

Instructions for Compliance Questionnaire Colleges and Universities



Department of the Treasury
Internal Revenue Service

GENERAL INFORMATION

Form 14018, *Compliance Questionnaire – Colleges and Universities*, asks for information about your college or university and how it operates. Each “Part” of the questionnaire has instructions for how to answer the questions in that particular part

There are three ways to complete the questionnaire:

1. Use the enclosed CD that contains an electronic version of the questionnaire;
2. Download the questionnaire from IRS.gov by going to http://www.irs.gov/pub/irs-tege/cucp_questionnaire.pdf, or
3. Complete the enclosed paper questionnaire.

Go to <http://www.adobe.com/products/acrobat/readstep2.html> if you need the latest version of Adobe reader.

Complete the questionnaire and return it to us following the instructions in the accompanying letter. Please limit your responses to the information requested. **Do not** send books or records with your response.

Below are definitions, references and additional instructions for the questionnaire. The first column lists the question number and the second column contains the definition, reference or instruction.

Question Number	Definitions, References, and Additional Instructions
13, 18, 23E, 24, 25, 93 and 94	<p>Gross Assets are resources owned by your organization with future economic value that can be measured and expressed in dollars. The amount for gross assets is before reductions for related liabilities such as allowances for doubtful accounts, accumulated depreciation etc. Examples of assets to include are cash, investments, accounts receivable, inventory, supplies, land, buildings, equipment and vehicles.</p> <p>Net Assets are your gross assets less any related liabilities.</p> <p>Gross Revenue is gross receipts before reductions for related expenses.</p> <p>Total Expenses are all expenses related to your gross receipts that were paid or accrued during the tax year.</p>
15 and 16	<p>United States includes the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, Guam, American Samoa, and the United States Virgin Islands.</p>
17 and 60	<p>For individuals not subject to Medicare taxes*, use the compensation reported on Form(s) W-2, box 1, plus any deferred compensation or other forms of compensation that are generally subject to Medicare taxes but excluded from Federal income tax.</p> <p>For a definition of officer, director, trustee and key employee, see below under question number 60.</p> <p>*Individuals who have worked for the same governmental employer since March 31, 1986, including breaks in service, and are not covered by a Section 218 Agreement are not subject to Medicare taxes.</p>

Question Number	Definitions, References and Additional Instructions
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17,18,19, 21, 23, 30, 31, 35, 51, 60 and 61	<p>Related Organizations (Related Entity) - An organization is related to (affiliated with) your organization if it is a:</p> <ul style="list-style-type: none"> • Parent – organization that owns or controls (defined later) your organization. • Subsidiary – organization that your organization owns or controls, including disregarded entities. • Brother/Sister – organization that is controlled by the same parent that controls your organization. • Supporting/Supported – organization that supports (or claims to support) your organization within the meaning of section 509(a)(3) if your organization is a supported organization within the meaning of section 509 (f)(3), or an organization that your organization supports. <p>Other examples of related organizations include:</p> <ul style="list-style-type: none"> • An organization that uses a common paymaster. For a definition of common paymaster and examples, see Regulations section 31.3121(s)-1(b). • An organization that pays part of the compensation that your organization would otherwise be contractually obligated to pay. • An organization that conducts joint programs or shares facilities or employees with your organization. <p>Control - For nonprofit organizations, “control” means:</p> <ul style="list-style-type: none"> • Power to appoint, elect or ratify a majority of the organization’s directors or trustees, or • Management overlap where a majority of the controlled entity’s directors or trustees are trustees, directors, officers, employees, or agents of the controlling organization. <p>Control under Internal Revenue Code (IRC) section 512(b)(13)(D), means:</p> <ul style="list-style-type: none"> • Ownership (by vote or value) of more than 50 percent of the stock in a corporation, • Ownership of more than 50 percent of the profits interests or capital interests in a partnership, or • Ownership of more than 50 percent of the beneficial interests in an entity. <p>Control includes indirect control. For example, if your organization controls Entity A, which in turn controls Entity B, your organization indirectly controls Entity B. Rules under section 318 (relating to constructive ownership of stock) apply for purposes of determining constructive ownership of a corporation or other entity.</p> <p>A central or parent organization of a group of organizations that has a group ruling controls the subordinate or local organizations.</p> <p>For stock corporations and other organizations (taxable or tax-exempt) with owners or persons having beneficial interests, “control” means:</p> <ul style="list-style-type: none"> • Ownership of more than 50% of the stock (by voting power or value) of a corporation, • Ownership of more than 50% of the profits or capital interest in a partnership, • Ownership of more than 50% of the profits or capital interest in a limited liability company, regardless of whether the entity is treated as a corporation or a partnership for federal tax purposes or the designation of the interests as stock, membership interests, or otherwise under state law,
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Question Number	Definitions, References and Additional Instructions
	<ul style="list-style-type: none"> • Being a managing partner or managing member in a partnership or limited liability company that has three or fewer managing partners or managing members (regardless of which partner or member has the most actual control), • Being a general partner in a limited partnership that has three or fewer general partners (regardless of which partner has the most actual control), • Being the sole member of a disregarded entity, or • Ownership of more than 50% of the beneficial interest in a trust. <p>See Regulations sections 301.7701-2, 3, and 4 for more information on classification of corporations, partnerships, disregarded entities, and trusts.</p>
18	<p>Direct Controlling Entity is the entity that is directly above the related entity. For example, if your organization controls Entity A and Entity A controls Entity B then Entity A directly controls Entity B.</p>
20, 21, 22, 23	<p>Controlling Organization or Controlled Entity has the meaning described in section 512(b)(13). See the definition above under “Control.”</p>
23 thru 31	<p>If you are part of a “university system” and you did not file your own Form 990-T but instead filed as part of the “university system’s” Form 990-T, answer questions 23 thru 31 based on what you reported to the “university system” for the tax year ending in 2006. Do not check the box in question 26 unless the “university system” never filed a Form 990-T. For question 27, the total of each column will not match the total that was reported on the university system’s Form 990-T.</p> <p>For information on unrelated business taxable income including definitions, examples of activities and exclusions to unrelated business taxable income, see Publication 598, <i>Tax on Unrelated Business Income of Exempt Organizations</i>, or IRC sections 511 through 514.</p> <p>A list of the explanation codes to use in column “c” of the table in Question 23 is at the end of these instructions.</p>
28 and 29	<p>Direct Expenses means salaries and benefits, supplies, and other expenses directly related to the actual conduct of the activities.</p> <p>Indirect Expenses are expenses that are shared by multiple activities or programs, such as facilities and administration costs related to the organization’s infrastructure (e.g., space, utilities, custodial services, security, information systems, administration, materials management, and others).</p>
32 thru 59	<p>Endowment Funds include quasi endowment, term endowment and true endowment. See questions 48, 49 and 50 respectively for a definition of each type of endowment.</p> <p>External Party means someone other than your organization or a related organization.</p>
42 and 43	<p>Wages or Salary is compensation received by employees for services performed. Wages are usually based on an hourly pay rate, and salaries are a fixed sum paid for a specific period (monthly, quarterly, annually).</p> <p>Asset-based fees are fees that are set according to the asset size of the portfolio (e.g. advisement and management fees).</p> <p>Mutual-fund fees are fees such as sales commissions, loads, and annual 12b-1 fees.</p>

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	<p>Performance-based fees are fees that are based on a manager’s ability to outperform a targeted return rate or performance goal. These fees may include a base fee, a normal fee for meeting expectations, and a maximum fee for exceeding expectations.</p>
60, 75, 77 and 80	<p>In determining your organization’s highest paid officers, directors, trustees and key employees, include any person who is in a position to exercise substantial influence (described below) over the affairs of the college or university.</p> <p>For individuals not subject to Medicare taxes, see the instructions under question 17 above.</p> <p>Treat amounts paid by a common paymaster for services performed for your organization as paid directly by your organization. Treat amounts paid by a common paymaster for services performed for a related organization (defined earlier) as paid directly by the related organization.</p> <p>A person has substantial influence over the affairs of your college or university if:</p> <ul style="list-style-type: none"> a) The person, regardless of title, has ultimate responsibility for implementing the decisions of the governing body or for supervising the management, administration, or operation of the organization (e.g., presidents, chief executive officers, or chief operating officers). b) The person, regardless of title, has ultimate responsibility for managing the finances of the organization (e.g., treasurers and chief financial officers). c) The person founded the organization. d) The person is a substantial contributor to the organization (within the meaning of IRC section 507(d)(2)(C)). e) The person’s compensation is based primarily on revenues derived from activities of the organization or of a particular department or function of the organization, that the person controls. f) The person has or shares authority to control or determine a substantial portion of the organization’s capital expenditures, operating budget, or compensation for employees. g) The person manages a discrete segment or activity of the organization that represents a substantial portion of the activities, assets, income, or expenses of the organization, as compared to the organization as a whole. <p>Officer – An officer is a person elected or appointed to manage the organization’s daily operations, such as a president, vice-president, secretary, or treasurer. The officers of an organization are determined by reference to its organizing document, bylaws, or resolutions of its governing body.</p> <p>Director or Trustee – A director or trustee is a member of the organization’s governing body that has voting rights. Members of advisory boards that do not exercise any governance authority over the organization are not considered directors or trustees.</p> <p>Do not include an institutional trustee. An institutional trustee is not an individual or natural person but rather an organization. For example, a bank or trust company serving as the trustee of a trust is an institutional trustee.</p>

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	<p>Key Employees – A key employee is an employee of the organization (other than an officer, director, or trustee) who has responsibilities, powers or influence over the organization similar to those of officers, directors, or trustees.</p> <p>Key employees include the chief management and administrative officials of an organization (such as an executive director or chancellor). A chief financial officer and the officer in charge of administration or program operations are key employees if they have the authority to control the organization’s activities, or its finances.</p>
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61	<p>Types of Remuneration:</p> <p>Bonus – Includes all discretionary payments based on satisfaction of a performance target, and certain amounts paid at the beginning of a contract before services were rendered (i.e., signing bonus).</p> <p>Employee benefit plans – Includes payments to welfare benefit plans on behalf of the person. For this purpose, health benefits provided by the organization include premium payments, medical reimbursements and flexible spending programs, and employer self-insurance. Health benefits include medical, dental, optical, drug and medical equipment.</p> <p>Incentives – Include amounts that are paid or accrued during the year as part of an incentive plan, regardless of whether the incentive plan is annual or long-term. An <i>incentive plan</i> is any plan providing compensation intended to serve as incentive for performance to occur over a specified period.</p> <p>Life Insurance/Split-Dollar Life – For a detailed description, see Regulation sections 1.79-1 and 1.61-22 respectively.</p> <p>Stock, stock options (equity based compensation) – Include the amount the person received from your organization or a related organization for equity-based compensation (such as stock, stock options, stock appreciation rights, phantom stock, restricted stock, or shadow stock). Also include the amount based on participation in any equity compensation plan or arrangement sponsored by your organization or a related organization, whether the compensation is determined by reference to an equity interest in a partnership, limited liability company, or corporation. For information on options, see Regulation section 1.61-15.</p> <p>Severance or change of control payments – Include payments to the person for severance or change-of-control arrangements. A severance payment is made because of termination of employment. A payment under a change-of-control arrangement is made when the person is terminated or has a change in the terms of his or her employment because of a change in control of the organization. Treat any payment to a current or former officer, director, trustee, or employee in satisfaction or settlement of a claim for wrongful termination or demotion as severance.</p> <p>Personal services - Include personal services provided for the benefit of the person or the person’s family or friends. Include services that are provided regularly (full-time or part-time) or as needed, whether provided by an employee of the organization or independent contractor (an individual or an organization). Examples of personal services are a babysitter,</p>
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	<p>bodyguard, butler, chauffeur, chef, concierge or other person who regularly runs non-incident personal errands, escort, financial planner, handyman, landscaper, lawyer, maid, masseur/masseuse, nanny, personal trainer, personal advisor or counselor, pet sitter, physician or other medical specialist, tax preparer, and tutor for non-business purposes.</p> <p>Health or social club dues - Include any membership dues paid by the organization for the person's membership in a health or fitness club or a social or recreational club, even if the club is tax-exempt. "Dues" include entrance fees, periodic fees, and fees paid to use the facility. Health club dues do not include the value of an on-premises athletic facility (described in section 132(j)(4)), or the college or university's athletic facility that is available for use by its students, faculty, and employees.</p> <p>First-class travel - If your organization paid for first-class travel for the person or his or her companion(s), include the difference between the cost of first-class airline or boat travel over the lower class fare. Do not include the value of bump-ups to first class where there is no cost to the organization. First-class travel also includes any travel on an airplane or boat that is owned or leased by the organization.</p> <p>Fringe benefits – Include any other fringe benefits your organization provided that are not specifically excluded by a section of the Internal Revenue Code. For more information on fringe benefits see Regulation section 1.61-21.</p> <p>Working condition fringe – A working condition fringe is any property or service provided to an employee to the extent that, if the employee paid for the property or service, the payment would be deductible by the employee as an ordinary and necessary business expense or depreciation. In some cases, property provided to employees may be used partly for business and partly for personal purposes, such as automobiles. In that case the value of the personal use of such property is taxable compensation, and the value of the use for business purposes is a working condition fringe benefit.</p> <p>See Publication 15, (<i>Circular E</i>), <i>Employer's Tax Guide</i>, Publication 15-B, <i>Employer's Tax Guide to Fringe Benefits</i>, and Regulation section 1.61-21 for additional information on fringe benefits.</p> <p>Deferred compensation – Compensation that is earned or accrued in, or is attributable to, one year but deferred to a future year for any reason, whether or not funded, vested or subject to a substantial risk of forfeiture.</p> <p>Under "organization's contributions," include the aggregate amount of contributions made by the college or university and any related organizations to the person's deferred compensation plan(s) for calendar year 2006.</p> <p>Under "participant's contributions," include any pre-income tax contributions made by the person (participant), such as elective deferrals to 401(k), 403(b) or 457 plans, but exclude after-tax contributions.</p> <p>Report deferred compensation even if the person was not vested.</p>
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Question Number	Definitions, References and Additional Instructions
	<p>Nonqualified deferred compensation plans include section 457 (including 457(b) and (f)) and 403(b) plans, and qualified governmental excess benefit arrangements under IRC 415(m).</p> <p>Qualified plans are plans under IRC 401(a), such as 401(k) plans.</p>
62 thru 74	<p>Family members – A person's family is limited to spouse; brothers or sisters (by whole or half blood); spouses of brothers or sisters (by whole or half blood); ancestors; children; grandchildren; great grandchildren; and spouses of children, grandchildren, and great grandchildren. A legally adopted child of an individual is treated as a child of such individual by blood.</p>
75 thru 94	<p>Questions 75 thru 94 apply ONLY to private colleges and universities. Do not complete this portion of the questionnaire if you are a public college or university. Instead follow the instructions in the accompanying letter for returning the questionnaire to us.</p> <p>Questions 75 thru 94 ask about the process your private college or university used to establish the compensation of certain management officials. For information on excess benefit transactions see IRC section 4958, which applies to section 501(c)(3) and 501(c)(4) organizations that are tax-exempt under section 501(a). Such organizations may, but are not required to, avail themselves of the rebuttable presumption procedures described in Regulation section 53.4958-6 to establish compensation of its disqualified persons.</p> <p>For information on reasonable compensation, see Regulation section 53.4958-4(b)(1)(ii)(B). For a definition of disqualified person for section 501(c)(3) organizations, see Regulation section 53.4958-3.</p> <p>Compensation consultant – A person, independent of the organization, that holds himself or herself out to the public as a compensation expert or performs valuations of non-profit executive compensation packages on a regular basis, and is qualified to make valuations of the type of services provided.</p> <p>The consultant is independent if he or she does not have a family or business relationship with the officers, directors, trustees and key employees, and if a majority of the consultant's compensation appraisals, made during the consultant's taxable year, are performed for persons other than the organization and/or related organizations, even if the consultant's firm also provides tax and audit services to the organization.</p>
85	<p>Initial contract is a binding written contract between your organization and a person who was not a disqualified person within the meaning of IRC section 4958(f)(1) immediately prior to entering into the contract. For more information on initial contract, see Regulation section 53.4958-4(a)(3).</p> <p>Fixed payment is an amount of cash or other property specified in the contract, or determined by a fixed formula specified in the contract, which is to be paid or transferred in exchange for specified services or property.</p>

TABLE OF EXPLANATION CODES (QUESTION 23)

Choose the appropriate explanation code* from the list below and enter it in the appropriate row of question 23 column “c” if you indicated in column “b” that none or part of the income from the activity was UBI.

CODE	EXPLANATION
00	Substantially related
01	Income from an activity that is not regularly carried on (section 512(a)(1))
02	Income from an activity in which labor is a material income-producing factor and substantially all (at least 85%) of the work is performed with unpaid labor (section 513(a)(1))
03	Section 501(c)(3) organization—Income from an activity carried on primarily for the convenience of the organization’s members, students, patients, visitors, officers, or employees (hospital parking lot or museum cafeteria, for example) (section 513(a)(2))
05	Income from the sale of merchandise, substantially all of which (at least 85%) was donated to the organization (section 513(a)(3))
06	Section 501(c)(3), (4), or (5) organization conducting an agricultural or educational fair or exposition—Qualified public entertainment activity income (section 513(d)(2))
07	Section 501(c)(3), (4), (5), or (6) organization—Qualified convention and trade show activity income (section 513(d)(3))
12	Income from the distribution of low-cost articles in connection with the solicitation of charitable contributions (section 513(h))
13	Income from the exchange or rental of membership or donor list with an organization eligible to receive charitable contributions by a section 501(c)(3) organization; by a war veterans’ organization; or an auxiliary unit or society of, or trust or foundation for, a war veterans’ post or organization (section 513(h))
14	Dividends, interest, payments with respect to securities loans, annuities, income from notional principal contracts, loan commitment fees, and other substantially similar income from ordinary and routine investments excluded by section 512(b)(1)
15	Royalty income excluded by section 512(b)(2)
16	Real property rental income that does not depend on the income or profits derived by the person leasing the property and is excluded by section 512(b)(3)
17	Rent from personal property leased with real property and incidental (10% or less) in relation to the combined income from the real and personal property (section 512(b)(3))
18	Gain (or loss, to the extent allowed) from the sale of investments and other non-inventory property and from certain property acquired from financial institutions that are in conservatorship or receivership (sections 512(b)(5) and 512(b)(16)(A))
19	Income or loss from the lapse or termination of options to buy or sell securities, or real property, and from the forfeiture of good-faith deposits for the purchase, sale, or lease of investment real property (section 512(b)(5))
20	Income from research for the United States, its agencies or instrumentalities, or any state or political subdivision (section 512(b)(7))

CODE	EXPLANATION
21	Income from research conducted by a college, university, or hospital section 512(b)(8))
22	Income from research conducted by an organization whose primary activity is conducting fundamental research, the results of which are freely available to the general public (section 512(b)(9))
23	Income from services provided under license issued by a Federal regulatory agency and conducted by a religious order or school operated by a religious order, but only if the trade or business has been carried on by the organization since before May 27, 1959 (section 512(b)(15))
30	Income exempt from debt-financed (section 514) provisions because at least 85% of the use of the property is for the organization's exempt purposes. (Note: This code is only for income from the 15% or less non-exempt purpose use.) (section 514(b)(1)(A))
31	Gross income from mortgaged property used in research activities described in section 512(b)(7), (8), or (9) (section 514(b)(1)(C))
32	Gross income from mortgaged property used in any activity described in section 513(a)(1), (2), or (3) (section 514(b)(1)(D))
33	Income from mortgaged property (neighborhood land) acquired for exempt purpose use within 10 years (section 514(b)(3))
34	Income from mortgaged property acquired by bequest or devise (applies to income received within 10 years from the date of acquisition) (section 514(c)(2)(B))
35	Income from mortgaged property acquired by gift where the mortgage was placed on the property more than 5 years previously and the property was held by the donor for more than 5 years (applies to income received within 10 years from the date of gift) (section 514(c)(2)(B))
36	Income from property received in return for the obligation to pay an annuity described in section 514(c)(5)
37	Income from mortgaged property that provides housing to low and moderate income persons to the extent the mortgage is insured by the Federal Housing Administration (section 514(c)(6))
38	Income from mortgaged real property owned by: a school described in section 170(b)(1)(A)(ii); a section 509(a)(3) affiliated support organization of such a school; a section 501(c)(25) organization, or by a partnership in which any of the above organizations owns an interest if the requirements of section 514(c)(9)(B)(vi) are met (section 514(c)(9))
41	Gross income from an unrelated activity that is regularly carried on but, in light of continuous losses sustained over a number of tax periods, cannot be regarded as being conducted with the motive to make a profit (not a trade or business)
42	Receipt of qualified sponsorship payments described in section 513(i)
43	Exclusion of any gain or loss from the qualified sale, exchange, or other disposition of any qualifying brownfield property (section 512(b)(18) and (19))
44	Pension Protection Act

*These codes (with the exception of 00 and 44) were derived from the exclusion codes included in the 2006 Form 990 instruction.