public and private colleges and universities have instituted policies leading to greater accountability and transparency. For public institutions, this is often under the guidance and authority of state statutes and regulations.

Conflict of Interest Policies

Through its substantial guidance and based upon data obtained from years of Form 990 filings, the IRS has asserted that more effective governance can be attained through the adoption of and adherence to conflict of interest policies. Ninety-eight percent of public respondents indicate that their state has a statute explicitly governing conflicts of interest for members of the organization’s governing body and its top management officials (see Table 1). Seventy-five percent of public respondents indicate that there is a state statute governing conflicts of interest for faculty.

Almost all private colleges and university respondents (97 percent) report that they have a written conflict of interest policy in place governing members of the organization’s governing body and its top management officials. Similar to public colleges and universities, about three quarters of private institutions have a written conflict of interest policy in place for faculty members.

Table 1: Written Conflict of Interest Policies, Percentage of Public and Private Respondents

| Written conflict of interest policy for... | Public | Private |
|--|---------------|----------------|
| Ruling/Governing body and top management officials | 98% | 97% |
| Full-time faculty | 75% | 78% |

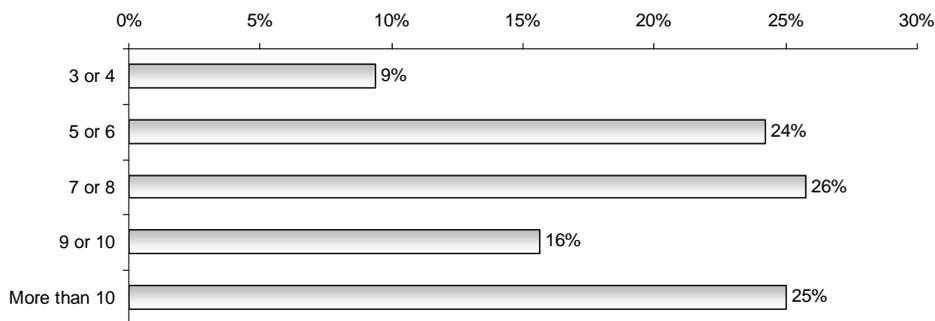
Source: E&Y tabulations from the IRS Compliance Questionnaire

As for financial transparency, most of the respondents (91 percent) make their audited financial statements available to the public.

Endowment Fund Oversight

The IRS Compliance Questionnaire asked several questions about the oversight and governance of endowment funds. Ninety-nine percent of respondents have an investment policy for their endowment fund, and 94 percent have a specific investment committee that oversees the investment of endowment fund assets. As Figure 2 illustrates, endowment investment committees tend to have a large number of members overseeing the investments, with 67 percent of respondents having investment committees of seven or more members. A full quarter of respondents have more than 10 members on their investment committee.

Figure 2: Number of Members of the Investment Committee That Oversee the Endowment Fund(s)



Source: E&Y tabulations from the IRS Compliance Questionnaire

The IRS Questionnaire asked several questions about the internal and/or external parties used to manage the investments in the school's endowment funds. In 95 percent of the cases, the investment committee was used to approve the selection of external endowment fund managers. Ninety percent of investment committees approved investment-guidance recommendations made by outside consultants. A committee of the board or the full board was involved in reviewing and approving compensation arrangements for internal investment managers in 66 percent of the cases. External investment manager compensation arrangements were more likely to involve review and approval of a committee of the board or full board (95 percent of responses). Table 2 summarizes these responses.

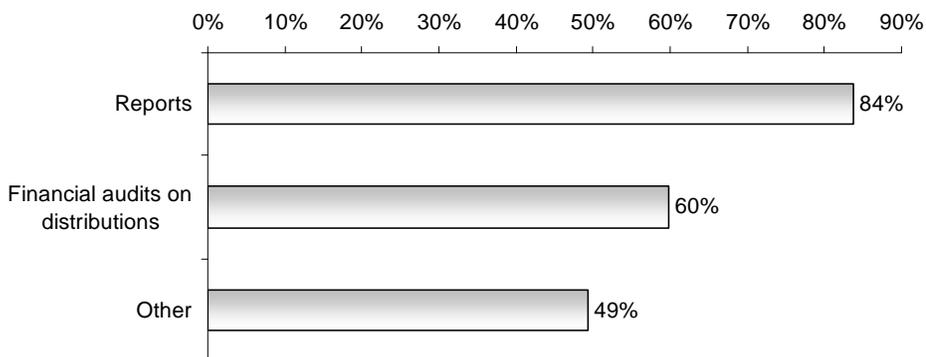
Table 2: Governance of Endowment Fund Investment Managers

| | % Yes |
|--|--------------|
| Did the investment committee approve the selection of external parties used to manage the investments in your endowment fund(s)? | 95% |
| Did your investment committee approve investment-guidance recommendations made by outside consultants? | 90% |
| Were compensation arrangements for internal investment managers reviewed and approved by a committee of the board or the full board? | 66% |
| Were compensation arrangements for external investment managers reviewed and approved by a committee of the board or the full board? | 95% |

Source: E&Y tabulations from the IRS Compliance Questionnaire

Colleges and universities also ensure that endowment fund distributions match the donors’ intended and/or stated purpose. Every one of the respondents indicates that they monitor their endowment distributions to ensure they match the donor’s intentions. Figure 3 shows that many schools use multiple methods to monitor distributions. The most frequent methods used to monitor endowment distributions are reports (84 percent), and financial audits on distributions (60 percent). The responses are not mutually exclusive as some institutions may use multiple methods to monitor distributions.

Figure 3: Methods Used to Monitor Endowment Distributions, Percentage of Respondents



Source: E&Y tabulations from the IRS Compliance Questionnaire

Compensation Policies

The IRS Compliance Questionnaire asked about the compensation policies for the institutions’ highest paid employees, as well as who sets compensation for top positions. The answers to the compensation setting question, as shown in Table 3, appear to have been affected by the formatting of the potential answers. Based on the numerous marginal notations, many respondents appear to have been confused by

the format of this question and were unclear as to whether “Director” referred to a paid officer or a member of the Board of Directors or Board of Trustees. This led to inconsistent responses.

In addition, many respondents indicated in the open-ended response field that the Board of Directors sets the president’s compensation, but that the president sets the compensation for the rest of the officers. Two-thirds of respondents report that the Board sets officer compensation, and over one-quarter report that officer compensation is set by a compensation committee.

Despite these similar notations, the respondents’ checkbox responses were inconsistent, with some checking that officers set officer compensation, and others indicating this through the open-ended response only.

Given the confusion regarding this question, the data related to this question should likely not be considered reliable. Further, it should be noted that in no case is any individual responsible for setting his or her own compensation. An asterisk highlights questionable response data, given the above caveat.

Table 3: Entities Involved in Setting Compensation by Position

| <i>Entity setting compensation</i> | <i>Position compensation set for</i> | | | |
|------------------------------------|--------------------------------------|------------------|-----------------|----------------------|
| | Officers | Directors | Trustees | Key Employees |
| Officers | * | 7% | 2% | 62% |
| Board of Directors | 67% | * | 3% | 19% |
| Compensation Committee | 28% | 0% | 0% | 10% |
| Other | 31% | 10% | 0% | 38% |
| N/A or Uncompensated | 3% | 50% | 69% | 2% |
| Did Not Answer | 2% | 29% | 26% | 3% |

* Percentages removed due to inconsistent responses

Source: E&Y tabulations from the IRS Compliance Questionnaire

In setting compensation, 29 percent of the participating private colleges and universities indicate that they hired an outside executive compensation consultant to provide comparable data. 41 percent had a formal written policy governing compensation of at least some of the officers, directors, trustees or key employees. A majority (53 percent) of the key executives at the private colleges and universities had their compensation determined using a process intended to satisfy the rebuttable presumption procedure of IRC section 4958 to determine compensation.

When looking at the top five highest paid employees, faculty make up the largest group, accounting for 62 percent of the top five employees (see Table 4). Because employees can hold more than one position (i.e., a faculty member can also be a head of department or sports coach), the

average and median salaries for faculty may be higher than for employees who are faculty members only.

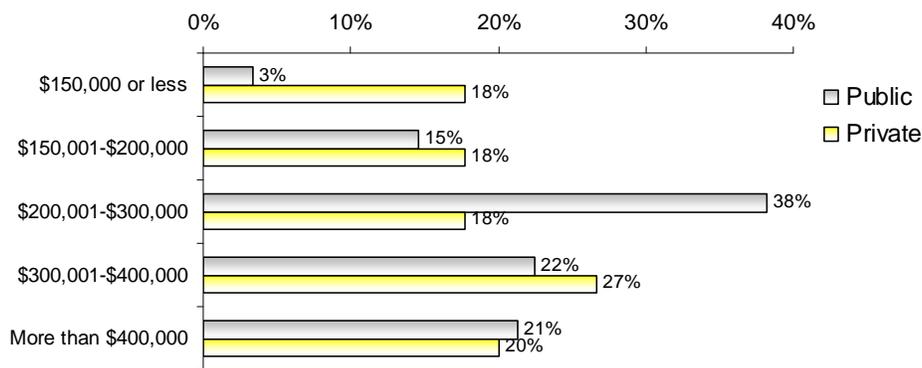
Table 4: Top Five Employee Response Percentages, Average and Median Compensation By Position Type

| | % of Employees | Average | Median |
|---------------------------|-----------------------|----------------|---------------|
| Faculty | 62% | \$230,000 | \$149,000 |
| Heads of Department | 21% | \$248,000 | \$152,000 |
| Administrative/Managerial | 21% | \$166,000 | \$147,000 |
| Sports Coach | 13% | \$684,000 | \$404,000 |
| Other | 6% | \$299,000 | \$161,000 |

Source: E&Y tabulations from the IRS Compliance Questionnaire. Amount rounded to nearest thousand.

Regarding compensation of college and university presidents and chancellors, the largest group of public institutions reported compensation between \$200,000 and \$300,000 (38 percent); the largest group of private institutions reported compensation between \$300,000 and \$400,000 (27 percent). Compensation of more than \$400,000 was reported by 21 percent of public institutions and 20 percent of private institutions. Figure 4 shows the respondent distribution of college and university president and chancellor compensation.

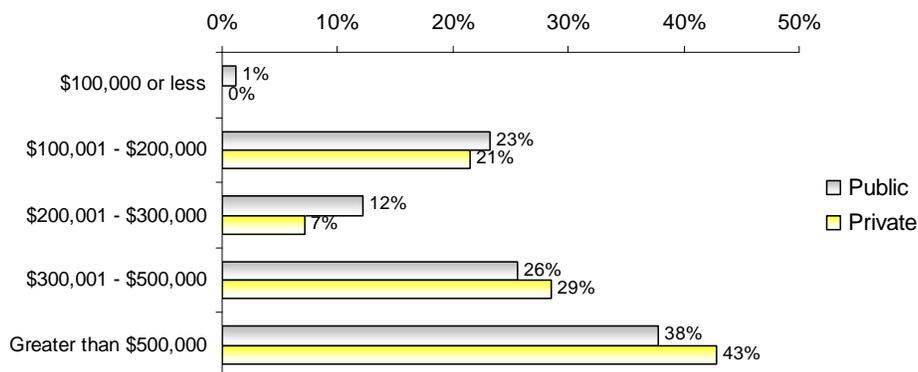
Figure 4: Compensation of College and University Presidents and Chancellors



Source: E&Y tabulations from the IRS Compliance Questionnaire

Both public and private institutions reported substantial level of compensation for sports coaches. Although wide ranges in compensation were reported, 38 percent of public institutions and 43 percent of private institutions report paying amounts greater than \$500,000. Figure 5 shows the respondent distribution of college and university sports coach compensation.

Figure 5: Compensation of College and University Sports Coaches



Source: E&Y tabulations from the IRS Compliance Questionnaire

The most common methods of remuneration for the top six executives are: base salary (99 percent of top employees), contributions to employee benefit plans (91 percent), contributions to life, disability, and long-term care insurance (83 percent), and participant contributions to 403(b) plans (75 percent).

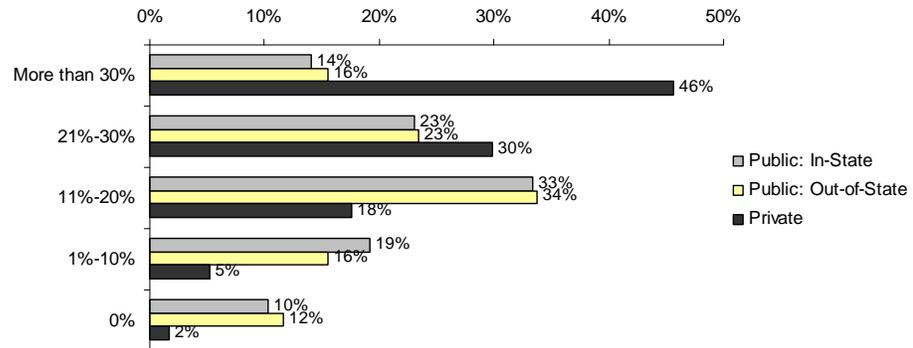
Higher Education Tuition, Finances, and Endowment Management

Of continuing interest to the IRS and to legislators and regulators are both the cost of higher education and the scope of “unrelated” business activities. Both policymakers and the public at large are particularly interested in the former.

With the mix of public and private colleges and universities in a variety of geographic and academic settings, it is difficult to compare these institutions on the basis of tuition and fees alone, as the unique circumstances and environments they face often lead to different outcomes.

The Compliance Questionnaire asked about the amount of average annual tuition discount offered to students. Generally, a tuition discount is an institutionally funded grant or scholarship that college students can use to offset a portion of their tuition and fees. Over 70 percent of the respondents offered average tuition discounts greater than 10 percent. Three quarters of the private institution respondents, and more than one-third of public university respondents, offered average tuition discounts of more than 20 percent. Figure 6 shows the percentage of colleges and universities offering a given average tuition discount percentage, broken out by public in-state tuition, public out of state tuition, and private school tuition.

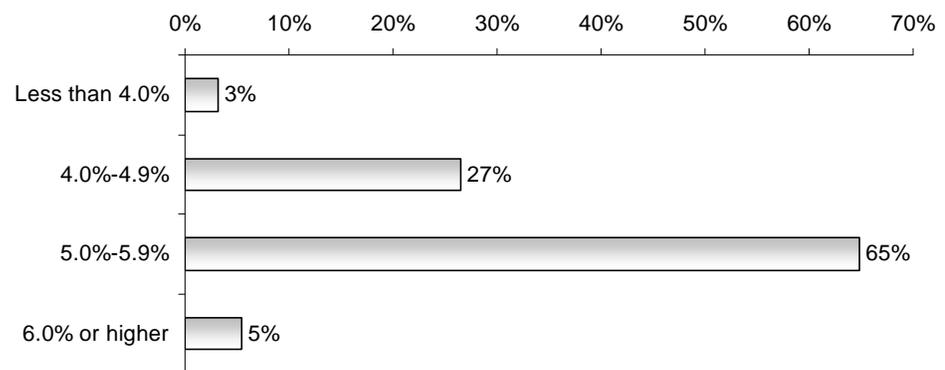
Figure 6: Percentage of Colleges/Universities Offering an Average Tuition Discount Percentage



Source: E&Y tabulations from the IRS Compliance Questionnaire

In determining the level of distribution of the endowment fund for expenses related to scholarships, operations, and other related items, colleges and universities frequently adopt a specific percentage of total endowment fund spending target. The “spending rule” used by most college and university endowments is based on a three-year moving average of the endowment market value. Ninety-seven percent of respondents indicate that they adopt a percentage “spending rule” target of 4 percent or more of endowment market value, with 70 percent indicating that their percentage target is 5 percent or more. Figure 7 shows the respondent distribution of these spending targets.

Figure 7: Spending Target Percentage of Total Endowment Fund



Source: E&Y tabulations from the IRS Compliance Questionnaire

By far, distributed endowment funds are most frequently applied to student aid in the form of institutional scholarships, awards, grants, and or loans (nearly 45 percent of all fund distributions on average). General university operations and general education support, including libraries, make up the next two categories at fewer than 15 percent on average.

Table 5 highlights the average amount of the total endowment distribution targeted to a particular category.

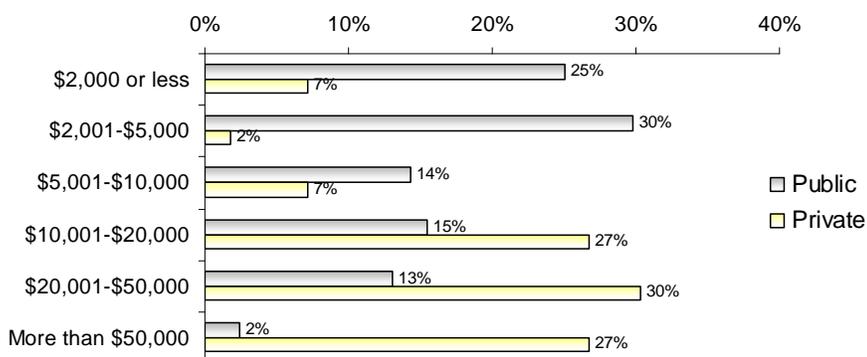
Table 5: Average Percent of Total Endowment Fund Distribution By Distribution Category

| Percent of Total Distributions | Average |
|--|--------------|
| Scholarships, Awards, Grants and/or Loans | 44.9 |
| General University Operations | 14.7 |
| General Education Support and/or Libraries | 13.7 |
| Chairs, Professorships | 11.9 |
| Administrative Support (Discretionary) | 4.8 |
| Research | 2.8 |
| Public Service | 0.8 |
| Other | 6.4 |
| Total | 100.0 |

Source: E&Y tabulations from the IRS Compliance Questionnaire

Most institutional endowments are fairly small. Figure 8 shows that more than half of the public institutions have assets per student of \$5,000 or less. Private colleges and universities, which tend to have less direct financial support from their state government, also tend to rely more on the income provided by their endowment funds. As a reflection of this, the endowment fund assets per full time equivalent student tend to be larger, consistent with the higher average tuition discount by private institutions.

Figure 8: Average Amount of Endowments Assets per Full-time Equivalent Student



Source: E&Y tabulations from the IRS Compliance Questionnaire

Unrelated and Potentially Unrelated Activities on Campus

Colleges and universities undertake a wide range of activities to achieve optimal utilization of their personnel and facilities in fulfillment of their missions. The IRS has been challenged for years to develop consistent guidelines for determining which activities conducted by nonprofit organizations are unrelated to their tax-exempt purposes and may thereby generate unrelated business taxable income (UBI).

The Compliance Questionnaire asked about 47 specific types of activities and for certain details about the activities. Table 6 shows the 13 activities undertaken by more than one-third of the respondents, and the percentage of those activities that generated income that was treated as unrelated business income. The determination of UBI is based on a factual determination of specific operational issues and contractual arrangements. In some cases, an activity would be listed by a respondent but would not be treated as generating unrelated business income due to facts not discernable from the responses to the questionnaire.

Table 6: Activities Engaged In by 33% or More of Respondents, and Percentage of Respondent Activity Treated as All or Part UBI

| Activity | % Engaged | All/Part UBI |
|---|-----------|--------------|
| Rental - Facility Rental | 90% | 34% |
| Bookstore | 61% | 26% |
| Food Services | 59% | 13% |
| Rental - Athletic Facilities Usage | 55% | 32% |
| Parking Lot Operations | 51% | 21% |
| Corporate Sponsorships - Events | 51% | 4% |
| Advertising - Printed Publications | 50% | 49% |
| Corporate Sponsorships - Printed Materials including Publications | 47% | 6% |
| Corporate Sponsorships - Facilities | 43% | 5% |
| Catering Services | 41% | 53% |
| Other Royalties | 38% | 2% |
| Logo Usage | 38% | 0% |
| Exclusive Use Contracts | 34% | 17% |

Source: E&Y tabulations from the IRS Compliance Questionnaire

Survey results indicate that the respondents take seriously their assessment of unrelated business taxable income (UBI), since most if not all reported some UBI. The respondents believe that most of the listed activities either further their exempt purpose or qualify for another exception from UBI.

Conclusion

Achievement of the mission of higher education institutions is critical to the success of the United States in the 21st century. The governance, financial management, and scope of activity of colleges and universities will continue to evolve and change in response to the dynamic economy. The tax rules and regulations under which public and private nonprofit universities and colleges operate must provide for effective support and oversight of colleges and universities, as well as for ensuring active compliance.

An important check on tax-exempt organizations is their governance accountability, financial management, and transparency. The IRS Compliance Questionnaire provides a snapshot of the reporting colleges' and universities' governance and management practices in 2006, prior to a severely worsening economy. As the IRS analyzes the data, its understanding of the complex environment in which these institutions operate and develop guidance must continue to evolve. This will result in more effective tax compliance practices and greater recognition of the diversity of the higher education community.

Appendix: IRS Compliance Questionnaire

Compliance Questionnaire Colleges and Universities

This questionnaire asks for information about your college or university and how it operates. Answer the questions based on the instructions provided at the beginning of each part of the questionnaire. Complete the questionnaire and follow the instructions in the accompanying letter for returning it to us. If you prefer, you can download the questionnaire from our website at <http://www.irs.gov/edu/college-univ-questions.pdf>.

PLEASE DO NOT SUBMIT ANY BOOKS OR RECORDS.

PART 1 – ORGANIZATION INFORMATION

Answer the questions in Part 1 based on the year or period referred to in each question.

Enter the organization's complete name and provide that organization's employer identification number (EIN). In addition, provide the name, title and phone number of a person to contact should we have any questions.

Name of College or University _____

EIN _____

Full Name and Title of Contact Person _____

Contact Phone Number _____

1. Indicate the type of institution that best describes your college or university for the tax year ending in 2006. Check only one box.
- A private institution offering a four-year or higher degree, recognized as exempt from federal income tax under IRC 501(c)(2).
 - A private institution offering only a two-year degree, recognized as exempt from federal income tax under IRC 501(c)(3).
 - A private institution, whether non-profit or for-profit, that is not recognized as exempt from federal income tax.
 - A public institution offering a four-year or higher degree, that is not recognized by the IRS as exempt from federal income tax under IRC 501(c)(3) as an organization described in IRC 501(c)(3). The income of which is excluded from tax under IRC 115.
 - A public institution offering a four-year or higher degree, that has applied for and received recognition of exempt or under IRC 501(c)(3).
 - A public institution offering a four-year or higher degree, that is a political subdivision, i.e. an entity with the powers of government (power to tax, police (or regulatory) powers or power of eminent domain).
 - A church or organization claiming to be a church that is not a separately incorporated church-supported school or other organization incorporated separately from the church.
 - Other - describe _____

If you checked "b," "c," "g" or "h," STOP you do not need to complete the rest of the questionnaire. Please follow the instructions in the accompanying letter for sending the questionnaire back to us. Otherwise, go to question 2.

2. How many students (including graduate and professional students, were enrolled at your College/University in Fall 2006? Use full-time equivalents (FTEs) per your enrollment or other records? _____
3. How many full-time and part-time students were enrolled at your college or university in Fall 2006? a. Full-time _____ b. Part-time _____
4. What was the size of your faculty in Fall 2006? For this purpose, you may use reports filed with the federal government, such as the Department of Education, include adjuncts that are full-time under "Full-Time." a. Full-Time _____ b. Adjunct _____
5. Enter the number of employees you reported on line 1, Part I of Form 941 for the first quarter of 2006 _____
6. How many of the employees reported in 5 above were: a. Faculty _____ b. Staff _____ c. Students _____
7. What was the student:faculty ratio (e.g., 20:1) in Fall 2006? _____
8. a. If you are a public institution, do you currently have a written conflict of interest policy in place that governs members of the organization's ruling body and its top management officials? Yes No If "Yes," enter the date this policy was adopted: _____ (Use mm/dd/yyyy format.)
 b. If you are a public institution, is there a state statute explicitly governing conflicts of interest for members of the organization's governing body and its top management officials? Yes No
9. a. If you are a private institution, do you currently have a written conflict of interest policy in place that governs full-time faculty? Yes No If "Yes," enter the date this policy was adopted: _____ (Use mm/dd/yyyy format.)
 b. If you are a public institution, is there a state statute explicitly governing conflicts of interest for full-time faculty? Yes No
10. Does your organization currently make its audited financial statements available to the public? Yes No
 a. If they are available on a website, please provide the website address _____
11. What was your annual published full-time tuition rate (including mandatory fees but exclusive of room and board) for undergraduate students in Fall 2006? a. In-State \$ _____ b. Out-of-State \$ _____ c. Other \$ _____
12. What was the annual average tuition a school rate used to calculate the net average tuition after discounts for Fall 2006?
 a. In-State _____ % b. Out-of-State _____ % c. Other _____ %
13. For the tax year ending in 2006, what were your organization's
 a. Gross assets? \$ _____ b. Net assets? \$ _____ c. Gross revenue? \$ _____ d. Total expenses? \$ _____
14. Does your organization currently conduct distance learning activities? Yes No
15. Does your organization currently conduct educational programs outside the United States? Yes No
16. Does your organization currently maintain offices, campuses, or other employees in at least five countries outside the United States?
 Yes No

17. Enter the information requested in the table below for the five (5) highest paid employees of your organization for calendar year 2006. Do not include officers, directors, trustees and key employees (defined in the instructions). Determine highest paid based on the amounts reported on Form(s) W-2 box 5 for 2006. (See the instructions if the individual was not subject to Medicare taxes.)

Column instructions:

- in column b, enter the appropriate alpha code(s) from the list below that describes the position(s) held by the employee.
- in column c and d, enter the amount reported on Form(s) W-2, box 5.
- in column e, enter the number of related organizations that paid compensation.
- in column f, enter any NCAA athletic-related income (use fiscal year ending within the 2006 calendar year if that is how the income is reported for NCAA purposes) regardless of whether the amount was reported in column c or d.

Check this box if your athletic coaches are not employed by your organization.

- A = Faculty Instructional and Research;
- B = Heads of Department
- C = Sports Coach
- D = Administrative/Managerial
- E = Investment Manager
- F = Other - Describe in space provided

| | (a) Name of Employee | (b) Position(s) (see codes above) | (c) Compensation from Your Organization | (d) Compensation from Related Organizations | (e) No. of Related Orgs. | (f) NCAA Athletic Income |
|---|-------------------------|---|---|---|-----------------------------------|-----------------------------------|
| 1 | | Other: | | | | |
| 2 | | Other: | | | | |
| 3 | | Other: | | | | |
| 4 | | Other: | | | | |
| 5 | | Other: | | | | |

18. Enter the information requested in tables A through D below for the five (5) highest gross revenue generating organizations in each category that are related to your organization. Complete the information based on the tax year ending in 2006. For a definition of a related organization, see the instructions. For more information on classification of corporations, partnerships, disregarded entities and trusts, see Regulator sections 301.7701-2, 3, and 4.

instead of completing the tables you may provide an organizational chart provided it contains the same information requested below. The chart also may include organizations that are not the highest gross revenue generating entities. If you provide an organizational chart you may consolidate single-member limited liability companies (LLCs) whose exclusive activity is as a passive holder of real estate assets instead of listing each one.

| A. Disregarded Entities - List the five (5) largest based on gross revenue | | Entity 1 | Entity 2 | Entity 3 | Entity 4 | Entity 5 |
|--|-----------------------------------|---|---|---|---|---|
| (i) | Name | | | | | |
| (ii) | EIN | | | | | |
| (iii) | Address | | | | | |
| (iv) | Location | Foreign <input type="checkbox"/> Domestic <input type="checkbox"/> |
| (v) | Primary Activity | | | | | |
| (vi) | Name of Direct Controlling Entity | | | | | |

| B. Related Tax-Exempt Organizations - List the five (5) largest based on gross revenue | | Organization 1 | Organization 2 | Organization 3 | Organization 4 | Organization 5 |
|--|-----------------------------------|---|---|---|---|---|
| (i) | Name | | | | | |
| (ii) | EIN | | | | | |
| (iii) | Address | | | | | |
| (iv) | Location | Foreign <input type="checkbox"/> Domestic <input type="checkbox"/> |
| (v) | Primary Activity | | | | | |
| (vi) | Exempt Code Section | | | | | |
| (vii) | If 501(c)(3) | Public Charity <input type="checkbox"/> Private Fdn <input type="checkbox"/> |
| (viii) | Name of Direct Controlling Entity | | | | | |

C. Related Organizations Taxable as a Partnership - List the five (5) largest based on gross revenue

| Information | Partnership 1 | Partnership 2 | Partnership 3 | Partnership 4 | Partnership 5 |
|---|---|---|---|---|---|
| (i) Name | | | | | |
| (ii) EIN | | | | | |
| (iii) Address | | | | | |
| (iv) Location | Foreign <input type="checkbox"/> Domestic <input type="checkbox"/> |
| (v) Primary Business Activity, Product or Service | | | | | |
| (vi) Name of Direct Controlling Entity | | | | | |
| (vii) Are You A General or Managing Partner? | General <input type="checkbox"/> Managing <input type="checkbox"/> |
| (viii) Your Percentage of Ownership | % | % | % | % | % |

D. Related Organizations Taxable as a Corporation or Trust - List the five (5) largest based on gross revenue

| Information | Corp or Trust 1 | Corp or Trust 2 | Corp or Trust 3 | Corp or Trust 4 | Corp or Trust 5 |
|---|---|---|---|---|---|
| (i) Name | | | | | |
| (ii) EIN | | | | | |
| (iii) Address | | | | | |
| (iv) Location | Foreign <input type="checkbox"/> Domestic <input type="checkbox"/> |
| (v) Primary Business Activity, Product or Service | | | | | |
| (vi) Name of Direct Controlling Entity | | | | | |
| (vii) Type of Entity | C-Corp <input type="checkbox"/> S-Corp <input type="checkbox"/> Trust <input type="checkbox"/> Pers. Serv. Corp <input type="checkbox"/> | C-Corp <input type="checkbox"/> S-Corp <input type="checkbox"/> Trust <input type="checkbox"/> Pers. Serv. Corp <input type="checkbox"/> | C-Corp <input type="checkbox"/> S-Corp <input type="checkbox"/> Trust <input type="checkbox"/> Pers. Serv. Corp <input type="checkbox"/> | C-Corp <input type="checkbox"/> S-Corp <input type="checkbox"/> Trust <input type="checkbox"/> Pers. Serv. Corp <input type="checkbox"/> | C-Corp <input type="checkbox"/> S-Corp <input type="checkbox"/> Trust <input type="checkbox"/> Pers. Serv. Corp <input type="checkbox"/> |
| (viii) Percentage Ownership | % | % | % | % | % |

19. For private institutions, check any arrangements described below that you currently have a written policy or which are designed to assure that transactions with non-501(c)(3)-related organizations (taxable or exempt) are made at arm's length. For public institutions, check any arrangements that are subject to a specific statute designed to assure that transactions are made at arm's length. Check all that apply.
- a. Provision of goods or services
 - b. Lending of money
 - c. Rental of property
 - d. Transfers of assets
 - e. Cost sharing and expense reimbursement arrangements
 - f. Shared employees
 - g. Other transfers of assets, liabilities or funds (items not listed in a through f)
 - h. Licensing arrangements
20. For private institutions, check any items of income below for which you currently have a written policy in place that establishes arm's length assurances when such amounts are paid or accrued to your organization from a controlled entity within the meaning of section 512(b)(13). For public institutions, check any items of income that are subject to a specific statute designed to assure that transactions are made at arm's length. For a definition of controlled entity, see the instructions. Check all that apply.
- a. Management fees
 - b. Interest
 - c. Rents
 - d. Royalties
 - e. Annuities
21. Describe below how your organization currently determines pricing in its dealings with related organizations, including payments or accruals of interest, rents, royalties, or annuities by a controlled entity to your organization. If more space is needed, attach additional sheets.
22. If your organization is a controlling organization or within the meaning of IRC section 512(b)(13), enter the number of entities you controlled for the tax year ending in 2006. If you are not a controlling organization, enter 0. For the definition of a controlled entity under IRC section 512(b)(13), see the instructions.

PART II – ACTIVITIES

Please complete this section based on the tax year ended in 2006 unless otherwise noted.

23. Provide the information requested in tables A through E below. Base your responses on the aggregate of all of the organization's activities of the type referred to in the applicable row (e.g., Advertising – printed publications).

Column instructions:

- In column a, check the box next to any activity your organization directly (not indirectly through another organization), engaged in even if the activity was not reported on Form 990-T (Unrelated Business Income Tax Return). *Note:* Items 28 through 30 relate to activities conducted by partnerships, subchapter S corporations, or controlled entities in which you are an owner.
- In column b, check the boxes that describe how you treated the income from the activity as unrelated trade or business income (UBI).
- In column c, enter the appropriate explanation code if you indicated in column b that none or part of the income from the activity was UBI. See the instructions for a list of the explanation codes.
- In column d, check the box if the activity was managed or operated by an unrelated third party.
- In column e, indicate (yes/no) whether your organization incurred a loss from the activity in at least three out of the five previous years (2001 – 2005).

Complete columns f through h only if you checked "yes" in column e and you reported the activity on Form 990-T for at least one of the loss years.

- In column f, indicate (yes/no) if expenditures (paid or accrued), to non-501(c)(3) related organizations (taxable or exempt), exceeded \$50,000 during any single loss year.
- In column g, enter the predominant reason for the losses using the codes listed below.
- In column h, indicate (yes/no) if your organization has future plans for making a profit.

Predominant Reason Codes

- A = Business was in start-up phase
- B = Actual costs were significantly greater than anticipated or budgeted
- C = Competitive pressures prevented pricing to allow for full recovery of costs
- D = Less demand for product or service than was projected
- E = Business was in business cycle downturn
- F = Budgeted to operate at breakeven or a loss because doing so contributed to the organization's exempt mission
- G = Business was in winding-up phase
- H = Other

| (a) Activity | (b) UBI | (c) Explanation Code (See Instructions) | (d) Third Party Managed/Operated | (e) Loss 3 Out of 5 Years (2001-2005) | (f) Expenditures to non-501(c)(3) Affiliates >\$50,000 | (g) Predominant Reason Code (See above) | (h) Future Profit |
|--|--|--|-------------------------------------|---|---|--|---|
| A. ADVERTISING | | | | | | | |
| 1. <input type="checkbox"/> Printed Publications | <input type="checkbox"/> All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI <input type="checkbox"/> Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 2. <input type="checkbox"/> Other Printed Material | <input type="checkbox"/> All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI <input type="checkbox"/> Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 3. <input type="checkbox"/> Internet | <input type="checkbox"/> All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI <input type="checkbox"/> Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 4. <input type="checkbox"/> Facilities (Billboard, Scoreboard, etc.) | <input type="checkbox"/> All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI <input type="checkbox"/> Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 5. <input type="checkbox"/> Radio Broadcasting | <input type="checkbox"/> All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI <input type="checkbox"/> Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| B. CORPORATE SPONSORSHIPS | | | | | | | |
| 1. <input type="checkbox"/> Printed Materials including Publications | <input type="checkbox"/> All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI <input type="checkbox"/> Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 2. <input type="checkbox"/> Events | <input type="checkbox"/> All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI <input type="checkbox"/> Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |

| (a) Activity | (b) UBI | (c) Explanation Code (See instructions) | (d) Third Party Managed/Operated | (e) Loss 3 Out of 5 Years (2001-2005) | (f) Expenditures to non-501(c)(3) Affiliates >\$50,000 | (g) Predominant Reason Code (See above) | (h) Future Profit |
|--|--|--|-------------------------------------|---|---|--|---|
| 3. <input type="checkbox"/> Internet | All UBI Part UBI No UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 4. <input type="checkbox"/> Facilities (Billboard, Scoreboard, etc.) | Debt Financed UBI All UBI Part UBI No UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 5. <input type="checkbox"/> TV/Radio Broadcasting | Debt Financed UBI All UBI Part UBI No UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |

C. RENTAL

| | | | | | | | |
|---|--|--|--------------------------|---|---|--|---|
| 1. <input type="checkbox"/> Facility Rental | All UBI Part UBI No UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 2. <input type="checkbox"/> Rental of Arena | Debt Financed UBI All UBI Part UBI No UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 3. <input type="checkbox"/> Recreation Center Usage | Debt Financed UBI All UBI Part UBI No UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 4. <input type="checkbox"/> Athletic Facilities Usage | Debt Financed UBI All UBI Part UBI No UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 5. <input type="checkbox"/> Personal Property Rental | Debt Financed UBI All UBI Part UBI No UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |

| (a) Activity | (b) UBI | (c) Explanation Code (See Instructions) | (d) Third Party Managed/Operated | (e) Loss 3 Out of 5 Years (2001-2005) | (f) Expenditures to non-501(c)(3) Affiliates >\$50,000 | (g) Predominant Reason Code (See above) | (h) Future Profit |
|---|--|--|-------------------------------------|---|---|--|---|
| 6. <input type="checkbox"/> electronic Related or Broadcast Tower Rentals | All UB Part UB No UB Debt Financed UB | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 7. <input type="checkbox"/> Other Rentals | All UB Part UB No UB Debt Financed UB | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| D. OTHER | | | | | | | |
| 1. <input type="checkbox"/> Catalog Sales | All UB Part UB No UB Debt Financed UB | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 2. <input type="checkbox"/> Internet Sales | All UB Part UB No UB Debt Financed UB | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 3. <input type="checkbox"/> Travel Tours | All UB Part UB No UB Debt Financed UB | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 4. <input type="checkbox"/> Broadcast Rights | All UB Part UB No UB Debt Financed UB | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 5. <input type="checkbox"/> Royalties from C.I. and Gas Interests | All UB Part UB No UB Debt Financed UB | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 6. <input type="checkbox"/> Affinity Cards | All UB Part UB No UB Debt Financed UB | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |

| (a) Activity | (b) UBI | (c) Explanation Code (See Instr. c or s) | (d) Third Party Managed/Operated | (e) Loss 3 Out of 5 Years (2001-2005) | (f) Expenditures to non-501(c)(3) Affiliates >\$50,000 | (g) Predominant Reason Code (See above) | (h) Future Profit |
|--|--|---|-------------------------------------|---|---|--|---|
| 7. <input type="checkbox"/> Mailing List Rentals | All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 8. <input type="checkbox"/> Logo Usage | All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 9. <input type="checkbox"/> Working Interest in Oil Gas Etc | All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 10. <input type="checkbox"/> Other Royalties | All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 11. <input type="checkbox"/> Excuse Use Contracts | All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 12. <input type="checkbox"/> Commercial Research | All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 13. <input type="checkbox"/> Patents | All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 14. <input type="checkbox"/> Copyrights and Trade Names or Trade Secrets | All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |

| (a) Activity | (b) UBI | (c) Explanation Code (See Instructions) | (d) Third Party Managed/Operated | (e) Loss 3 Out of 5 Years (2001-2005) | (f) Expenditures to non-501(c)(3) Affiliates >\$50,000 | (g) Predominant Reason Code (See above) | (h) Future Profit |
|--|---|--|-------------------------------------|---|---|--|---|
| 15. <input type="checkbox"/> Operation of Hotel | All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI <input type="checkbox"/> Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 16. <input type="checkbox"/> Operation of Conference Center | All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI <input type="checkbox"/> Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 17. <input type="checkbox"/> Operation of Restaurant | All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI <input type="checkbox"/> Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 18. <input type="checkbox"/> Catering Services | All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI <input type="checkbox"/> Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 19. <input type="checkbox"/> Food Services | All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI <input type="checkbox"/> Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 20. <input type="checkbox"/> Credit Card Promotions | All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI <input type="checkbox"/> Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 21. <input type="checkbox"/> Computer Services | All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI <input type="checkbox"/> Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 22. <input type="checkbox"/> Exempt Income (not advertising) | All UBI <input type="checkbox"/> Part UBI <input type="checkbox"/> No UBI <input type="checkbox"/> Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |

| (a) Activity | (b) UBI | (c) Explanation Code (See Instructions) | (d) Third Party Managed/Operated | (e) Loss 3 Out of 5 Years (2001-2005) | (f) Expenditures to non-501(c)(3) Affiliates >\$50,000 | (g) Predominant Reason Code (See above) | (h) Future Profit |
|---|--|--|-------------------------------------|---|---|--|---|
| 23. <input type="checkbox"/> Bartering | All UBI Part UBI No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 24. <input type="checkbox"/> Parking Lot Operations | All UBI Part UBI No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 25. <input type="checkbox"/> Power Generators | All UBI Part UBI No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 26. <input type="checkbox"/> Bookstore | All UBI Part UBI No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 27. <input type="checkbox"/> Golf Course | All UBI Part UBI No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| For 28 through 30, base your responses on revenues, expenses, income and/or losses derived from your ownership share in the Partnership, S-Corporation or Controlled Entity (section 512(b)(13)). | | | | | | | |
| 28. <input type="checkbox"/> Partnership Allocations | All UBI Part UBI No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 29. <input type="checkbox"/> S-Corp Allocations | All UBI Part UBI No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 30. <input type="checkbox"/> Income from Controlled Entities | All UBI Part UBI No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |

| (a) Activity | (b) UBI | (c) Explanation Code (See Instructions) | (d) Third Party Managed/Operated | (e) Loss 3 Out of 5 Years (2001-2005) | (f) Expenditures to non-501(c)(3) Affiliates >\$50,000 | (g) Predominant Reason Code (See above) | (h) Future Profit |
|--|--|--|-------------------------------------|---|---|--|---|
| E. OTHER ACTIVITIES NOT INCLUDED ABOVE - ONLY LIST ACTIVITIES THAT GENERATED MORE THAN \$50,000 IN ANNUAL GROSS REVENUE | | | | | | | |
| 1. | All UBI Part UBI No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 2. | All UBI Part UBI No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 3. | All UBI Part UBI No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 4. | All UBI Part UBI No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 5. | All UBI Part UBI No UBI Debt Financed UBI | | <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | Yes <input type="checkbox"/> No <input type="checkbox"/> | | Yes <input type="checkbox"/> No <input type="checkbox"/> |

24 From the activities checked in question 23, list in descending order the five largest activities by gross revenue that were not treated as unrelated trade or business activities for the tax year ending in 2005. Include the letter (A thru E) of the category (table) the activity is listed under and the activity (e.g., A - printed publications, D - bookstore).

- a. _____
- b. _____
- c. _____
- d. _____
- e. _____

| (a) UBI Activity | (b) Part I, Line 1a (Gross Receipts or Sales) | (c) Part I, Line 2 (Cost of Goods Sold) | (d) Part I, Line 13, Column C (Total Net UBI) | (e) Part II, Line 29 (Total Deductions) | (f) Part II, Line 31 (Net Operating Loss Deduction) | (g) Expense Allocation Method (see codes above) |
|--|---|--|---|--|--|--|
| 1. Advertising | | | | | | |
| 2. Facility Rental | | | | | | |
| 3. Arena Rental | | | | | | |
| 4. Recreation Center Usage | | | | | | |
| 5. Athletic Facilities Usage | | | | | | |
| 6. Personal Property Rentals | | | | | | |
| 7. Telecomm Related Rentals | | | | | | |
| 8. Debt Financed Income | | | | | | |
| 9. Catalog Sales | | | | | | |
| 10. Internet Sales | | | | | | |
| 11. Travel Tours | | | | | | |
| 12. Partnership Allocations | | | | | | |
| 13. S-Corp Allocations | | | | | | |
| 14. Working Interest in Oil, Gas, etc. | | | | | | |
| 15. Exclusive Use Contracts | | | | | | |
| 16. Commercial Research | | | | | | |
| 17. Patents | | | | | | |
| 18. Intellectual Property | | | | | | |
| 19. Hotel Operation | | | | | | |
| 20. Conference Center Operation | | | | | | |
| 21. Restaurant Operation | | | | | | |

| (a) UBI Activity | (b) Part I, Line 1a (Gross Receipts or Sales) | (c) Part I, Line 2 (Cost of Goods Sold) | (d) Part I, Line 13, Column C (Total Net UBI) | (e) Part II, Line 29 (Total Deductions) | (f) Part II, Line 31 (Net Operating Loss Deduction) | (g) Expense Allocation Method (see codes above) |
|---|--|--|---|--|--|--|
| 22. Catering Services | | | | | | |
| 23. Food Services | | | | | | |
| 24. Income from Controlled Cigs | | | | | | |
| 25. Credit Card Promotions | | | | | | |
| 26. Computer Services | | | | | | |
| 27. Exploited Exempt Activity Income | | | | | | |
| 28. Bartering | | | | | | |
| 29. Parking Lot Operations | | | | | | |
| 30. Power Generators | | | | | | |
| 31. Bookstore | | | | | | |
| 32. Golf Course | | | | | | |
| List other UBI activities below. | | | | | | |
| 33. | | | | | | |
| 34. | | | | | | |
| 35. | | | | | | |
| 36. | | | | | | |
| 37. | | | | | | |
| 38. | | | | | | |
| TOTAL | | | | | | |
| 39. | [Each column total should equal the amount reported on your Form 990-T.] | | | | | |

28. Using the total expenses reported for ALL activities on your Form 990-T for the tax year ending in 2006 (Part I, Line 29 – Total Deductions), provide a percentage breakdown of direct vs. indirect expenses. If you did not file a Form 990-T for the tax year ending in 2006, provide the breakdown based on your Form 990-T for the year shown in question 27.

a. Direct Expenses _____ %
 b. Indirect Expenses _____ %
 Total _____ 100 %

29. Of the unrelated business income activities included on your Form 990-T for the tax year ending in 2006, list in column a the five that resulted in the largest losses included on line 30 of your Form 990-T, and complete columns b through f for each activity. If you did not file a Form 990-T for the tax year ending in 2006, provide the information based on your Form 990-T for the year shown in question 27.

Column instructions:

- In column b, enter the total income for the activity that was included on line 13, column A of Form 990-T.
- In column c, enter the total deductions for the activity that were included on line 29 of Form 990-T.
- In column d, enter the unrelated business taxable income before net operating loss deduction for the activity that was included on line 30 of Form 990-T.
- In column e, enter the direct expenses for the activity that were included on line 29 of Form 990-T.
- In column f, enter the indirect expenses for the activity that were included on line 29 of Form 990-T.

| | (a) UBI Activity | (b) Line 13, Column A (Total UBI) | (c) Line 29 (Total Deductions) | (d) Line 30 (UBTI before NOL) | (e) Direct Expenses Included in Line 29 (Total Deductions) | (f) Indirect Expenses Included in Line 29 (Total Deductions) |
|----|---------------------|--|--------------------------------------|-------------------------------------|--|---|
| 1. | | | | | | |
| 2. | | | | | | |
| 3. | | | | | | |
| 4. | | | | | | |
| 5. | | | | | | |

30. Of the total expenses reported for ALL activities on your Form 990-T for the tax year ending in 2006 (Part II, Line 29 – Total Deductions), provide a percentage breakdown of inter-company expenses vs. other expenses. If you did not file a Form 990-T for the tax year ending in 2006, provide the breakdown based on your Form 990-T for the year shown in question 27.

a. Expenses paid or accrued to related organizations _____ %
 b. All other expenses _____ %
 Total _____ 100 %

21. For the 2006 tax year, did your organization rely on an independent accountant(s) or counsel to provide advice on any of the following? Check all that apply.

- a. Determine whether activities were unrelated or exempt
- b. Pricing between the organization and its related organizations for expenses incurred in unrelated activities
- c. Allocation of expenses between unrelated and exempt activities
- d. None of the above

SAMPLE

PART III - ENDOWMENT FUNDS

Answer the questions in Part III based on the fiscal year ending in 2006 that you generally used to report endowment amounts and activity to others, such as government regulators.

Generally, endowment funds are used for one or more functions of a college or university. Answer the questions in this part based on all endowments held for the institution's benefit including those held by others such as external parties and related entities.

32. Did your organization have endowment funds? Yes No
33. Did another organization including an institutional foundation, hold or maintain endowment funds on your behalf? Yes No
- If you answered "No" to questions 32 and 33, skip Part III and go to Part IV. Otherwise, go to question 34.
34. If you are a public institution, was your endowment fund(s) managed by your state treasury or other state agency? Yes No

If "Yes," skip to question 46.

35. If you are a private institution or you answered "no" to question 34, answer the following questions:

- a. Did your organization have an investment policy for endowment funds? Yes No
- b. Who managed the investments in your endowment fund(s)? Check all that apply.
 Related entity External party In-house
- c. If you checked "external party," complete the information below for the external parties that managed your largest endowment fund investments. Types of investments include international, hedge funds, etc.

| | Name of External Party | Types of Investments |
|-----|------------------------|----------------------|
| i | | |
| ii | | |
| iii | | |
| iv | | |

36. Did your organization have an investment committee that oversees investment of your endowment fund assets?

Yes No

If "No," skip to question 40.

37. How many individuals were members of the investment committee that oversaw the endowment fund(s)? _____
38. Did the investment committee approve the selection of external parties used to manage the investments in your endowment fund(s)? Yes No
39. Did your investment committee approve investment-guidance recommendations made by outside consultants? Yes No

40. How many individuals were on staff whose primary responsibility was investment management of your endowments? _____
41. Did your institution engage an outside consultant for investment guidance? Yes No
42. How did your organization compensate its internal investment managers? Check all that apply. (See instructions for the definition of each category.)
- a. Wages or Salary
 - b. Asset-Based Fees
 - c. Mutual Fund Fees
 - d. Performance-Based Fees
 - e. Other (describe briefly): _____
43. How did your organization compensate its external investment managers? Check all that apply. (See instructions for the definition of each category.)
- a. Wages or Salary
 - b. Mutual Fund Fees
 - c. Performance-Based Fees
 - d. Asset-Based Fees
 - e. Other (describe briefly): _____
44. Were compensation arrangements for internal investment managers reviewed and approved by a committee of the board or the full board? Yes No
45. Were compensation arrangements for external investment managers reviewed and approved by a committee of the board or the full board? Yes No
- Remember to respond to the endowment questions based on the fiscal year ending in 2006 that you used to report endowment amounts and activities to others.**
46. What was the average amount of your endowment assets per full-time equivalent student? \$ _____
(Endowment assets are the total of all long-term endowments held for the institution's benefit including those held by others such as foundations.)
47. What was the total year end fair market value (FMV) of your endowment assets? \$ _____
- a. Did your investment committee or board adopt a target spending rate for all endowments? Yes No
If "No," skip to question 48.
 - b. If "Yes," did your organization meet the adopted target spending rate? Yes No
 - c. What was your target spending rate? _____ %
48. What was the year end FMV of quasi-endowments? \$ _____ (If not applicable, check here)
(Quasi-endowments are endowment pool investments of which the principal can be spent at the discretion of the institution's trustees. A quasi-endowment contains investments of unrestricted gifts.)
49. What was the year end FMV of term endowments? \$ _____ (If not applicable, check here)
(Term endowments are 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.)
50. What was the year end FMV of true endowments? \$ _____ (If not applicable, check here)
(True endowments are 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.)

51. Indicate whether your institution or a related entity had any of the life income funds listed below ever, if the endowment funds were not used for these purposes or you did not have endowments. (Life income funds are assets donated to the institution usually on the condition that the institution pays a specified amount of income to the donor or designated individuals; for the lifetime, after which the institution has complete ownership of the assets.)

- a. **Charitable Gift Annuities** Yes No
- (i) If Yes, what percent of your endowment was comprised of charitable gift annuities? _____ %
- (ii) Charitable gift annuities are donor purchased annuities with a stipulated amount or percentage of the value paid annually to a designated individual and the rest going to the institution.
- b. **Charitable Remainder Trust** Yes No
- (i) If Yes, what percent of your endowment was comprised of charitable remainder trusts? _____ %
- (ii) A charitable remainder trust is usually an irrevocable trust that pays income to a designated individual(s) until the grantor dies, at which time the remainder passes to the institution.
- c. **Pooled Income Funds** Yes No
- (i) If Yes, what percent of your endowment was comprised of pooled income funds? _____ %
- (ii) A pooled income fund is a fund containing a number of separate gifts or property transfers from which the contributors receive some interest income and transfer the rest to the institution.

52. Did you make foreign investments of endowment funds through an investment entity? Yes No

If Yes, what type of entity did you use for your foreign investments? Check all that apply.

a. Corporation b. Partnership c. Trust d. Limited Liability Company e. Other

53. As of the last day of the fiscal year ending in 2005, what percentage of your endowment assets (total investment pool) was invested in the following areas? (The total should equal 100%)

- a. **Alternatives**
- (i) Hedge Funds _____ %
- (ii) Private Equity _____ %
- (iii) Venture Capital _____ %
- (iv) Natural Resources _____ %
- (v) Other _____ %
- b. **Fixed Income Funds**
- (i) U.S. Fixed Income _____ %
- (ii) Non-U.S. Fixed Income _____ %
- (iii) Other _____ %
- c. **Equity Funds**
- (i) U.S. Equity _____ %
- (ii) Non-U.S. Equity _____ %
- (iii) Other _____ %
- d. **Real Estate**
- (i) Public Real Estate _____ %
- (ii) Private Real Estate _____ %
- e. **International Funds**
- (i) Cash _____ %
- (ii) Other Investments _____ %

54. What is the primary investment objective, e.g. total real return net of investment management fees, for your investment portfolio for the next five year period? a. Less than 5% b. 5%-10% c. 11%-20% d. Greater than 20%

55. Did the board or committee members place restrictions on the purchase or sale of certain securities because of particular donor restrictions or special requests? Yes No

56. In the table below provide information on how your endowment funds were distributed. Remember to use the fiscal year ending in 2008 that you used to report endowment amounts and activities to others.

Column instructions:

- in column a, check the categories that best describe how you used your endowment funds.
- in column b, enter the percentage of your total distributions for each category checked in column a.
- in column c, enter the amount distributed for each category checked in column a.
- in column d, enter the percentage of distributions that were restricted by the donor for each category checked in column a.
- in column e, enter the percentage of distributions that were restricted by your board or committee for each category checked in column a.

| | (a) Categories of Use | (b) Percent of Total Distributions | (c) Amount Distributed | (d) Restricted by Donor | (e) Restricted by Board or Committee |
|----|--|---------------------------------------|---------------------------|----------------------------|---|
| 1. | Scholarships, Awards, Grants and/or Loans | % | | % | % |
| 2. | Public Service | % | | % | % |
| 3. | Research | % | | % | % |
| 4. | Administrative Support (Discretionary) | % | | % | % |
| 5. | General Education Support and/or Libraries | % | | % | % |
| 6. | General University Operations | % | | % | % |
| 7. | Chairs, Professorships | % | | % | % |
| 8. | Other | % | | % | % |
| | Total Dollars Distributed | 100% | \$ | | |

57. List the top five restrictions (i.e., fellowships, grants of research, special student activity, student aid, loan funds) placed on endowments by donors or board/committee members.

| | Restrictions |
|----|--------------|
| a. | |
| b. | |
| c. | |
| d. | |
| e. | |

58. Did your organization monitor endowment distributions to ensure that they were used for the donor's intended purposes?

Yes No

If Yes, how did you monitor the distributions? Check all that apply

- a. Reports (monthly, quarterly or annual)
- b. Financial audits on distributions
- c. Other - describe

59. What was your policy on disbursements made from the endowment fund that were not used in the fiscal year of disbursement?

Check all that apply.

- a. Amount applied to following year
- b. Amount returned to endowment fund
- c. Amount placed into general operating account for general use
- d. Other - describe

PART IV – EXECUTIVE COMPENSATION

Please respond to all executive compensation questions based on the calendar year 2006.

63. Enter the information requested in the table below for the six (6) highest paid officers, directors, trustees, and key employees of your college or university. To determine highest paid, add the amounts reported on Form(s) W-2, box 5 and Form(s) 1099-MISC, box 7 for 2006. (See the instructions of the individuals not subject to Medicare taxes.)

Column instructions:

- In column a, enter the name of the officer, director, trustee or key employee.
- In column b, enter the appropriate alpha code from the list below that describes the title of the individual.
- In column c, enter the compensation reported on Form(s) W-2, box 5 and Form(s) 1099-MISC, box 7 from your organization.
- In column d, enter the compensation reported on Form(s) W-2, box 5 and Form(s) 1099-MISC, box 7 from any related organization(s).
- In column e, enter the number of related organizations that reported compensation for the individual.

- A = CEO
- B = Chancellor/President
- C = Executive Director
- D = CFO
- E = Treasurer/Vice President
- F = Key Employee
- G = Dean of School
- H = Institutional Trustee
- I = Individual Trustee
- J = Other Officer
- K = Other Director
- L = Other – Indicate the in space provided

| | (a) Name | (b) Title (See codes above) | (c) Compensation from Your Organization | (d) Compensation from Related Organizations | (e) No. of Related Organizations |
|---|-------------|-----------------------------------|---|--|--|
| 1 | | | | | |
| 2 | | | | | |
| 3 | | | | | |
| 4 | | | | | |
| 5 | | | | | |
| 6 | | | | | |

6). Complete the table below based on the six (6) individuals you identified in question 6). Be sure the number of the person matches the number of the person identified in question 6). For each type of remuneration including the deferred compensation items report the aggregate amount from your college or university and all related organizations. For all types of deferred compensation participants contributions include pre-tax contributions made by the person (participant), such as elective deferrals to 401(k), 403(b), or 457 plans. Report deferred compensation even if the person was not vested.

| Type of Remuneration | Person 1 | Person 2 | Person 3 | Person 4 | Person 5 | Person 6 |
|--|----------|----------|----------|----------|----------|----------|
| a. Individual's base salary | | | | | | |
| b. Bonus | | | | | | |
| c. Contributions to employee benefit plans (e.g. health benefit) | | | | | | |
| d. Incentives (including short term and long term) | | | | | | |
| e. Contributions to life, disability and/or long term care insurance | | | | | | |
| f. Self-directed life insurance (premiums paid by organization) | | | | | | |
| g. Loans/credit extension (forgone interest or debt forgiveness) | | | | | | |
| h. Stock or stock options - equity-based compensation | | | | | | |
| i. Severance or change of control payments | | | | | | |
| j. Personal use of organization credit card (not reimbursed by person) | | | | | | |
| k. Personal use of organization owned or leased vehicles | | | | | | |
| l. Personal travel for the person or a spouse/family member (not reimbursed by the person) | | | | | | |
| m. Expense reimbursements (not-accountable plan) | | | | | | |
| n. Value of organization provided housing and utilities | | | | | | |
| o. Value of organization provided vacation home | | | | | | |

| Type of Remuneration | Person 1 | Person 2 | Person 3 | Person 4 | Person 5 | Person 6 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| f. Personal services provided (e.g., housekeeper, lawn service, maintenance or repair services) at person's residence | | | | | | |
| g. Other personal services provided (e.g., legal, financial, retirement) | | | | | | |
| h. Health/social club dues | | | | | | |
| i. Personal use of organization-owned aircraft or boat | | | | | | |
| j. First-class travel | | | | | | |
| k. Scholarships and fellowship grants (taxable) | | | | | | |
| l. Other executive fringe benefits (other than section 132 fringes) | | | | | | |
| m. Other compensation (not otherwise classified above) | | | | | | |
| Contributions to Deferred Compensation Plans | Person 1 | Person 2 | Person 3 | Person 4 | Person 5 | Person 6 |
| x. Organization's contributions to an IRC 401(a) plan | | | | | | |
| y. Participant's contributions to an IRC 401(a) plan | | | | | | |
| z. Organization's contributions to an IRC 403(b) plan | | | | | | |
| aa. Participant's contributions to an IRC 403(b) plan | | | | | | |
| ab. Organization's contributions to an IRC 457(b) plan | | | | | | |
| ac. Participant's contributions to an IRC 457(b) plan | | | | | | |
| ad. Organization's contributions to an IRC 457(f) plan | | | | | | |
| ae. Participant's contributions to an IRC 457(f) plan | | | | | | |
| af. Organization's contributions to IRC 415(m) qualified government rental excess benefit arrangements | | | | | | |
| ag. Participant's contributions to IRC 415(m) qualified governmental excess benefit arrangements | | | | | | |
| ah. Other deferred compensation arrangements, whether qualified or unqualified | | | | | | |

Answer questions 62 through 74 in the table below for each person identified in question 50 including that person's family members. Be sure the number of the person matches the number of the person identified in question 60. See the instructions for a chart of person's family members.

| Loan/Extension of Credit Questions | Person 1 | Person 2 | Person 3 | Person 4 | Person 5 | Person 6 | |
|--|---|---|---|---|---|---|---|
| 62 Did your organization provide loans and/or extensions of credit to the person? | Yes <input type="checkbox"/> No <input type="checkbox"/> | |
| 63 How was the agreement for loans and/or extensions of credit to the person made? | Written <input type="checkbox"/> Verbal <input type="checkbox"/> Neither <input type="checkbox"/> | |
| 64 Did your organization maintain written documents relating terms, payments, and interest rates for all loans or extensions of credit to the person? | Yes <input type="checkbox"/> No <input type="checkbox"/> | |
| 65 Were all loans or credit extensions approved by Board members? | Yes <input type="checkbox"/> No <input type="checkbox"/> | |
| 66 Did the person make cash payments according to a specified repayment schedule? | Yes <input type="checkbox"/> No <input type="checkbox"/> | |
| 67 If "No" to question 66, what events would trigger the person's repayment of loans or extensions of credit? | Termination <input type="checkbox"/> Retirement <input type="checkbox"/> Asset Sale <input type="checkbox"/> Other Event <input type="checkbox"/> None above <input type="checkbox"/> | Termination <input type="checkbox"/> Retirement <input type="checkbox"/> Asset Sale <input type="checkbox"/> Other Event <input type="checkbox"/> None above <input type="checkbox"/> | Termination <input type="checkbox"/> Retirement <input type="checkbox"/> Asset Sale <input type="checkbox"/> Other Event <input type="checkbox"/> None above <input type="checkbox"/> | Termination <input type="checkbox"/> Retirement <input type="checkbox"/> Asset Sale <input type="checkbox"/> Other Event <input type="checkbox"/> None above <input type="checkbox"/> | Termination <input type="checkbox"/> Retirement <input type="checkbox"/> Asset Sale <input type="checkbox"/> Other Event <input type="checkbox"/> None above <input type="checkbox"/> | Termination <input type="checkbox"/> Retirement <input type="checkbox"/> Asset Sale <input type="checkbox"/> Other Event <input type="checkbox"/> None above <input type="checkbox"/> | Termination <input type="checkbox"/> Retirement <input type="checkbox"/> Asset Sale <input type="checkbox"/> Other Event <input type="checkbox"/> None above <input type="checkbox"/> |
| 68 Did all loan agreements, interest rates meet the requirements of the Applicable Federal Rate (AFR) described in IRC section 6621? This generally is the rate applicable on the date each loan was made. | Yes <input type="checkbox"/> No <input type="checkbox"/> | |
| 69 If "No" to question 68, was interest charged above or below the AFR rate or comparable to the rate a bank would charge for similar loans? | Above <input type="checkbox"/> Below <input type="checkbox"/> Bank Rate <input type="checkbox"/> | Above <input type="checkbox"/> Below <input type="checkbox"/> Bank Rate <input type="checkbox"/> | Above <input type="checkbox"/> Below <input type="checkbox"/> Bank Rate <input type="checkbox"/> | Above <input type="checkbox"/> Below <input type="checkbox"/> Bank Rate <input type="checkbox"/> | Above <input type="checkbox"/> Below <input type="checkbox"/> Bank Rate <input type="checkbox"/> | Above <input type="checkbox"/> Below <input type="checkbox"/> Bank Rate <input type="checkbox"/> | |

| Loan/Extension of Credit Questions | Person 1 | Person 2 | Person 3 | Person 4 | Person 5 | Person 6 |
|--|---|---|---|---|---|---|
| 70. Was security collateral provided for the loans and/or credit extensions? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 71. Was any portion of loans or extensions of credit to the person considered compensation for services performed? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 72. If "Yes" to question 71, on what form did you report the person's loans or credit extensions? | W-2 <input type="checkbox"/> 1099 <input type="checkbox"/> Not Rpt <input type="checkbox"/> | W-2 <input type="checkbox"/> 1099 <input type="checkbox"/> Not Rpt <input type="checkbox"/> | W-2 <input type="checkbox"/> 1099 <input type="checkbox"/> Not Rpt <input type="checkbox"/> | W-2 <input type="checkbox"/> 1099 <input type="checkbox"/> Not Rpt <input type="checkbox"/> | W-2 <input type="checkbox"/> 1099 <input type="checkbox"/> Not Rpt <input type="checkbox"/> | W-2 <input type="checkbox"/> 1099 <input type="checkbox"/> Not Rpt <input type="checkbox"/> |
| 73. Did the organization forgive any of the person's loans or indebtedness during the year? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 74. If "Yes" to question 73, on what form did you report the person's forgiveness of indebtedness? | W-2 <input type="checkbox"/> 1099 <input type="checkbox"/> Not Rpt <input type="checkbox"/> | W-2 <input type="checkbox"/> 1099 <input type="checkbox"/> Not Rpt <input type="checkbox"/> | W-2 <input type="checkbox"/> 1099 <input type="checkbox"/> Not Rpt <input type="checkbox"/> | W-2 <input type="checkbox"/> 1099 <input type="checkbox"/> Not Rpt <input type="checkbox"/> | W-2 <input type="checkbox"/> 1099 <input type="checkbox"/> Not Rpt <input type="checkbox"/> | W-2 <input type="checkbox"/> 1099 <input type="checkbox"/> Not Rpt <input type="checkbox"/> |

Public colleges and universities STOP, you do NOT need to complete the rest of this questionnaire. Please follow the instructions in the accompanying letter for returning the questionnaire to us.

Questions 75 through 84 ask about the process your organization used to establish the compensation of certain management officials. By asking these questions, the IRS is not inferring that a particular process referred to in a question is considered a "best practice" or superior to another process (e.g., using an outside compensation consultant instead of an internal compensation expert) to determine the range of reasonable compensation). See the instructions for more information.

Remember to use calendar year 2006 to answer these questions.

75. Did your organization have a formal written compensation or policy that governed compensation of all least some of your officers, directors, trustees, or key employees? Yes No

76. If "Yes" what was the effective date of that policy? _____ (Use mm/dd/yyyy format)

77. Did your organization hire an outside executive compensation consultant to provide comparable compensation data to determine the compensation of any of your officers, directors, trustees, or key employees? Yes No

78. If "Yes" to question 77, did the executive compensation consultant provide other services to your organization? Yes No

79. Refer to question 78. Briefly describe the nature of the other services:

80. Who in your college/university sets the compensation for the following positions? Check all that apply.

| | (a) Officers | (b) Board of Directors | (c) Compensation Committee | (d) Other | (e) If Other, please describe |
|------------------|--------------------------|---------------------------|-------------------------------|--------------------------|----------------------------------|
| 1. Officers | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 2. Directors | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 3. Trustees | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 4. Key Employees | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |

Answer 31 through 94 based on the s. x. (6) individuals you identified in question 60. Be sure the number of the person matches the number of the person identified in question 60.

| | Person 1 | Person 2 | Person 3 | Person 4 | Person 5 | Person 6 |
|--|--|--|--|--|--|--|
| 81. Did the person have an employment or independent contractor agreement with your organization? If No, go to question 83. | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 82. What type of employment or independent contractor agreement did the person have with your organization? | Written <input type="checkbox"/> Verbal <input type="checkbox"/> None <input type="checkbox"/> |
| 83. Did the organization use a process intended to satisfy the rebuttable presumption procedure of section 4956 to determine compensation of the person? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 84. Did the organization document the basis for setting the person's compensation before the person received the compensation? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 85. Were fixed payments to the person made pursuant to the written contract, exception of RC 4956? (See Regulator section 53.4956-4(a)(3)(ii) for more information.) | Yes <input type="checkbox"/> No <input type="checkbox"/> |

| | Person 1 | Person 2 | Person 3 | Person 4 | Person 5 | Person 6 |
|----|---|---|---|---|---|---|
| 86 | Was the person a equalized person immediately prior to entering into the employment or independent contractor arrangement with your organization? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 87 | Was the person's compensation approved by the Board of Directors or other authorized governing body that did not have a conflict of interest? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 88 | Did the person excuse himself from discussions on his/her own compensation? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 89 | Did the person excuse himself from voting on his/her own compensation? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 90 | Did the organization utilize an independent compensation comparability survey that was used in setting the person's compensation? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 91 | If "Yes" to question 90, was the person's compensation set within the range of the comparability survey data? | Yes <input type="checkbox"/> No <input type="checkbox"/> |
| 92 | If "Yes" to question 91, what percentage from the comparability survey data was used to determine the person's compensation? | % <input type="text"/> |

93 Check the factors that were included in the comparability data and used by your organization or by any outs de compensation consultants retained by your organization. In setting each person's compensation, Check all that apply.

| Compensation Factors | Person 1 | Person 2 | Person 3 | Person 4 | Person 5 | Person 6 |
|---|---|---|---|---|---|---|
| a. Compensation levels paid by similar organizations | Taxable <input type="checkbox"/> Tax-Exempt <input type="checkbox"/> |
| b. Level of person's education and experience | <input type="checkbox"/> |
| c. Specific responsibilities of position | <input type="checkbox"/> |
| d. Previous salary or compensation package | <input type="checkbox"/> |
| e. Similar services in the same geographic or metropolitan area | <input type="checkbox"/> |

| Compensation Factors | Person 1 | Person 2 | Person 3 | Person 4 | Person 5 | Person 6 |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| f. Similar number of employees | <input type="checkbox"/> |
| g. Similar number of students | <input type="checkbox"/> |
| h. Annual budget and/or gross revenues/assets | <input type="checkbox"/> |
| i. Nature of curriculum (e.g., 2 yr. vs. 4 yr.; undergraduate vs. graduate) | <input type="checkbox"/> |
| j. Other factors - briefly describe | | | | | | |

94 Indicate the sources used, including those used by outside compensation consultants retained by your organization, to obtain comparability data for each person's compensation. Check all that apply.

| Compensation Sources | Person 1 | Person 2 | Person 3 | Person 4 | Person 5 | Person 6 |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| a. Published surveys of compensation at similar institutions | <input type="checkbox"/> |
| b. Internet research or compensation at similar institutions | <input type="checkbox"/> |
| c. Phone surveys of compensation at similar institutions | <input type="checkbox"/> |
| d. Outside expert hired specifically to provide comparable compensation data and report | <input type="checkbox"/> |
| e. Report prepared by an expert compensation analyst employed by your organization | <input type="checkbox"/> |
| f. Written offers of employment from similar institutions | <input type="checkbox"/> |
| g. Forms 990 filed by other colleges and universities | <input type="checkbox"/> |
| h. Annual budget or gross revenues/assets | <input type="checkbox"/> |

| | Person 1 | Person 2 | Person 3 | Person 4 | Person 5 | Person 6 |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Nature of curriculum (e.g. 2yr. vs. 4yr. undergraduate vs. graduate) | <input type="checkbox"/> |
| Other sources - briefly describe | | | | | | |

Note: If you need more space to respond to a particular question, attach additional sheets and reference the question number. Please do not submit any books or records.

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