SELF-STUDY CONTINUING PROFESSIONAL EDUCATION

Navigating the Redesigned 990

Fort Worth, Texas
(800) 231-1860
cl.thomsonreuters.com

THOMSON REUTERS

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.—*From a Declaration of Principles jointly adopted by a Committee of the American Bar Association and a Committee of Publishers and Associations*.

Gear Up is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be addressed to the National Registry of CPE Sponsors, 150 Fourth Avenue North, Suite 700, Nashville, TN 37219-2417. Website: www.nasba.org.

Gear Up is registered with the National Association of State Boards of Accountancy (NASBA) as a Quality Assurance Service (QAS) sponsor of continuing professional education. State boards of accountancy have final authority on acceptance of individual courses for CPE credit. Complaints regarding QAS program sponsors may be addressed to NASBA, 150 Fourth Avenue North, Suite 700, Nashville, TN 37219-2417. Website: www.nasba.org.

Registration Numbers

New York	00505
Texas	000941
NASBA Registry	103024
NASBA QAS	017

INTRODUCTION

Navigating the Redesigned 990 is an interactive self-study CPE course designed to enhance your understanding of the latest issues in the field. To obtain credit, you must log on to our Online Grading System at **OnlineGrading.Thomson.com** to complete the Examination for CPE Credit by **June 30, 2011**. Complete instructions are included below and in the Testing Instructions on page 233.

Taking the Course

You are asked to read the material and, during the course, to test your comprehension of each of the learning objectives by answering self-study quiz questions. After completing each quiz, you can evaluate your progress by comparing your answers to both the correct and incorrect answers and the reason for each. References are also cited so you can go back to the text where the topic is discussed in detail. Once you are satisfied you understand the material, **answer the examination questions which follow each chapter** and record your answer choices by logging on to our Online Grading System.

Qualifying Credit Hours—QAS or Registry

Gear Up is registered with the National Association of State Boards of Accountancy as a sponsor of continuing professional education on the National Registry of CPE Sponsors (Registry) and as a Quality Assurance Service (QAS) sponsor. Part of the requirements for both Registry and QAS membership include conforming to the *Statement on Standards of Continuing Professional Education (CPE) Programs* (the standards). The standards were developed jointly by NASBA and the AICPA. As of this date, not all boards of public accountancy have adopted the standards. This course is designed to comply with the standards. For states adopting the standards, recognizing QAS hours or Registry hours, credit hours are measured in 50-minute contact hours. Some states, however, require 100-minute contact hours for self study. Your state licensing board has final authority on accepting Registry hours, QAS hours, or hours under the standards. Check with the state board of accountancy in the state in which you are licensed to determine if they participate in the QAS program and allow QAS CPE credit hours. This course is based on one CPE credit for each 50 minutes of study time in accordance with standards issued by NASBA. Note that some states require 100-minute contact hours for self study. You may also visit the NASBA website at **www.nasba.org** for a listing of states that accept QAS hours. Credit hours for CPE courses vary in length. Credit hours for this course are listed on the "Overview" page.

CPE requirements are established by each state. You should check with your state board of accountancy to determine the acceptability of this course. We have been informed by the North Carolina State Board of Certified Public Accountant Examiners and the Mississippi State Board of Public Accountancy that they will not allow credit for courses included in books or periodicals.

Obtaining CPE Credit

Log on to our Online Grading Center at **OnlineGrading.Thomson.com** to receive instant CPE credit. Click the purchase link and a list of exams will appear. You may search for the exam by selecting Gear Up/Quickfinder in the drop-down box under Brand. Payment for the exam is accepted over a secure site using your credit card. For further instructions regarding the Online Grading Center, please refer to the Testing Instructions located at the beginning of the examination. A certificate documenting the CPE credits will be issued for each examination score of 70% or higher.

Retaining CPE Records

For all scores of 70% or higher, you will receive a *Certificate of Completion*. You should retain it and a copy of these materials for at least five years.

PPC In-House Training

A number of in-house training classes are available that provide up to eight hours of CPE credit. Please call our Sales Department at (800) 431-9025 for more information.

Navigating the Redesigned 990 (N90TG10)

OVERVIEW

COURSE DESCRIPTION:	This interactive self-study course covers issues related to the preparation and filing of the redesigned Form 990, including general requirements and who must file. The following topics are discussed in detail: the classification and reporting of revenue, functional expenses, balance sheet reporting, selected other schedules and unrelated business income.
PUBLICATION/REVISION DATE:	June 2010
PREREQUISITE/ADVANCE PREPARATION:	Basic knowledge of taxation
CPE CREDIT:	8 QAS Hours, 8 Registry Hours
CTEC CREDIT:	8 Federal CTEC Hours, 0 California Hours
	Check with the state board of accountancy in the state in which you are licensed to determine if they participate in the QAS program and allow QAS CPE credit hours. This course is based on one CPE credit for each 50 minutes of study time in accordance with standards issued by NASBA. Note that some states require 100-minute contact hours for self study. You may also visit the NASBA website at **www.nasba.org** for a listing of states that accept QAS hours.
	Enrolled Agents: This CPE course is designed to enhance professional knowledge for Enrolled Agents. Gear Up is a qualified CPE Sponsor for Enrolled Agents as required by Circular 230 Section 10.6(g)(2)(ii).
FIELD OF STUDY:	Taxes
EXPIRATION DATE:	**June 30, 2011**
KNOWLEDGE LEVEL:	Basic

LEARNING OBJECTIVES

Chapter 1: Overview and General Requirements

Completion of this chapter will enable you to:

- Summarize the basics of nonprofit organizations and the general requirements for filing Form 990.

Chapter 2: Other Nonprofit Organization Tax Issues

Completion of this chapter will enable you to:

- Differentiate between the different rules that apply to a nonprofit organization's tax-exempt status.
- Assess issues related to nonprofit organizations in areas including accumulated earnings, political activities, and substantiation and disclosure requirements.

Chapter 3: Reporting Revenues

Completion of this chapter will enable you to:

- Compare and contrast the different items reported on Part VIII of Form 990 and how they should be reported.
- Identify what is reported on Schedules B, M and G of Form 990.

Chapter 4: Reporting Functional Expenses

Completion of this chapter will enable you to:

- Classify functional expenses by type.
- Correctly complete the Statement of Functional Expenses section of Form 990.

Chapter 5: Balance Sheet Reporting

Completion of this chapter will enable you to:

- Correctly complete the Balance Sheet section of Form 990.

Chapter 6: Other Schedules

Completion of this chapter will enable you to:

- Correctly complete various Form 990 schedules.

Chapter 7: Unrelated Business Income

Completion of this chapter will enable you to:

- Distinguish between unrelated business income and excluded activities, and determine when Form 990-T must be filed.

ADMINISTRATIVE POLICIES

For information regarding refunds and complaint resolutions, dial (800) 323-8724, select the option for Customer Service, and your questions or concerns will be promptly addressed.

CPE & Training Solutions *Powered by Checkpoint Learning!*

800.231.1860 | checkpointlearning.thomsonreuters.com

Online Courses and Learning Management

Checkpoint Learning *New!*
Checkpoint Learning...a dream come true for CPE decision makers. With the combined power of MicroMash, PASS Online, and Reqwired, we are pleased to introduce you to the next level in online learning! Checkpoint Learning provides reporting, learning reminders and prompts, CPE compliance tracking, and much more. You can purchase and complete courses directly from Checkpoint Learning , either individually or as part of a subscription package. Select from hundreds of online and downloadable courses on auditing, tax, management, yellow book, and staff training topics. Contact us today to discuss your training needs and begin building a learning plan that's right for you.

MicroMash
A trusted provider of technology-based CPE and training for over 20 years. Choose from over 150 courses on hot topics that will help you stay on top of your field—now available through Checkpoint Learning!

PASS Online
A CPE provider since 1990, PASS Online offers 240 courses covering a variety of accounting and tax topics, including industry-leading state ethics training courses for accountants. Now available through Checkpoint Learning!

Live Seminars & Conferences

Gear Up Seminars, Workshops and Conferences
A leading provider of tax and accounting education for 39 years, Gear Up offers nationwide events designed for you!

Seminars: Half-day to two-day seminars in states nationwide! Select from our 1040 and Business Entities seminars, plus specialty titles—including the new *Assisting Small Business from A to Z*.

Conferences: Our week-long CPE conferences are held at exciting vacation destinations! In 2010, join us at Jackpot in Las Vegas (May 17–22), the new Citrus Week in Orlando (June 14–17), Windy City Week in Chicago (August 2–7), Royal Flush in Las Vegas (November 29–December 4), and Magic Week in Orlando (December 14–18).

Workshops: Our 8-hour workshop format provides a streamlined learning experience at an affordable price! Accounting and tax titles available this year in Alabama, Florida, Illinois, North Carolina, and Texas.

PPC and AuditWatch Conferences
PPC and AuditWatch offer in-depth learning at conferences created to meet the needs of professionals nationwide. We gather field experts who bring attendees the most up-to-date, relevant information on important topics. 2010 Conferences include:

- PPC Conference on Tax Planning for Wealth Preservation | San Francisco, July 15–16
- AuditWatch National School for Audit Leaders | San Francisco, July 15–16 & New York, August 19–20
- PPC and AuditWatch Accounting & Auditing Conference | Las Vegas, October 5
- PPC and AuditWatch Conference on Audit Quality & Efficiency | Las Vegas, October 6–7
- PPC Users' Conference: Best Practices in Implementing the PPC Approach | Las Vegas, October 8

AuditWatch Live Seminars
AuditWatch, the audit profession's premier training and consulting firm and recognized leader in audit productivity, offers specialized auditing seminars in locations nationwide. For more details and a seminar schedule, visit trainingcpe.thomson.com/AuditWatch. *Also available:* AuditWatch University—an integrated development curriculum with five progressive levels of audit staff training available , plus a new web-based New Hire training option—and TaxWatch University—progressive levels of tax training brought to you by PPC In-House Training and AuditWatch.

In-House Training

PPC In-House Seminars
PPC offers on-site customized training on over 50 accounting and auditing, management, staff training, tax and Yellow Book topics. This learning experience is custom-tailored to meet your needs, taught by highly rated instructors, features current, relevant course content—and at approximately $15 per credit hour, In-House training is very affordable!

Practitioners Monthly Video Digest
This monthly CPE product is a convenient and cost-effective way for firms to provide timely, leading-edge in-house training. Every month (excluding February and March) your firm will receive a training module that contains a high-quality instructional DVD and related course materials including an instructor's guide and participant materials. Members of your firm will meet monthly, view a DVD featuring leading experts addressing new and emerging issues, and participate in related discussions.

Webinar Learning Network
You'll find webinars on the latest developments in tax, accounting, auditing, finance and more—all you need is a high-speed internet connection and a phone!

AuditWatch
AuditWatch has an intense focus on serving the audit and accounting profession with leading experts to train and consult with firms that provide auditing services. Our integrated development curriculum for audit professioanls and CPA firms, audit process consulting, and audit technology services make AuditWatch the recognized leader in audit productivity.

Self-Study Courses

Gear Up Self-Study
A leading provider of tax and accounting education for 39 years, Gear Up offers print-based self-study courses based on our popular live seminars plus additional standalone specialty topics. Most live seminar topics can be supplemented with video and audio materials to provide you with the feel of an instructor-led seminar in your home or office—learn on your schedule!

PPC Self-Study
Learn with the company that provides the industry-leading PPC Guides—convenient self-study courses are available on a variety of accounting & auditing and tax topics. Easily access many print-based self-study courses as downloadable PDFs and complete your CPE exams online for immediate results, now directly through the new Checkpoint Learning platform!

Quickfinder | Gear Up Self-Study CPE
Quickfinder's trusted content combined with Gear Up's history as a leader in tax & accounting professional education—a winning combination for your training needs!

RIA Self-Study CPE
RIA and PPC's Complete Analysis of the Tax and Benefits Provisions of the American Recovery and Reinvestment Act, and RIA's 2010 Federal Tax Review. Download PDF at no cost from Checkpoint Learning!

GEAR UP SELF-STUDY

Gear Up self-study courses related to our live seminars are available as a complete learning experience in print format with supplemental video and audio material to reproduce a live learning experience. Our course authors, and recorded seminar speakers, are tax and accounting practitioners who understand your daily practice. ***Visit cl.thomsonreuters.com/G or call 800.231.1860 for more information and to order.***

1040 Update *Available December 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**4**	**4**
Audio CD Pack	10-ACD11001	•			•	•	$ 71	$ 95
CPE Print Pack (1)	10-ME12001	•				•	$ 49	$ 65
Extra Manual	10-M13001	•					$ 41	$ 55

1040 Individual Tax *Available December 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**16**	**16**
Audio CD Pack	10-ACD11000	•			•	•	$ 191	$ 255
Video DVD Pack	10-VDVD10000	•		•		•	$ 274	$ 365
CPE Print Pack (1)	10-ME12000	•				•	$ 94	$ 125
Extra Manual	10-M13000	•					$ 86	$ 115
Extra CDROM (2)	10-CD001		•				$ 22	$ 29
CDROM Only	10-CD002		•				$ 74	$ 99

1041 *Available November 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**5**	**5**
Audio CD Pack	10-ACD11003	•			•	•	$ 135	$ 180
Video DVD Pack	10-VDVD10003	•		•		•	$ 188	$ 250
CPE Print Pack (1)	10-ME12003	•				•	$ 64	$ 85
Extra Manual	10-M13003	•					$ 56	$ 75

Accounting—One Day *Available October 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**8**	**8**
Audio CD Pack	10-ACD11012	•			•	•	$ 135	$ 180
CPE Print Pack (1)	10-ME12012	•				•	$ 64	$ 85
Extra Manual	10-M13012	•					$ 56	$ 75

Accounting—Two Days *Available October 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**16**	**16**
Audio CD Pack	10-ACD11022	•			•	•	$ 191	$ 255
CPE Print Pack (1)	10-ME12022	•				•	$ 94	$ 125
Extra Manual	10-M13022	•					$ 86	$ 115

Assisting Small Business *Available August 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**N/A**	**8**
Audio CD Pack	10-ACD11054	•			•	•		$ 180
Video DVD Pack	10-VDVD10054	•		•		•		$ 250
CPE Print Pack (1)	10-ME12054	•				•		$ 85
Extra Manual	10-M13054	•						$ 75

Business Entities—One Day *Available November 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**8**	**8**
Audio CD Pack	10-ACD11007	•			•	•	$ 135	$ 180
CPE Print Pack (1)	10-ME12007	•				•	$ 64	$ 85
Extra Manual	10-M13007	•					$ 56	$ 75
Video DVD Pack	10-VDVD10007	•		•		•	$ 188	$ 250

Business Entities—Two Day *Available November 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**16**	**16**
Audio CD Pack	10-ACD11008	•			•	•	$ 191	$ 255
Video DVD Pack	10-VDVD10008	•		•		•	$ 274	$ 365
CPE Print Pack (1)	10-ME12008	•				•	$ 94	$ 125
Extra Manual	10-M13008	•					$ 86	$ 115
Extra CDROM (2)	10-CD401		•				$ 22	$ 29
CDROM Only	10-CD402		•				$ 74	$ 99

California Professional Ethics *Available November 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**8**	**4**
Audio CD Pack	10-ACD11018	•			•	•	$ 71	$ 95
CPE Print Pack (1)	10-ME12018	•				•	$ 49	$ 65
Extra Manual	10-M13018	•					$ 56	$ 75

Professional Ethics for the Enrolled Agent *Available November 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**2**	**2**
CPE Print Pack	10-ME12020	•				•	$ 34	$ 45

Compilation & Review Engagments *Available August 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**6**	**6**
CPE Print Pack	10-CRGT	•				•	$ 52	$ 69

California Tax Update *Available December 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**4**	**4**
Audio CD Pack	10-ACD11005	•			•	•	$ 71	$ 95
CPE Print Pack (1)	10-ME12005	•				•	$ 49	$ 65
Extra Manual	10-M13005	•					$ 41	$ 55
Extra CDROM (2)	10-CD501		•			•	$ 14	$ 19
CDROM Only	10-CD502		•				$ 37	$ 49

Estates and Trusts *Available November 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**11**	**11**
Audio CD Pack	10-ACD11021	•			•	•	$ 191	$ 255
Video DVD Pack	10-VDVD10021	•		•		•	$ 274	$ 365
CPE Print Pack (1)	10-ME12021	•				•	$ 94	$ 125
Extra Manual	10-M13021	•					$ 86	$ 115
Extra CDROM (2)	10-CD301		•				$ 22	$ 29
CDROM Only	10-CD302		•				$ 74	$ 99

Fraud Detection *Available October 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**8**	**8**
Audio CD Pack	10-ACD11070	•			•	•	$ 135	$ 180
CPE Print Pack (1)	10-ME12070	•				•	$ 64	$ 85
Extra Manual	10-M13070	•					$ 56	$ 75

Helping Clients Through Troubled Times *Available August 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**8**	**8**
CPE Print Pack	10-ME12065	•					$ 64	$ 85

IRS Audits, Appeals, and Collections *Available October 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**8**	**8**
Video DVD Pack	10-VDVD10055	•		•		•	$ 188	$ 250
CPE Print Pack (1)	10-ME12055	•				•	$ 64	$ 85
Extra Manual	10-M13055	•					$ 56	$ 75

Federal Tax Update *Available November 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**16**	**16**
CPE Print Pack	10-ME12081	•				•	$74***	$99***

*** Price does not include optional grading fee of $79 if you require CPE credit..

Mid-Year Tax Update for Individuals *Available August 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**N/A**	**8**
Audio CD Pack	10-ACD11067	•			•	•	$ 135	$ 180
Video DVD Pack	10-VDVD10067	•		•		•	$ 188	$ 250
CPE Print Pack (1)	10-ME12067	•				•	$ 64	$ 85
Extra Manual	10-MI13067						$ 56	$ 75

Technology 2.0—How to Benefit From Technology Advances in Your Practice

Available October 2010

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**8**	**8**
Video DVD Pack	10-VDVD11040	•		•		•	$ 188	$ 250
CPE Print Pack (1)	10-ME12040	•				•	$ 64	$ 85
Extra Manual	10-M13040	•					$ 56	$ 75

Using Forensic Accounting Techniques *Available August 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**6**	**6**
CPE Print Pack	10-FTGT	•				•	$ 52	$ 69

Auditing Nonprofit Organizations *Available October 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**7**	**7**
Audio CD Pack	10-ACD11026	•			•	•	$ 135	$ 180
CPE Print Pack (1)	10-ME12026	•				•	$ 64	$ 85
Extra Manual	10-M13026	•					$ 56	$ 75

Farm and Ranch Tax Update *Available November 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**8**	**8**
Audio CD Pack	09-ACD11027	•			•	•	$ 135	$ 180
CPE Print Pack (1)	09-ME12027	•				•	$ 64	$ 85
Extra Manual	09-M13027	•					$ 56	$ 75

Planning for Later Years in Life *Available December 2010*

Format	Order #	Print Manual	CD Manual	Video: DVD	Audio: CD	CPE Exam	2009 Tax Year	2010 Tax Year
CPE Credits (2009 actual, 2010 recommended*)							**8**	**8**
Audio CD Pack	10-ACD11004	•			•	•	$ 135	$ 180
CPE Print Pack (1)	10-ME12004	•				•	$ 64	$ 85
Extra Manual	10-M13004	•					$ 56	$ 75

For more course information and to order, visit cl.thomsonreuters.com/G or call 800.231.1860.

GISS010

THOMSON REUTERS™

Gear Up Order Form

Please use this order form to purchase self-study and reference products, and to register for Gear Up Direct Seminars and Gear Up Workshops, and week-long conferences.

Customer # (above name on mail panel): ____________________ Date: ______________

Name: ____

Company: ____

Address: ____

City: ______________________ State: ________ Zip: ______________

Phone: (   ) ____________________ Fax: (   ) ____________________

Email: ____

MAKE CHECKS PAYABLE TO: Gear Up

Enclosed is my: [ ] Check [ ] Visa [ ] MasterCard [ ] American Express [ ] Discover

Card #: ______________________________ Exp. Date: ______________

Cardholder's Name: ____

Signature of Cardholder: ____

Seminar Registration (Must register directly with state for association-sponsored events)

Please use only ONE form per person. Feel free to copy this form as needed.

SEMINAR ID	LOCATION	DATE(S)	PRICE
10- ____			
10- ____			
10- ____			
10- ____			
10- ____			
		SEMINAR TOTAL	

Self-Study and Reference Products

Note: Some CPE Print Packs and Extra CD-ROMs require related purchases.

PRODUCT #	QTY.	DESCRIPTION	PRICE EACH	TOTAL COST

	PRODUCTS TOTAL	________
See chart on page 32 for	SALES TAX	________
See chart on page 32 for	SHIPPING & HANDLING	________
Fill in from above	SEMINAR TOTAL	________
	GRAND TOTAL	________

Call us: 800.231.1860

Fax to: 817.877.3694

Mail to:
Gear Up
36948 Treasury Center
Chicago IL 60694-6900

For Auxiliary Aids Call 800.231.1860

CTEC # ______________________________
MANDATORY REQUIREMENT FOR CTEC TAX PREPARERS.

QUESTIONS? Please call our helpful sales representatives at 800.231.1860, option 1!
Mon – Fri, 8:00 a.m. – 6:00 p.m. CST
Our sales representatives can accept checks by phone.

How Would You Like to Order? *We're Here at Your Convenience!*

Tip: For fastest registration, order online at cl.thomsonreuters.com/G.

Online
Register at cl.thomsonreuters.com/G using our secure server any time, day or night. You'll receive confirmation of your seminar registration by fax or mail.

Phone
Call us at 800.231.1860, option 1, and speak with a friendly Sales representative. The Sales department is open Monday through Friday, 8:00 am to 6:00 pm CST.

Fax
Fax a filled-out registration form to: 817.877.3694

Mail
Mail your filled-out registration form to:

Gear Up
36948 Treasury Center
Chicago IL 60694-6900

For customer service or general questions, you can also email us: sales@gearup.com

Average Sales Tax by State*	
CO, HI, MA, MD, ME, ND, VA, WI, WY, SD	5%
CT, DC, ID, IN, KS, KY, MI, MO, NE, NJ, NM, PA, SC, VT, WV	6%
AL, AZ, CA, FL, GA, IA, IL, MN, MS, NC, NV, OH, OK, RI, TX, UT	7%
AR, LA, NY, TN, WA	8%
Gear Up does not charge tax in AK, DE, MT, NH or OR.	

*If you know your exact state and local sales tax, please add it on the sales tax line on your order form (p. 31). Note: Do not include seminars—sales tax is based on total product purchase only. We now charge sales tax on products for all states listed here.

Shipping & Handling	
Product Total	*S&H*
$ 1 - 59	$5
$60 - 99	$10
$100 - 150	$12
$151 - 250	$17
$251 - 350	$22
$351 - 500	$31
$501 - 800	$42
$801 - 1000	$55

Please add your s&h total to the s&h line on your order form (p. 31). *Note:* Do not include *seminars*—s&h is based on total *product* purchase only.

Need Your CPE Grade ASAP?
Express grading is available for an additional $24.95 per exam. Fax your test and credit card information to 817.252.4021. If you pass, we'll fax or email a certificate to you the next business day!

You are not charged Sales Tax or Shipping and Handling for live seminar registration. These charges apply to product purchases only.

Lunch, manual, daily free parking (excludes valet and in/out privileges) and break refreshments are included at all Gear Up full-day seminars.*

*Gear Up Workshops do not include lunch or break refreshments, but do include course manuals.

Gear Up's National Registry of CPE Sponsor membership pertains to Gear Up Direct seminars; Gear Up Workshops; Quickfinder/Gear Up standalone self-study and Gear Up self-study programs only. Gear Up is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have the final authority of the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be addressed to the National Registry of CPE Sponsors, 150 Fourth Avenue North, Nashville TN 37219-2417. Website: www.nasba.org

Gear Up's QAS membership pertains to Quickfinder/Gear Up standalone self-study and Gear Up self-study programs only. Gear Up is registered with the National Association of State Boards of Accountancy (NASBA) as a Quality Assurance Service (QAS) sponsor of continuing professional education. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be addressed to the National Registry of CPE Sponsors, 150 Fourth Avenue North, Nashville TN 37219-2417. Website: www.nasba.org

Gear Up has been recognized as an approved curriculum provider by the California Tax Education Council. Successful completion of this course may be reported to fulfill the (continuing education/qualifying education) requirement of the California Business and Professions Code 22250-22259. This does not constitute an endorsement by the California Tax Education Council as to the quality of the course or its contribution to the professional competence to the preparer.

All Gear Up courses require a basic knowledge of federal tax laws, and provide the latest updates and comprehensive overviews of each course topic covered. Unless otherwise stated, there are no other prerequisites or advanced preparation required to take courses. Gear Up seminars, Gear Up Workshops, and Gear Up conferences are group-live delivery method. For more CPE information including detailed course descriptions and learning objectives, visit cl.thomsonreuters.com/G.

Gear Up is a registered California CTEC CE Provider. Visit cl.thomsonreuters.com/G for more CTEC specifics.

To determine if seminars and/or courses other than Gear Up Direct Seminars, Gear Up Self-Study and/or Gear Up Workshops award CPE credit, visit the website noted in each description.

Please note: CPE credit amounts based on a 50-minute hour.

THOMSON REUTERS™

Table of Contents

To enhance your learning experience, the final examination questions are located throughout the course reading materials. Please look for the exam questions following each lesson.

Chapter 1: Overview and General Requirements

Introduction

The 2008 Form 990 was completely redesigned by the IRS. At the core of the redesign mission were the goals of increased transparency, good governance, and reduced burden. While the first two goals have arguably been achieved, it is unlikely that a preparer or organization will feel a reduced administrative burden associated with the redesigned form.

The **amount of data** needed to properly complete the revised Form 990 is overwhelming. It is important to keep in the mind while preparing Form 990 that this is a publicly disclosed document. Use this opportunity to effectively state the organization's mission and program service accomplishments.

If an organization files either a Form 990 or 990-EZ, it **must include all required schedules for the return to be complete.** If the organization chooses to file a return, even though not required to do so, it must still file a complete return and provide all the information requested. Schedule O is a required schedule for all Forms 990 (i.e., a Form 990 filed without a Schedule O is incomplete).

In addition to filing the annual information return (Form 990 or 990-EZ), a tax-exempt organization may be required to file Form 990-T (Exempt Organization Business Income Tax Return) to report unrelated trade or business income. An unrelated trade or business is any trade or business, the conduct of which is not substantially related to the exercise or performance by the organization of its exempt purpose. The fact that an organization needs or uses the profits from a business activity to support its program services has no bearing on the determination of whether the activity is unrelated.

Learning Objectives

Completion of this chapter will enable you to:

- Summarize the basics of nonprofit organizations and the general requirements for filing Form 990.

Current Environment for Nonprofit Organizations

In November, 2007, the Senate Finance Committee under the leadership of ranking Republican Senator Charles Grassley launched an investigation of six prominent televangelist ministries for possible financial misconduct. While most of these organizations have complied with requests for documents and been cleared of any wrongdoing, several have refused and engaged legal counsel.

While this investigation affects only a few highly-visible religious organizations, **many believe the precedent being set will eventually permeate the entire nonprofit sector of our society.** Managements of many nonprofit organizations are concerned this type of investigation could lead to further government control of nonprofit organizations. Whatever the final outcome of all these investigations, **they are likely to trigger either increased monitoring by accountability organizations or legislation at the federal or state level for nonprofits similar to the Sarbanes-Oxley Act (SOX) requirements for publicly-held corporations.**

The redesign of the 2008 Form 990 has, in fact, included questions patterned after the SOX governance, accounting and internal control requirements. Answers to these questions will likely be subjected to IRS scrutiny and, in some cases, may result in IRS inquiries and examinations.

What Is a Nonprofit Organization?

IRS Definition

The Internal Revenue Service (IRS) defines a tax-exempt organization as an organization exempt from income taxes, primarily under Section 501 of the Internal Revenue Code (IRC). Section 501 includes specified types of exempt organizations, such as charitable, religious, and educational institutions; civic leagues; social clubs; etc. **Most nonprofit organizations must apply for and receive recognition of tax-exempt status from the IRS. Churches, however, are not required to apply for tax-exempt status, but automatically qualify under IRC Sec. 501(c)(3).**

To maintain qualification to operate as a nonprofit organization and receive tax deductible contributions, however, churches must operate and meet the same requirements as if they had filed for exemption.

Practically, most churches apply for tax-exempt status to avoid having to prove they meet the IRS requirements for tax exemption in the event of an IRS challenge of the deductibility of taxpayer contributions made to the church.

Types of Nonprofit Organizations

IRS Classifications. There are more than 25 categories of tax-exempt organizations classified under Section 501(c) of the Internal Revenue Code as well as additional types of organizations under other sections of the Code. Some of the major IRC Sec. 501(c) classifications include the following:

- 501(c)(3)—Organizations that are religious, educational, charitable, scientific, or literary, or that test for public safety or foster national or international amateur sports competitions, or organizations for the prevention of cruelty to children or animals.
- 501(c)(4)—Civic leagues, social welfare organizations, and local associations of employees, whose activities include promotion of community welfare along charitable, educational, or recreational lines.
- 501(c)(5)—Labor, agriculture, and horticultural organizations, whose activities are educational or instructive, with the purpose of improving conditions of work or improving products and efficiency.
- 501(c)(6)—Business leagues, chambers of commerce, real estate boards, etc., whose activities are intended to improve business conditions of one or more lines of business.
- 501(c)(7)—Social and recreation clubs, the purpose of whose activities are pleasure, recreation, and social.

Current Authoritative Literature

- Internal Revenue Code, Regulations and Tax Court Cases
- IRS Pub. 598, "Tax on Unrelated Business Income of Exempt Organizations"
- IRS Pub. 4421-PC, "Compliance Guide for 501(c)(3) Public Charities" and related IRS publications referenced therein
- IRS Pub. 1828, "Tax Guide for Churches and Religious Organizations"

IRS Compliance Guide for 501(c)(3) Public Charities

This Guide contains comprehensive guidance for public charities. A similar Guide is available from the IRS website (www.irs.gov) for private foundations. The subjects covered in the Guide for Public Charities are listed below and key issues are discussed in this course.

- Activities that may jeopardize a public charity's exempt status
  - Private benefit and inurement
  - Political campaign intervention
  - Legislative activities
- Returns required to be filed
- Reasons for required recordkeeping
- Governance considerations
- Reporting changes to the IRS
- Required disclosures
  - Public inspection of annual returns and exemption applications
  - Charitable Contributions—Substantiation and Disclosure

IRS Tax Guide for Churches and Religious Organizations

This Guide contains some of the information in the Compliance Guide described above plus additional information specifically applicable to churches and religious organizations, including:

- Unrelated business income tax
- Employment tax
- Special Rules for compensation of ministers
- Payment of employee business expenses
- Preparing Nonprofit Financial Statements
- Religious Organizations

What Organizations Must File Form 990?

In General

Tax-exempt organizations generally must file either an annual information return on **Form 990** (Return of Organization Exempt From Income Tax) or **Form 990-EZ** (Short Form Return of Organization Exempt From Income Tax) or an annual electronic notice on **Form 990-N** [Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required To File Form 990 or 990-EZ]. **Exceptions to the filing requirements** apply to organizations with gross receipts below a specific amount and to certain religious and governmental organizations.

Since Form 990 and Form 990-EZ are publicly disclosed documents, these forms may be the public's primary or sole source of information about a particular organization. Therefore, **the organization should carefully consider how the public will perceive the information** being presented and especially use the mission statement and program service accomplishment responses to tell the organization's story.

In addition, these forms are sometimes used to meet state filing obligations. However, some states have their own specific forms that must be used to fulfill their requirements.

Unless instructed to skip a line, **answer all applicable questions on the return.** Generally, if the IRS allows non-applicable possibilities, an "N/A" box will be available. Leaving an item blank can sometimes be construed as not wanting to answer a question adversely. Items left blank can also cause an electronically filed return to reject.

Certain tax-exempt organizations need not file Form 990 or 990-EZ, but must file another form instead. For example, private foundations file Form 990-PF [Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation] and welfare benefit and pension plans [other than Section 501(c)(9) VEBAs] file Form 5500 Series returns. Additionally, homeowners associations have several filing options. Filing requirements for private foundations, welfare benefit and pension plans and homeowners associations are beyond the scope of this course.

The Form 990 (and schedules) has been completely redesigned for 2008 and later years. The redesigned form requires additional reporting over the previous year's requirements; therefore, the IRS has granted transitional relief to small and mid-sized organizations. Certain organizations, depending on their income and total assets, will be allowed to file a Form 990-EZ instead of Form 990 during a three-year transition period.

New Features

Some of the major features of the redesigned Form 990 include a new summary page, a new governance section, enhanced reporting of executive compensation and an organization's relationships with insiders and other organizations and new reporting for noncash contributions, foreign activities, tax-exempt bonds, and hospitals.

Summary Page

Page 1, Part I of Form 990 provides a snapshot of financial, governance and operational information, including a two-year comparison of key financial data. Part III, the Statement of Program Service Accomplishment has been relocated to immediately follow the summary page.

New Governance Section

The redesigned Form 990 contains a new governance section which consists of three parts:

- Composition of the organization's governing body.
- Governance and management policies.
- Disclosure practices.

The IRS in a *Background Paper* published August 19, 2008 states:

> The section's heading and most related instructions explain that this section asks information about policies and practices that are not required by federal law. The instructions also explain that an organization should consider its own facts and circumstances, including its size, type and culture, when considering whether to adopt or revise its policies and practices.

This is important information to consider when preparing Form 990, particularly for small nonprofit organizations.

Revised Reporting of Compensation and Insider Transactions

The redesigned Form 990 contains significantly revised reporting of executive compensation and transactions with interested persons. In prior years, organizations were required to list their officers, directors, trustees, and key employees and report any compensation paid by the organization and related organizations paid to such persons. Instructions to the redesigned Form 990 contain new definitions of these terms, so reporting may differ.

The form extends the reporting to include compensation paid to the organization's five highest compensated individuals, and five highest paid independent contractors from just charities to all filing organizations. The reporting threshold is also raised from $50,000 to $100,000. Reporting thresholds and other information will be discussed in a later discussion of Schedule J, *Compensation Information,* for Form 990.

Transactions between the reporting organization and certain interested persons will also be discussed later in connection with Schedule L, *Transactions With Interested Persons.*

More Schedules

The Form 990 includes 16 schedules that are required to be completed as applicable to each reporting organization. Some of the schedules replace previously-required attachments. For example, some of the schedules replace information that was previously included on Schedule A, *Organization Exempt Under Section 501(c)(3),* which has been revised to report exclusively on an organization's public charity status and public support.

Some of the more commonly-applied schedules will be discussed in Chapter Six.

Who Must File

Form 990

For 2009, an organization exempt from income tax under IRC Sec. 501(a) (including an organization that has not applied for recognition of exemption) must file Form 990 if it has **either gross receipts** of $500,000 or more ($200,000 for 2010) **or total assets** of $1.25 million or more ($500,000 for 2010) at the end of the tax year. This includes the organizations described in:

- IRC Sec. 501(c)(3) (other than private foundations), or
- Other Section 501(c) subsections (other than black lung benefit trusts).

Gross receipts are the total amounts the organization received from all sources during its annual accounting period (before subtracting any costs or expenses). **Total assets** are the amount reported by the organization on its balance sheet as of the tax year end (before subtracting any liabilities).

Form 990-EZ

An organization may choose to file Form 990-EZ (Short Form Return of Organization Exempt From Income Tax) instead of Form 990 if the following applies:

May file 990-EZ for:	If gross receipts are:	And if assets are:
2008	< $1 million	< $2.5 million
2009	< $500,000	< $1.25 million
2010 and later	< $200,000	< $500,000

Organizations that qualify to file the Form 990-EZ under the transitional relief may find this beneficial if they are not quite ready to comply with all the new disclosures and policies that are included on the redesigned Form 990. This will, in effect, give them an additional year to get their policies and procedures in place.

Organizations that are eligible to file the 2008 Form 990-EZ should be reviewing the form, including Schedules A, B, C, E, G, L and N which may be required for some organizations. While the 2008 Form 990-EZ is similar to 2007, these schedules may replace certain attachments submitted in the prior year.

A sponsoring organization of a donor advised fund must file Form 990 instead of Form 990-EZ if required to file a return for the year. A controlling organization described in Section 513(b)(13) must file Form 990 instead of Form 990-EZ if it is required to file an annual information return for the year and if there were any funds transferred between the controlling organization and any controlled entity during the year. **This Form 990 filing requirement applies regardless of asset size or income of the entity.** In addition, the controlled entity may be a taxable or tax-exempt organization.

Form 990-N

If an organization is exempt from filing an annual information return because it is a foreign organization, black lung benefit trust, or because it has gross receipts of $25,000 or less, it must electronically file Form 990-N [Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required To File Form 990 or 990-EZ] unless it voluntarily files Form 990, 990-EZ, or 990-BL.

Note: An organization that is exempt under IRC Sec. 501(a) and required to file Form 990 (or 990-EZ or 990-N) will automatically lose its exemption for failing to file the return for three consecutive years.

Other Filing Requirements

An organization that is not required to file Form 990 is still responsible for other applicable returns (e.g., payroll returns or an unrelated business tax return). If there are any changes in the organization's character, operations, or the purpose for which it was originally created, the IRS should be notified in a letter that (1) indicates the organization is exempt from filing an annual information return, (2) states the reason for this exemption, and (3) explains the nature and date of the change that occurred. In addition, a corporate entity may also need to amend its articles of incorporation to reflect the changes. The amended articles of incorporation must be approved by the state of incorporation.

Gross Receipts Test

Gross receipts for purposes of the gross receipts exception are the gross amounts received from all sources during the year, without reduction for any costs or expenses. However, funds collected merely as an agent for another are not included. In addition, gross sales (or receipts) may be reduced by returns and allowances.

Gross receipts are the sum of the following:

- **Form 990.** Part VIII, lines 6b (both columns), 7b (both columns), 8b, 9b 10b, and 12, Column A.
- **Form 990-EZ.** Part I, lines 5b, 6b, 7b and 9.

The gross receipts test generally is based on a three-year average. Thus, an organization with more than $25,000 of gross receipts for a single year still can be exempt from filing an information return (Form 990 or 990-EZ) under this exception. However, the organization will still be required to file Form 990-N. The method for determining if gross receipts normally exceed $25,000 depends on how long an organization has existed.

$25,000 Test. An organization's gross receipts normally are not more than $25,000 if it has existed for:

- One year or less and has received (or donors have pledged) gross receipts of $37,500 or less during the first tax year (for this purpose, there is no requirement to annualize the gross receipts even if the first year is fewer than 12 months);
- More than one year, but fewer than three, and the average gross receipts received in the first two tax years are $30,000 or less; or
- At least three years, and the average gross receipts received in the immediately preceding three years (including the year the return would be filed) are $25,000 or less.

Note: For the gross receipts test, it appears an organization that has **existed one year or less must use the accrual method** for determining gross receipts, whether or not the accrual method is its normal basis of accounting. (Rev. Proc. 83-23, Sec. 5, uses the words "received or pledged" when discussing the one-year rule.) The IRS has previously ruled an organization's normal accounting method and the method required to perform certain statutory tests do not have to be the same (GCM 39287). When an organization has **existed for more than one year**, it appears the organization's **normal accounting method whether cash or accrual** should be used to make the gross receipts test determination (i.e., Rev. Proc. 83-23 does not refer to pledges when describing the two-year and three-year rule).

$5,000 Test. For purposes of the special filing requirements discussed later, an organization's gross receipts normally are not more than $5,000 if it has existed for:

- One year or less and has received (or donors have pledged) gross receipts of $7,500 or less during the first tax year;
- More than one year, but fewer than three, and the average gross receipts received in the first two tax years are $6,000 or less, or
- At least three years, and the average gross receipts received in the immediately preceding three years (including the year the return would be filed) are $5,000 or less.

Exceptions to the Requirement to File a Return

As discussed above, tax-exempt organizations generally must file an annual Form 990 or Form 990-EZ. However, certain organizations (primarily religious) and those entities with gross receipts below a specified level are statutorily exempt from filing. An organization does not have to file Form 990 or 990-EZ even if it has at least $200,000 of gross receipts or $500,000 of total assets if it is described below [except for Section 509(a)(3) supporting organizations. In addition, the IRS has discretionary authority to exempt any organization from the annual filing requirement when a return is not necessary for the efficient administration of the tax laws.

Certain Religions, Government, Political, and Other Organizations

The following organizations are currently exempt from filing an annual return, based on statutory authority, the discretionary authority of the IRS, and a limited number of court decisions.

Certain Religious Organizations

A church. The Code and regulations related to the Form 990 reporting requirements do not specifically define the term church. However, the IRS has developed 14 criteria it applies in determining if an entity is a church. For exempt organization purposes, the term church is applied generically as a place of worship that includes, for example, protestant and catholic churches, mosques and synagogues. As defined for unrelated business income tax purposes, a church includes a religious organization or order that is an integral part of, and engaged in carrying out, the functions of a church.

An interchurch organization of local units of a church, a convention or association of churches, or an integrated auxiliary of a church. Including individuals as well as churches as members, or allowing individuals to have voting rights in the organization, will not prevent it from qualifying as "a convention or association of churches."

An integrated auxiliary of a church is an entity that meets these requirements:

- It is tax-exempt as a result of being described in IRC Sec. 501(c)(3) (i.e., it is organized and operated exclusively for religious, charitable, scientific, educational, etc., purposes) and is described in IRC Sec. 509(a)(1), (2), or (3).
- It is affiliated with a church or convention or association of churches. An organization is affiliated with another entity for this purpose if it is [Reg. 1.6033-2(h)(2)]:
    - Covered by a common group exemption letter;
    - Operated, supervised, or controlled by, or in connection with such other entity; or
    - Affiliated based on the relevant facts and circumstances (e.g., the sharing of common religious doctrines, a common name, or the ability of the church or convention of churches to control the appointment of at least one of the organization's officers or directors).
    - It is internally supported. For this purpose, an organization is internally supported unless it both [Reg. 1.6033-2(h)(4)]:
        - Sells products or services to the general public (other than on an incidental basis) for something other than a nominal charge or a substantial discount from cost; and
        - Normally receives more than 50% of its support from a combination of governmental sources; public solicitations of contributions (e.g., a community fund drive); and receipts from the sale of admissions, goods, performance of services, or furnishing of facilities in activities that are not an unrelated business.

Specifically included within the definition of an integrated auxiliary are a men's or women's organization, a religious school, a mission society, and a youth group.

- An organization operated, supervised, or controlled by one or more churches, integrated auxiliaries, or conventions or associations of churches that carries out church-related financing, funding, or pension programs.

- A school below college level that is affiliated with a church (i.e., controlled by or associated with a church or a convention or association of churches) or operated by a religious order, provided the school has a program of a general academic nature, maintains a regular faculty and curriculum, and normally has regularly enrolled students in attendance where its educational activities are regularly carried on.
- A mission society sponsored by or affiliated with one or more churches or church denominations. However, to qualify under this exception, more than one-half of the society's activities must occur in, or be directed at persons in, foreign countries.
- An organization that is an exclusively religious activity of any religious order.

As you can see from the definitions above, many so-called "para-church" organizations do not qualify as integrated auxiliaries of churches.

Certain Government Organizations

A state institution that derives income solely from performing essential governmental functions. This includes operating a public utility company. State also includes political subdivisions of a state. However, an entity that has any unrelated business taxable income does not fit within this exception because its income is not "solely from performing essential governmental functions."

A governmental unit or affiliate. An organization is a governmental unit if it is:

- A state or local governmental unit as defined in Reg. 1.103-1(b);
- Entitled to receive deductible charitable contributions as a Section 170(c)(1) organization; or
- An Indian tribal government, or a political subdivision of such government, under IRC Secs. 7701(a)(40) and 7871.

An organization is an "affiliate of a governmental unit" if it is described in IRC Sec. 501(c) and has an outstanding ruling or determination from the IRS that:

- Its income, derived from activities constituting the basis for its exemption under IRC Sec. 501(c), is excluded from gross income under IRC Sec. 115;
- It is entitled to receive deductible charitable contributions as a Section 170(c)(1) organization; or
- It is an "instrumentality" of a state or a political subdivision for employment tax purposes [IRC Secs. 3121(b)(7) and 3306(c)(7)].

An organization that has not received such a ruling or determination is nonetheless an "affiliate of a governmental unit" if the IRS determines that: its filing of Form 990 is not otherwise necessary to the efficient administration of the tax laws (considering all relevant facts and circumstances); it is either operated, supervised, or controlled by governmental units or by organizations that are affiliates of governmental units; and it meets two or more of the following affiliation factors:

- The organization was created by one or more governmental units or public officials acting in their official capacity.

- Its support is received principally from taxes, tolls, fines, government appropriations, or fees collected pursuant to statutory authority.
- It is financially accountable to one or more governmental units. (This factor is satisfied if it must report to a governmental unit, at least annually, information comparable to that required by Form 990, and it is subject to financial audit by the governmental unit to which it reports.)
- One or more governmental units exercise control over, or oversee, some or all of the organization's expenditures.
- If dissolved, its assets will be distributed to governmental units or affiliates.

Although a ruling is not required under this test, the test's subjectivity may necessitate a ruling request to avoid any uncertainty.

A corporation that is an instrumentality of the U.S. and that was organized under an Act of Congress, if it meets the requirements of IRC Sec. 501(c)(1).

Certain Political Organizations

A political organization that is:

- A state or local committee of a political party;
- A political committee of a state or local candidate;
- A caucus or association of state or local officials; or
- Required to report under the Federal Election Campaign Act of 1971 as a political committee [as defined in Section 301(4) of such Act].

Certain Organizations That File Different Kinds of Annual Information Returns

- A private foundation (including a private operating foundation) exempt under IRC Sec. 501(c)(3) and described in IRC Sec. 509(a). Use Form 990-PF (Return of Private Foundation). Use Form 990-PF also for a taxable private foundation, a Section 4947(a)(1) nonexempt charitable trust treated as a private foundation, and a private foundation terminating its status by becoming a public charity under IRC Sec. 507(b)(1)(B) (for tax years within its 60-month termination period).
- A black lung benefit trust described in IRC Sec. 501(c)(21). Use Form 990-BL (Information and Initial Excise Tax Return for Black Lung Benefit Trusts and Certain Related Persons).
- A religious or apostolic organization described in IRC Sec. 501(d). Use Form 1065 (U.S. Return of Partnership Income).
- A stock bonus, pension, or profit-sharing trust that qualifies under IRC Sec. 401. Use Form 5500 (Annual Return/Report of Employee Benefit Plan).

Some of the categories of organizations exempt from filing Form 990 refer to the term religious order, but neither the Code nor regulations define religious order. The IRS has published a list of the seven criteria it uses to determine if an organization is a religious order (Rev. Proc. 91-20).

In addition to the requirement to file an annual information return on Form 990 (or Form 990-EZ), tax-exempt organizations may be subject to other reporting requirements. Organizations exempt from filing an annual return because of one of the reasons discussed above are still subject to other reporting requirements. For example, churches with unrelated business income must file Form 990-T; and prizes valued at $600 or more awarded during or as part of a charitable fund-raising activity such as a raffle must be reported on Form W-2G.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

1. What type of nonprofit organization does **not** have to apply for recognition of tax exempt status from the IRS?

   a. Educational institutions.

   b. Churches.

   c. Civic leagues.

   d. Charitable institutions.

2. Which of the following statements best describes Form 990 and Form 990-EZ?

   a. These forms are filed privately and only disclosed to the filing organization and the IRS.

   b. Filers can use their own discretion about which questions to answer on the return.

   c. These forms may be the public's primary source of information about the filing organization.

   d. Filling out the form meets all state filing obligations.

3. Which of the following organizations must file a Form 990 for 2010, not a Form 990-EZ?

   a. Helping Hands has gross receipts of $246,000.

   b. Food Pantry has gross receipts of $194,000.

   c. The Elder Organization has gross receipts of $10,000.

   d. The Sphinx Fund is a private foundation.

4. The Opperman Cancer Fund has been in existence as a tax-exempt nonprofit organization for only one year. In the first 12 months, what is the maximum amount of gross receipts donors can have pledged for the fund to pass the $25,000 test?

   a. $7,500.

   b. $25,000.

   c. $30,000.

   d. $37,500.

5. Which of the following would be classified as a governmental unit or affiliate?

   a. An entity that is entitled to receive deductible charitable contributions under IRC Sec. 170(c)(1).

   b. An Indian tribal government as defined in Reg. 1.103-1(b).

   c. An entity whose income is excluded from gross income under IRC Sec. 115.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

1. What type of nonprofit organization does **not** have to apply for recognition of tax-exempt status from the IRS? **(Page 2)**

    a. Educational institutions. [This answer is incorrect. This type of nonprofit organization would have to apply to the IRS for recognition of its tax-exempt status. This type of organization is covered by IRC Sec. 501(c)(3).]

    b. Churches. [This answer is correct. Churches automatically qualify for tax-exempt status under IRC Sec. 501(c)(3). Practically, however, most churches apply for tax-exempt status to avoid having to prove they meet the IRS requirements for tax exemption in the event of an IRS challenge of the deductibility of taxpayer contributions made to the church.]

    c. Civic leagues. [This answer is incorrect. A civic league is a tax-exempt organization under IRC Sec. 501(c)(4). It would have to apply to the IRS for recognition of its tax-exempt status.]

    d. Charitable institutions. [This answer is incorrect. Charitable institutions have to apply to the IRS for recognition of their tax-exempt status. They are covered under IRC Sec. 501(c)(3).]

2. Which of the following statements best describes Form 990 and Form 990-EZ? **(Page 4)**

    a. These forms are filed privately and only disclosed to the filing organization and the IRS. [This answer is incorrect. Both Form 990 and Form 990-EZ are publicly disclosed documents.]

    b. Filers can use their own discretion about which questions to answer on the return. [This answer is incorrect. Unless instructed to skip a line, all applicable questions on the return must be answered. Generally, if the IRS allows non-applicable possibilities, an “N/A” box will be available. Leaving an item blank can sometimes be construed as not wanting to answer a question adversely. Items left blank can also cause an electronically filed return to reject.]

    c. These forms may be the public’s primary source of information about the filing organization. [This answer is correct. The organization should carefully consider how the public will perceive the information being presented and especially use the mission statement and program service accomplishment responses to tell the organization’s story.]

    d. Filling out the form meets all state filing obligations. [This answer is incorrect. While this can be true, it depends on the state. Some states have their own specific forms that must be used to fulfill their requirements.]

3. Which of the following organizations must file a Form 990 for 2010, not a Form 990-EZ? **(Page 6)**

   a. **Helping Hands has gross receipts of $246,000. [This answer is correct. For 2010, an organization exempt from income tax under IRC Sec. 501(a) must file Form 990 if it has either gross receipts of $200,000 or more or total assets of $500,000 or more. Helping Hands does not qualify to file Form 990-EZ under the gross receipts category.]**

   b. Food Pantry has gross receipts of $194,000. [This answer is incorrect. Food Pantry's gross receipts do not make filing a Form 990 in 2010 mandatory. It can choose to file a Form 990-EZ.]

   c. The Elder Organization has gross receipts of $10,000. [This answer is incorrect. Because the Elder Organization has gross receipts of less than $25,000, it is exempt from filing an annual information return; therefore, it does not have to file either Form 990 or Form 990-EZ. Instead, it must electronically file Form 990-N. However, it can choose to file Form 990, Form 990-EZ, or Form 990-BL.]

   d. The Sphinx Fund is a private foundation. [This answer is incorrect. Organizations with certain amounts of gross receipts or total assets described in IRC Sec. 501(c)(3) must file the Form 990; however, private foundations are excluded from this rule. Private foundations file a different form instead.]

4. The Opperman Cancer Fund has been in existence as a tax-exempt nonprofit organization for only one year. In the first 12 months, what is the maximum amount of gross receipts donors can have pledged for the fund to pass the $25,000 test? **(Page 8)**

   a. $7,500. [This answer is incorrect. This is the amount of gross receipts the fund could have received or donors could have pledged for the fund to pass the $5,000 test for special filing requirements.]

   b. $25,000. [This answer is incorrect. If the average gross receipts for three years are $25,000 or less, the organization would pass the test, but since the Opperman Cancer Fund has not been existence for three years, this does not apply.]

   c. $30,000. [This answer is incorrect. If $30,000 or less of gross receipts were received in the first two tax years, the organization would pass the $25,000 test; however, as the Opperman Cancer Fund has not been in existence for two years, this will not apply.]

   d. **$37,500. [This answer is correct. If an organization, such as the fund described in this scenario, has been in existence for one year or less and has received (or donors have pledged) gross receipts of $37,500 or less during the first tax year, it will pass the $25,000 test. The fund must use the accrual method for determining gross receipts for this test, whether or not the accrual method is its normal basis of accounting.]**

5. Which of the following would be classified as a governmental unit or affiliate? **(Page 10)**

   a. An entity that is entitled to receive deductible charitable contributions under IRC Sec. 170(c)(1). [This answer is correct. An organization is a governmental unit or affiliate if it is entitled to receive deductible charitable contributions as a Sec. 170(c)(1) organization per the regulations.]

   b. An Indian tribal government as defined in Reg. 1.103-1(b). [This answer is incorrect. An Indian tribal government, or a subdivision of such a government, under IRC Secs. 7701(a)(40) and 7871 would be considered a governmental unit or affiliate. Additionally, a state or local government defined in Reg. 1.103-1(b) would be considered a governmental unit or affiliate. However, Indian tribal governments are not defined in Reg. 1.103-1(b), as written in this answer choice.]

   c. An entity whose income is excluded from gross income under IRC Sec. 115. [This answer is incorrect. An organization is an “affiliate of a governmental unit” (as opposed to a governmental unit or affiliate) if it is described in IRC Sec. 501(c) and has an outstanding ruling or determination from the IRS that its income, derived from activities constituting the basis for its exemption under IRC Sec. 501(c), is excluded from gross income under IRC Sec. 115.]

EXAMINATION FOR CPE CREDIT

Chapter 1

Determine the best answer for each question below. Then log onto our Online Grading Center at **OnlineGrading.Thomson.com** to record your answers.

1. Masonry Limited files its Form 990 without Schedule O. Can this be considered a complete form?

   a. Yes, the Schedule O is optional for all Forms 990.

   b. Yes, but only if Masonry Limited filed the Form 990-EZ.

   c. Yes, but only if Masonry Limited chose to file Form 990 instead of being required to do so.

   d. No, Schedule O is required for all Forms 990.

2. The Eisenberg Group is a private foundation. What form is it required to file?

   a. Form 990.

   b. Form 990-PF.

   c. Form 990-EZ.

   d. Form 5500 Series returns.

3. List all of the following that should be included in the governance section in Part I of the Form 990.

   i. A two-year comparison of key financial data.

   ii. Management and governance policies.

   iii. A statement of program service accomplishment.

   iv. Composition of the governing body of the organization.

   v. Disclosure practices.

   a. i. and iii.

   b. ii., iii., and iv.

   c. ii., iv., and v.

   d. i., ii., iii., iv., and v.

4. What is the current compensation reporting threshold for the Form 990?

    a. $25,000.

    b. $50,000.

    c. $100,000.

    d. $200,000.

5. Which of the following would be exempt from filing an annual Form 990 or Form 990-EZ?

    a. Roland High School is associated with St. Bart's Catholic church, has a regular faculty and curriculum, has a program of a general academic nature, and regularly has enrolled students in attendance where its educational activities are carried on.

    b. Outreach at Home is a mission society affiliated with First Baptist Church. The society is devoted to evangelism and health and hygiene efforts in the United States.

    c. Do not select this answer choice.

    d. Do not select this answer choice.

Chapter 2: Other Nonprofit Organization Tax

Learning Objectives

Completion of this chapter will enable you to:

- Differentiate between the different rules that apply to a nonprofit organization's tax-exempt status.
- Assess issues related to nonprofit organizations in areas including accumulated earnings, political activities, and substantiation and disclosure requirements.

Tax Exempt Status

There are significant benefits to qualifying as a 501(c)(3) organization. Along with those benefits, however, come several severe restrictions. The trade-off for the benefits of being a 501(c)(3) is a higher level of accountability imposed by the IRS. A 501(c)(3) organization is restricted from performing certain activities that are inconsistent with its charitable purpose. Violation of these restrictions can jeopardize tax-exempt status. IRS rules prohibit 501(c)(3) organizations from:

- Operating for the private benefit of insiders, individuals who control the organization or who created the organization and other individuals or organizations.
- Taking part in lobbying as a substantial part of their activities.
- Participating in any political campaign.

Organizations qualifying under IRC Sec. 501(c)(3) are not prohibited from making a profit (meaning revenues exceeding expenses). However, none of that profit may inure, or privately benefit, any individual or organization. **The IRS rules against private inurement say that the individuals who created or control a tax-exempt organization, including its members, employees, and other insiders, are prohibited from receiving organization funds or assets, except when:**

- They are being paid a reasonable amount for services performed or goods provided to the organization, or
- They pay an amount equal to the fair market value of assets received from the organization.

In other words, insiders must be treated in the same manner as anyone else. They may not personally benefit from the existence or operation of the organization.

Richard R. Hammar, in his ***Church and Clergy Tax Guide***, states this:

> IRC Sec. 501(c)(3) does not prohibit all dealings between a charitable organization and its founder or with those in controlling positions. **An organization's trustees, officers, members, founders, and contributors may, of course, receive reasonable compensation or fair market value for services or goods, or other expenditures in furtherance of exempt purposes.** However, those in control may not, by reason of their position, acquire any of the charitable organization's funds. If funds are diverted from exempt purposes to private purposes, exemption is in jeopardy. IRS *Exempt Organizations Technical Guidelines Handbook*, Sub-Section 3(16)2 (1999).

> **Inurement and private benefit may occur in many different forms, including, for example, excessive compensation; payment of excessive rent; receipt of less than fair market value in sales or exchanges of property; inadequately secured loans; or other questionable loans.** Note that the payment of personal expenses of an insider that the organization did not characterize as compensation at the time of payment may constitute inurement even when, if added to compensation, the total amount of compensation would be reasonable.
>
> **Although the requirements for finding inurement or private benefit are similar, inurement and private benefit differ in two key respects.** The first is that even **a minimal amount of inurement results in disqualification for exempt status**, whereas **private benefit must be more than quantitatively or qualitatively incidental in order to jeopardize tax exempt status**. The second is that **inurement only applies to "insiders**" (individuals whose relationship with an organization offers them an opportunity to make use of the organization's income or assets for personal gain), whereas **private benefit may accrue to anyone.** IRS *Exempt Organizations Examination Guidelines Handbook* subsection 333.2 (1999).

Some **examples of private inurement** include:

- Distributing surplus funds or profits.
- Paying unreasonably high compensation.
- Making loans to insiders at less than market rates or other preferential terms.
- Allowing private individuals to use a nonprofit organization's assets.
- Management personnel personally receiving royalties for books they've written supporting the organization's exempt purpose which are promoted and sold by the exempt organization.

In addition to the matters discussed above, **a nonprofit organization can lose its tax exemption, or be ruled a private operating foundation, if its public support falls significantly below 33⅓% as calculated annually on Schedule A**. Nonprofit organizations that conduct significant revenue-generating activities related to their exempt purpose, or those that have significant amounts of unrelated business income, should monitor their public support ratio periodically throughout the year to prevent consistently low public support ratios. Corrective actions like reducing sales or providing certain services free of charge are difficult but far less difficult than loss of public charity status.

Excess Benefit Transactions

The Taxpayer Bill of Rights, passed in July 1996, includes penalties (referred to as intermediate sanctions) against persons (individuals or entities) who enter into excess benefit transactions with a Section 501(c)(3) public charity or a Section 501(c)(4) organization. **An excess benefit transaction occurs when an organization provides an economic benefit, either directly or indirectly, to a disqualified person that exceeds the value of the consideration given by the person in return.**

A disqualified person is anyone who, at any time during the five-year period ending on the date when an excess benefit transaction occurs, is in a position to exercise substantial influence over the organization's affairs. It also includes family members and any entity in which the person and members of his or her family have combined ownership of more than 35%.

For example, if reasonable annual compensation for the executive director of an organization is $100,000 and the director actually receives salary and benefits of $150,000, **an excess benefit transaction has occurred and the executive director (not the organization) is potentially liable for a penalty.** The penalty is 25% of the excess benefit ($12,500, or 25% of the excess of $150,000 over $100,000 in this example). If the situation is not corrected within the prescribed period (by repaying the $50,000 excess), the penalty increases to 200% of any uncorrected excess. In addition to the 25% penalty, any officer, director, or trustee (organization managers) who willfully participates in the excess benefit transaction (knowing it to be such) is also subject to a 10% penalty (to a maximum of $10,000 per excess benefit transaction).

The Pension Protection Act of 2006 doubles the maximum penalties for organization managers on excess benefit transactions (to $20,000 per transaction). Organization managers can be members of an organization's board of directors and do not have to be disqualified persons (able to exercise substantial influence).

Since the executive compensation issue has been on the IRS Commissioner's "hit list" since 2005, **some nonprofit organizations are engaging attorneys or CPAs to complete salary surveys and write opinion letters to support the payment of executive compensation.** More than simply going to **www.guidestar.org** and making comparisons with other nonprofit organizations, or using a published source of salaries from organizations like Robert Half or Christian Resources, these salary surveys look at every aspect of an executive's job and make comparisons with other executives in nonprofit and for-profit organizations. Such an opinion letter, along with approval by the organizations board of directors, will ordinarily withstand an IRS challenge regarding excessive compensation.

Disqualified Person

On January 23, 2002, the IRS issued final regulations that were effective immediately. The IRS regulations expand on **who is a disqualified person and identify certain individuals as automatically having substantial influence**. These include:

- Voting members of the organization's governing body.
- The president.
- The chief executive officer or chief operating officer.
- The treasurer or chief financial officer.
- A person who has or shares ultimate responsibility for implementing the decisions of the organization's governing body or supervising the management, administration, or operation of the organization.
- An individual who has or shares ultimate responsibility for managing an organization's financial assets.

The regulations offer further guidance on what defines a disqualified person. For example, the regulations state that an "independent contractor" who "lacks decision-making authority," would likely not be in a position to exercise substantial influence over the organization. Also, the final regulations provide that the "per se" categories of disqualified persons (those in a position to exert substantial influence over an organization) are defined by that person's "actual powers and responsibilities," not by his or her "title or formal position."

The regulations also identify two categories of persons who are not deemed to have substantial influence. These include other public charitable organizations and employees of the organization in question who receive total benefits (salary, fringe benefits, etc.) from the organization of less than the statutory amount for highly compensated employees ($150,000 for 2010). To fit within this employee exception, however, individuals must not be otherwise defined in the regulation as a disqualified person or be a substantial contributor to the organization (defined as someone who gives at least $5,000 to the organization if that gift is also more than 2% of the total contributions the organization received). When it is not clear whether someone is a disqualified person based on the evidence (or lack thereof) the person has over the organization, the regulations provide that a facts and circumstances test applies.

The regulations also address several types of excess benefit transactions, including the payment of unreasonable compensation and revenue-sharing arrangements.

- **Compensation.** The regulations establish the conditions for an organization to create a rebuttable presumption that payments under a compensation arrangement are reasonable. **If a rebuttable presumption is created, the IRS would only rebut the presumption if it had sufficient contrary evidence as to the reasonableness**. The three conditions are:
  - The compensation arrangement is approved in advance by the organization's governing body (or a committee thereof) that is composed of persons who do not have a conflict of interest with the arrangement,
  - The governing body relies on comparability data such as industry surveys, documented compensation of persons holding similar positions in similar organizations, expert compensation studies, or other comparable data in deciding whether to approve of the compensation, and
  - The governing body documents the basis for its decision at the time it is made (prior to the later of the next meeting of the governing body or 60 days after the action). The documentation itself must be approved within a reasonable time of preparing it. The documentation must include:
    - The terms and date of the approved compensation arrangement.
    - The members of the governing body present when the arrangement was approved and who voted on it.
    - The comparability data that was relied on and how it was obtained.
    - Any actions by a member of the governing body that had a conflict of interest.

- **Revenue-sharing Arrangements.** In a typical revenue-sharing arrangement, an individual is at least partly compensated by how much revenue is raised in one or more of the organization's activities. According to the regulation, such an arrangement can be an excess benefit transaction even if the disqualified person receives no more than fair market value as compensation if the person receives extra compensation without returning to the organization proportional benefits that contribute to its exempt purpose. Because of the number and type of comments received by the IRS concerning revenue-sharing arrangements, the final regulations for intermediate sanctions defer the issue of revenue-sharing arrangements until a later date. Instead, the IRS says that for now, revenue-sharing arrangements will be evaluated under the general rules defining excess benefit transactions and that any future guidance on such arrangements will be issued prospectively.

Recordkeeping Requirements

One important procedural requirement stated in the regulations is that nonprofit organizations must keep adequate records to document the processes they use to make decisions regarding compensation and other related intermediate sanction rules. For example, **organizations must clearly indicate an intent to treat an economic benefit given to a disqualified person as compensation. The failure to do so causes the benefit to be an automatic excess benefit transaction (EBT), regardless of whether the disqualified person's compensation would have been reasonable had the benefit been included.** (TAM 200244028 dated June 21, 2002, covers a set of facts that can be used as a tutorial on the complexities of properly complying with the rebuttable presumption requirements.) Additionally, special, easier-to-follow documentation requirements are allowed for organizations with annual receipts (including contributions) of less than $1 million (based on the year or a three-year rolling average).

The regulations expand on the conditions under which "safe harbor" is granted to managers who unknowingly take part in an excess benefit transaction. The regulations state that as long as the nonprofit organization's authorized body met the rebuttable presumption for the transaction then the manager has in essence achieved a safe harbor. The regulations allow managers to use other professional advisers to fulfill the "safe harbor" conditions, such as certified public accountants or accounting firms with experience in those matters, independent valuation experts, and attorneys, including in-house counsel. An IRS official has clearly indicated that with final regulations issued IRS litigation will be increasing in this area.

The goal of the excess benefit transaction penalty is to give the IRS a way to punish those responsible for creating private inurement without punishing the nonprofit organization as a whole. Before the penalty was implemented, the only option the IRS had was to revoke an organization's tax exemption. The explanation accompanying the enactment of the IRC Sec. 4958 indicates that the excise taxes are the sole sanction imposed unless the excess benefit is so great that the organization is no longer operating as a charitable organization.

Benefit and retirement payments to members of organizations such as voluntary employees' beneficiary associations [501(c)(9) organizations] or teachers' retirement fund associations [501(c)(11) organizations] are not excess benefit payments. The rules are that the net earnings after such payments must not privately benefit a member or other individual. In addition to unreasonable cash compensation, other areas that could result in excess benefit transactions include a disqualified person's receipt of an interest-free loan, free use of the organization's assets (cars, apartments, etc.), undocumented expense reimbursements (or reimbursements for personal expenses), or an arrangement whereby the organization leases assets from the person at above fair market value rental rates.

The Commerciality Doctrine

One of the most important concepts in the nonprofit sector is the commerciality doctrine. **The doctrine holds that revenue from an activity, even one substantially related to the organizations exempt purpose, cannot be exempt function income if it is conducted in a commercial manner.** While the doctrine lacks substantial support in the Code or regulations, it has been used frequently by the IRS and courts to activities conducted by religious organizations, especially publishing activities. It has been seldom invoked in other instances of commercially conducted activities, such as merchandise aggressively marketed by catalog in museum gift shops.

Commerciality is based on competition with for-profit entities. While the concept had previously appeared in various cases, Living Faith, Inc. outlined for the first time the factors that led the court to deny exempt status in a particular set of facts based on commerciality. The court held that the operation of two restaurants and several health food stores, although serving the beliefs of the Seventh-Day Adventist Church, was in direct competition with for-profit restaurants and health food stores.

In a way, the commerciality doctrine acts as an extension of the unrelated business income test. The doctrine seems to indicate that activities without for-profit competitors are acceptable. Conversely, if a for-profit competitor exists, an organization's exempt status may be challenged if it operates efficiently and profitably.

Accumulating Earnings

The presence of a single substantial nonexempt purpose can cause the loss of tax exempt status even though the nonprofit organization has several important exempt purposes [*Better Business Bureau v. U.S.*, 326 U.S. 279 (1945)]. And as TAM 20437040 emphasizes, the **use of financial resources for investment** rather than charitable purposes can be a nonexempt purpose. [In this case a family-controlled religious organization that had amassed valuable real estate that was used for commercial rather than exempt purposes. Cash flows from the real estate subsidized operating deficits in its exempt broadcasting and publishing activities and to fund a for-profit subsidiary.]

All Section 501(c) organizations with significant endowments are potentially vulnerable to this issue. However, the IRS pursues this only where the organization is controlled by one person or a few related persons whose actions may be motivated by personal rather than charitable objectives. When an organization has an independent governing body, the IRS and the courts aren't likely to second-guess its decisions unless the facts are egregious.

Private Foundations Distributions. Since 1969, private foundations have been required to make annual distributions for charitable purposes equal to 5% of the fair market value of their investment assets. As long as this requirement is satisfied, a foundation can accumulate and invest the balance of its receipts without limitation or concern. However, controlled pubic charities don't have the comfort of a safe harbor rule. One organization that had a $5 million surplus accumulation lost its exemption even though it was spending about $500,000 (or about 10%) annually on exempt activities. [*Incorporated Trustees of Gospel Worker Society v. U.S.*, 510 F. Supp. 374 (D.C. 1981), aff'd 672 F.2d 894 (D.C. Cir.1981)].

A taxable subsidiary offers no haven for surplus accumulation. The TAM states: "the fact that the assets are being accumulated in a for-profit company under the formal legal control of X does not excuse X from using such assets for charitable purposes." Continued growth in the value of Y could mean that X would have to sell some of Y's assets or even sell some of the Y stock to an unrelated party to raise funds for exempt purposes. The TAM observes: "X cannot be allowed to focus its energies on expanding its subsidiary's commercial business and assets, and neglect to translate the financial success into specific, definite, and feasible plans for the expansion of its charitable activities."

The bottom line is that a controlled Section 501(c)(3) must be prepared to justify that its retention of funds for investment purposes is reasonable. The test for reasonableness is the same one utilized under IRC Sec. 537 for purposes of the accumulated earnings tax on closely-held taxable corporations [*Presbyterian and Reformed Publishing Co. v. Comm.*, 743 F.2d 148 (3rd Cir. 1984)]. This means that an organization must demonstrate that retention is necessary or appropriate to meet its reasonably anticipated future needs for charitable activities; and it should have specific, definite, and feasible plans for the use of the accumulation [Reg. 1.537-1(b)(1)].

Lobbying

All 501(c)(3) organizations are prohibited from performing lobbying activities that are more than an insubstantial part of their activities. An IRS News Release (IR 2000-47) attempts to clarify permissible lobbying by exempt organizations. Since this rule is so subjective, **organizations (other than churches and certain related entities) can elect under Section 501(h) of the Internal Revenue Code to have a specific limitation imposed on lobbying activities**. Organizations make the election by filing Form 5768. The amount an organization may spend on lobbying is computed based on its total exempt purpose expenditures for the year. If the amount spent on lobbying exceeds the computed limit, an excise tax must be paid on the amount of lobbying expenses over the limit.

Political Activity

Political activity is participating or intervening in any political campaign on behalf of or in opposition to any candidate for public office. Section 501(c)(3) organizations may not engage in any political activity. Unlike the lobbying rules described above, **all political activity is prohibited**, and no election is available to allow the activity. Violation of the political activity rules can result in loss of tax-exempt status. **Organizations may take sides with respect to political issues but not political candidates**. Because candidates align themselves with sides of issues, it can be difficult to distinguish between supporting an issue and supporting a candidate.

Activities that could potentially be considered political intervention are getting more IRS attention. Pay attention to this area in order to help avoid severe violations of the tax code. On November 3, 2000, the IRS issued a determination that **a 501(c)(3) organization's fundraising letters requesting contributions to benefit the organization would be considered political intervention if they were signed by a person seeking elected office.** The IRS regularly issues letters in U.S. presidential election years reminding exempt organizations that they are prohibited from participating or intervening in any political campaign on behalf of or in opposition to any candidate. The letters issued in the 2004 election year are IR-2004-59 and IR-2004-79. They indicate that engaging in prohibited campaign activity can result in loss of tax-exempt status and a requirement to pay an excise tax on money spent on such activities.

The IRS specifically identified the following activities as unallowable for 501(c)(3) organizations when performed in relation to a political candidate:

- Engaging in fundraising.
- Donating money.
- Endorsing a candidate.
- Distributing information.
- Performing any service or action that is detrimental or beneficial to a candidate.

Website Hyperlinks

Organizations should be just as careful with the political activity on their websites as they are with their other activities. Organizations that risk tax-exempt status by participating in political activities could face the same repercussions if found to be hosting a politically oriented chat room or posting candidate information in a way that might be considered biased.

In the latest IRS discussions, an organization seeking exempt status that had a hyperlink on its website to a political organization was determined to be involved in prohibited political intervention. However, another organization that featured a voter-education areas on their website containing information about candidates running for public office were deemed to be in compliance with all regulations. The rationale for this determination focused on the facts that all registered candidates were invited to participate and that the organization's involvement was unbiased. The Federal Election Commission and the IRS have had differing views on the appropriateness of hyperlinks. The prevailing position appears to be that linkages may either be allowable or endanger a nonprofit organization's tax-exempt status, depending on the relevant facts and circumstances. This is an area the IRS is continuing to study.

Organizations should also be aware that selling, renting, or swapping mailing lists with political organizations may be construed as violations of IRS rules against political activities. If so, excise taxes on political expenditures may apply and the nonprofit organizations may have their exempt status challenged. Additionally, nonprofit accountants should be aware of the ways in which states may scrutinize certain activities. For example, Minnesota's Attorney General sued a 501(c)(3) organization (a public radio station), charging it with deceptive fund-raising practices. The organization provided over 100 organizations with access to its mailing lists over a five-year period. The lawsuit was based on statements contained in the organization's fund-raising literature indicating that only "occasional" list-swapping took place.

Substantiation and Disclosure Requirements

The IRS has imposed certain substantiation and disclosure requirements on nonprofit organizations. **Generally, organizations must substantiate tax deductible contributions by providing certain information about those contributions to the donors. Additionally, organizations must disclose to contributors if their donations are not tax deductible, and disclose any portion of dues paid that relate to lobbying activities.** (A nonprofit organization that is not eligible to receive tax-deductible contributions should consider whether solicitations by email or on its website require the disclosure about contributions to the organization not being tax-deductible. The IRS has not yet taken a public stand on this issue.)

In July 2005, the IRS issued a revised version of Publication 1771, "Charitable Contributions—Substantiation and Disclosure Requirements," The revised publication indicates that a nonprofit organization can provide an **acknowledgment of a contribution electronically** (such as via an email addressed to the donor). However, the publication does not specifically address whether a nonprofit organization that is not eligible to receive tax-deductible contributions is required to disclose in solicitations via email or on its website that any contributions to the organization are not tax-deductible. A former Treasury deputy tax legislative counsel advised representatives of nonprofit organizations at a conference on nonprofit legal and tax issues to apply traditional tax rules to nonprofit organizations' Internet activity. She indicated that the use of the Internet is irrelevant to the general application of the tax rules, and one would use the same analysis that is used if the donation was received in a more traditional manner.

Written Acknowledgment of Contributions

The IRS has certain requirements for the documentation a donor must have to support a deduction for a charitable contribution. **For all contributions (even those under $250), a donor's canceled check is not sufficient to support a deduction (revised by 2006 Pension Act). For all donations, a donor's charitable deduction is disallowed unless a written acknowledgment of the donation is obtained from the recipient organization by the earlier of the date the taxpayer's return for the year of the donation is due or filed**.

IRS Pub. 1771 (revised July 2005) clarifies that an organization can provide either a paper copy of the acknowledgment to the donor, or an organization can provide the acknowledgment electronically, such as via email addressed to the donor. While the law puts the burden on the donor to get the acknowledgment, no organization that depends on public donations will survive very long if it fails to give its donors the documentation they need to support their deductions. This section, therefore, is very important for the individuals in the organization who work in fund development. They must understand the rules and set up internal systems to comply with the rules.

Most organizations already have procedures in place to write thank you letters to donors as a matter of practice. These acknowledgment letters must reflect some very specific information in order to conform to IRS rules. **The following information must be included in a donor acknowledgment letter:**

- The amount of cash and a description (but not the value) of any other property contributed.

- A statement about whether the organization provided any goods or services in return for the contribution.
- A description and an estimated value of the item provided if the organization provided something in return for the contribution. If the only benefit consists of intangible religious benefits, however, a statement to that effect is sufficient. Goods or services with a nominal value can be ignored for this disclosure requirement.

It is common practice for most tax exempt organizations to either issue individual receipts for all donations when received or to issue a periodic statement (usually annually) listing the dates and amounts of all donations. **Typically, churches issue an annual statement and other tax exempt organizations receipt each gift**. When a receipt is sent for each gift, a solicitation device is included which often results in repeat gifts, thereby increasing an organization's revenues.

A volunteer's unreimbursed out-of-pocket expenses generally can be substantiated simply by maintaining written records showing the date, amount, and reason for the expense. (IRS Pub. 526, "Charitable Contributions," provides guidance on records that will substantiate a donor's contribution deductions.) However, if such expenses total at least $250 for a single charitable event (such as chaperoning a multi-day field trip for a school or church group), the donor must receive an appropriate acknowledgement from the nonprofit organization before the deduction is allowed. IRS Pub. 1771, "Charitable Contributions—Substantiation and Disclosure Requirements," indicates that such a written acknowledgment from the organization must contain the following:

- A description of the services provided by the donor.
- A statement of whether or not the organization provided goods or services in return for the contribution.
- A description and an estimated value of the goods or services provided if the organization provided something in return for the contribution. If the only benefit consists of intangible religious benefits, however, a statement to that effect is sufficient.

Donations of Motor Vehicles (Also Boats and Airplanes)

An organization that receives a qualified vehicle that has a claimed value of more than $500 must file Form 1098-C (Contribution of Motor Vehicles, Boats, and Airplanes) with the IRS and furnish Copy B thereof to the donee [IRC Sec. 170(f)(12)]. Copy B can also serve as the donee charity's contemporaneous written acknowledgement of the contribution (Notice 2005-44). If so used, it must be furnished to the donor no later than 30 days after the:

1. Date of sale in an arm's-length transaction to an unrelated party;
2. Date of contribution if the donee charity certifies that the vehicle will not be transferred for money, other property, or services before the completion of material improvements (or repairs) or significant intervening use; or
3. Date of contribution if the donee charity certifies that the vehicle will be transferred to a needy individual for significantly below fair market value in furtherance of its charitable purpose.

Form 1098-C has been revised to permit the charity to indicate whether it provided any goods or services in consideration for the vehicle; and if so, a description and good faith estimate of the value of such goods or services (or if such goods or services consist solely of tangible religious benefits). This information is required in an acknowledgment [IRC Secs. 170(f)(12)(B)(v) and (vi)].

The filing of Form 1098-C does not relieve a donee charity of its obligation to report information about dispositions of donated property on Form 8282, as discussed in the following section.

Reporting Requirements for Dispositions of Donated Property

An organization that sells or otherwise disposes of donated property within two years (three years for returns filed after September 1, 2006) after its contribution generally must provide the IRS with certain details concerning the disposition on Form 8282 (Donee Information Return) [IRC Sec. 6050L(a)]. **The information required by Form 8282 is intended to help the IRS determine whether the donor might have claimed a deduction for more than the FMV of the property.** In addition, the information that must be submitted under the new three-year rule will indicate whether the organization used the property for an exempt purpose. (**A donor can deduct only his tax basis in tangible personal property, rather than FMV, if it is not used in the donee organization's exempt purpose.)**

Quid Pro Quo Contributions

Quid pro quo contributions are payments made to a charity, partly in return for some type of goods or services (some benefit received), and partly as a contribution. As an example, this is often the situation with fundraising events where a meal is provided. The meal is a benefit received by the donor.

For all quid pro quo contributions over $75, charities must provide donors with the estimated fair market value of the goods or services received by the donor in return for the contribution. (The IRS has not publicly commented on whether a printed web page or email from the nonprofit organization meets the notification requirement. However, in July 2005, the IRS issued a revised version of IRS Pub., "Charitable Contributions—Substantiation and Disclosure Requirements."

The revised publication indicates that a nonprofit organization can provide an acknowledgment of a contribution electronically, such as via an email addressed to the donor. The authors believe it is reasonable to believe that electronic confirmation is also acceptable in the context of a donee organization's disclosure requirements for quid pro quo contributions.) This value is important, because charitable contributions are only deductible to the extent the donation's value exceeds the value of goods or services received by the donor.

However, if the donor properly rejects the goods or service, the value of those goods or services can be ignored. For example, if the benefit offered by the organization is free tickets to a performance or a donor appreciation dinner, a check-off box on the form soliciting the donation could be used by the donor to reject the tickets at the time the contribution was made so that the gift's full value can be claimed as a deduction.

For quid pro quo contributions, charities must provide a disclosure statement to all donors that should:

- Explain that the amount of the deductible contribution for federal income tax purposes is the excess of the amount of money (and the value of any other property) contributed over the value of the goods or services provided by the charity, and

- Provide the charity's good faith estimate of the value of the goods or services furnished to the donor. The disclosure must be made in a manner that is reasonably likely to be noticed by the donor. Putting the notice in fine print on a ticket stub, acknowledgment, or other document may not be sufficient.

Regardless of the size of a quid pro quo contribution, the disclosure rule does not apply if the only benefits received by the donor are intangible religious benefits. Nor does the rule apply if the donor receives only *de minimis*, or token, benefits. This means the IRS allows full deductibility of the payment and no disclosure is required if (a) the value of the portion that represents a benefit to the donor is not more than $83.00 or 2% of the payment, whichever is less, or (b) the benefit is a token item, such as a mug or tee shirt, bearing the nonprofit organization's name or logo, the payment is $41.50 or more, and the cost of all benefits to the donor in a year is $8.30 or less. (These figures are for tax years beginning in 2005 and are indexed for inflation each year). Also, the IRS will treat certain newsletters or program guides as having no value for the purpose of this notification requirement.

A membership organization may provide its members with benefits, yet the benefits may be worth less than the amount of the dues. In this situation, the organization must disclose to its members how much of their dues represent a contribution and how much actually relates to membership dues. The dues amount represents the value of the benefits received by the member, and the contribution amount is the excess of the total payment amount over the dues.

A nonprofit organization that is named as the beneficiary of a split-interest gift meets the IRS substantiation and disclosure requirements by providing the donor with a calculation of the deductible amount of the transferred assets (often included as an exhibit or appendix to the split-interest agreement). The deductible amount is the present value of the interest given to the nonprofit organization, not the fair value of the assets transferred. The deductible amount is calculated as prescribed by IRS regulation, using the IRS-mandated interest rates and life expectancy tables.

In addition to complying with substantiation and disclosure requirements at the acquisition of the split-interest gift, there are annual filing requirements that a nonprofit organization must ensure are met. For charitable gift annuities, the nonprofit organization must prepare and submit to the beneficiary and the IRS Form 1099-R. For split-interest trusts, a nonprofit organization that is the trustee must ensure that trust returns and Schedule K-1 (Form 1041) are filed for each trust.

Donor-advised Funds

Prior to the Pension Protection Act of 2006 (PPA) there was no definition of donor advised funds in the Internal Revenue Code. The term was commonly understood, however, to refer to **an account established by one or more donors but owned and controlled by a public charity to which such donors, or other individuals designated by the donors could provide nonbinding recommendations regarding distributions from the account or regarding investment of the assets in the account.** Under new IRC Sec. 4966(d)(2), **a donor advised fund is defined as a fund or account owned and controlled by a sponsoring organization (not a governmental organization or a private foundation) which is separately identified with respect to a donor that has, or reasonable expects to have, advisory privileges with respect to the distribution or investment of the funds.**

New IRC Sec. 4966 imposes an excise tax on a sponsoring organization, and on any fund manager knowing it is making a taxable distribution, for each taxable distribution it makes from a donor advised fund. A taxable distribution generally is any distribution from a donor advised fund to any natural person.

PPC's 990 Deskbook states the following:

> For tax years beginning after August 17, 2006, "**a distribution from a donor advised fund that results in "more than an incidental benefit" to certain persons can trigger two taxes.** First, a tax equal to 125% of the amount of the benefit is imposed on the person who advised that the distribution be made or who received the benefit. Second, a tax equal to 10% of the amount of the benefit is levied on any fund manager who agreed to the distribution knowing that it would confer a prohibited benefit.
>
> **The persons who cannot be benefited include a donor or any person designated by the donor who has advisory privileges, a family member of these persons, and an entity in which the preceding persons have more than a 35% interest.**
>
> **A benefit is more than an incidental benefit if its receipt by one of the specified persons in return for a contribution to the supporting organization would reduce the donor's charitable contribution deduction.**

Taxable Distributions

For tax years beginning after August 17, 2006, a tax equal to 20% of any taxable distribution from a donor advised fund is imposed on a sponsoring organization. A tax equal to 5% of any taxable distribution (up to a maximum of $10,000) is also imposed on any fund manager who agreed to a distribution knowing that it was a taxable distribution. If more than one fund manager is liable, all are jointly and severally liable."

For many years, certain religious, world missions organizations received funds from donors who "recommended" these funds be used to support specified individuals, sometimes relatives, during their short or long-term missions trips. The donations were accounted for in a separate account and were used to directly pay for plane tickets, housing and other expenses of the supported person. Some of the money was also distributed to the supported person for personal expenses. **Under the new rules, these types of accounts may be considered donor advised funds subject to the penalties described above.**

This principle originated in *Revenue Ruling 62-113* and has been consistently applied by the courts since 1962. Based on case law, one may presume that donor advised funds distributed under the control of a tax exempt organization would not be taxable distributions, except possibly for persons described above for whom benefits are prohibited (the donor or a designee, family members of the donor or designee or an entity owned more than 35% by the donor. **The test of "full administrative and accounting control"** permitting tax deduction of designated giving is presumed to be satisfied with the following procedures for world missions agencies, including churches and other tax exempt organizations:

- The purposes of an individual's mission or ministry must be consistent with the organization's exempt purpose and approved by the organization's board prior to receiving donations on the person's behalf.
- A letter of understanding should communicate the terms and conditions accepted by the board.
- The individual must submit a periodic activity report and a financial report describing activities and the use of donated funds.
- The periodic reports should be reviewed and approved by the board thereby exercising control over the individual's activities and missions or ministry finances.
- The above activities should be recorded in the minutes of board of director's meetings to document the organization's "full administrative and accounting control."

Charitable Raffles

When tickets must be separately purchased for the holder to be eligible to win a prize, **the drawing is a raffle** and the reporting and withholding rules applicable to gaming activities must be followed. However, if the ticket to an event automatically makes the ticket holder eligible to win a prize, **the drawing isn't considered a gaming activity** (PLR 8642002).

If a purchaser gifts his ticket to another charity other than the raffle sponsor, and it's a winner, the raffle sponsor needn't issue a Form W-2G to the purchaser because he waived his rights to the raffle prize by his donation. However, if the fair value of the prize won exceeds $600 and is at least 300 times the ticket cost, the raffle sponsor must issue a Form W-2G to the donee charity and withhold federal income tax. The donee charity must file Form 990-T to recover the tax withheld.

Donors of raffle prizes tend to inflate the values for public relationship purposes. However, a prize may be readily available for an amount that is substantially less than the donor's value through the Internet, a discount outlet, or some other source. When this is the case, the charity may have its own public relations problem with the winner if it issues a Form 1099-MISC or Form W-2G using the donor's value. Consequently, the raffle sponsor should seek to determine a realistic fair market value for reporting purposes, based on the amount for which a prize could normally be obtained.

Form W-2G (Certain Gambling Winnings) must be filed for each person who wins a prize with a fair market value of more than $5,000. Such a form is also required if winnings are at least $600 and not more than $5,000, if they are at least 300 times the cost of the raffle ticket. (Where multiple tickets are purchased for a single prize, such amount is prorated to each ticket received.) If more than one person shares the winnings from a single ticket, the requirement to file Form W-2G is based on the total amount of the winnings (less the cost of the ticket), not the amount received by each person.

A raffle is considered a lottery for withholding and backup withholding purposes and so a charity must withhold and remit federal income tax on any payment exceeding $5,000 (net of the ticket cost). Until 2010, the applicable withholding rate is 25% of the fair market value of the prize won. **The sponsoring charity is liable for the tax that should have been withheld even if none is withheld.** If the winner refuses to provide a taxpayer identification number, the raffle sponsor must backup withholding at the rate of 28% on any winnings if the winnings are at least $600 but not more than $5,000 and are at least 300 times the ticket cost.

Charitable Donation Substantiation Quick Reference Guide

	$0–$500	$501–$5,000	> $5,000
Cash	Cancelled check, receipt, or other reliable written records. Acknowledgement.	Acknowledgement.	Acknowledgement.
Publicly traded stock	Receipt or reliable written records. Acknowledgement.	Reliable written records. Acknowledgement.	Reliable written records. Acknowledgement.
Nonpublicly traded stock	Reliable written records. Acknowledgement.	Reliable written records. Acknowledgement.	Acknowledgment. Reliable written records. Qualified appraisal. Declaration of appraiser and donee acknowledgment.
Artwork	Reliable written records. Acknowledgement.	Reliable written records. Acknowledgement.	Acknowledgment. Reliable written records. Qualified appraisal. Declaration of appraiser and donee acknowledgment.
Car, boat, airplane	Reliable written records. Acknowledgement.	Reliable written records. Acknowledgement.	Acknowledgment. Reliable written records. Qualified appraisal. Declaration of appraiser and donee acknowledgment.
Other noncash donations	Reliable written records. Acknowledgement.	Reliable written records. Acknowledgement. Appraisal (PPA 2006).	Acknowledgment. Reliable written records. Qualified appraisal. Declaration of appraiser and donee acknowledgment.
Payroll deductions	Paystub, Form W-2 or other reliable written records Documentation from charity.	Paystub, Form W-2 or other reliable written records Documentation from charity.	Paystub, Form W-2 or other reliable written records Documentation from charity.
Out-of-pocket expenses while service as a volunteer	Receipt, cancelled check, or other reliable written records. Acknowledgment.	Receipt, cancelled check, or other reliable written records. Acknowledgment.	Receipt, cancelled check, or other reliable written records. Acknowledgment.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

6. Which of the following is an example of private inurement?
   a. Paying reasonable compensation.
   b. Making loans at the going market rate.
   c. Distributing any surplus profits.
   d. Using the organization's assets for charitable purposes.

7. Define *excess benefit transaction* (EBT).
   a. A transaction that occurs when an organization directly or indirectly provides economic benefit to a disqualified person that exceeds the value of consideration given by the person in return.
   b. A revenue-sharing arrangement in which an individual is compensated, at least partly, by the amount of revenue that is raised in one or more of the organization's activities.

8. Which of the following statements best describes the requirements of a nonprofit organization in relation to recordkeeping and EBTs?
   a. An economic benefit given to a disqualified person will never be treated as an EBT if it is reasonable in nature.
   b. All nonprofit organizations must follow the same documentation requirements.
   c. A manager who takes part in an EBT can still qualify for a safe harbor.
   d. If the organization creates private inurement, the IRS must revoke its tax-exempt status.

9. If a Section 501(h) election is made, a Section 501(c)(3) can participate in which of the following activities?
   a. Endorsing a political candidate.
   b. Lobbying activities.
   c. Taking sides on political issues.
   d. Having hyperlinks to a political organization on its website.

10. Which of the following nonprofit organizations has correctly acknowledged its contributions?
    a. An individual sends a $200 donation to Alpha Organization. The organization returns the donor's cancelled check to support the individual's tax deduction.
    b. Beta Organization acknowledges its contributions with a personal phone call to thank each individual or entity who made a donation during the year.
    c. Gamma Organization sends a donor acknowledgment letter that includes the value of all property donated to the organization by the donor.
    d. Delta Organization sends a donor acknowledgment letter that includes a statement concerning any goods and services the organization provided in return for the contribution.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

6. Which of the following is an example of private inurement? **(Page 20)**

    a. Paying reasonable compensation. [This answer is incorrect. Private inurement occurs if the 501(c)(3) organization pays unreasonably high compensation.]

    b. Making loans at the going market rate. [This answer is incorrect. If the 501(c)(3) organization makes loans to insiders at less than market rates or other preferential terms, private inurement has occurred.]

    c. Distributing any surplus profits. [This answer is correct. Distributing surplus funds or profits by a 501(c)(3) organization would qualify as private inurement. Even a minimal amount of inurement results in disqualification for exempt status.]

    d. Using the organization's assets for charitable purposes. [This answer is incorrect. Private inurement has occurred if a nonprofit organization allows private individuals to use its assets.]

7. Define *excess benefit transaction* (EBT). **(Page 20)**

    a. A transaction that occurs when an organization directly or indirectly provides economic benefit to a disqualified person that exceeds the value of consideration given by the person in return. [This answer is correct. This is the definition of an EBT. The Taxpayer Bill of Rights, passed in July 1996, includes penalties against persons who enter into excess benefit transactions with an IRC Sec. 501(c)(3) public charity or an IRC Sec. 501(c)(4) organization.]

    b. A revenue-sharing arrangement in which an individual is compensated, at least partly, by the amount of revenue that is raised in one or more of the organization's activities. [This answer is incorrect. A revenue-sharing arrangement can be an EBT even if the disqualified person receives no more than fair market value as compensation if the person receives extra compensation without returning to the organization proportional benefits that contribute to its exempt purpose. However, this is not the definition of EBTs as a whole.]

8. Which of the following statements best describes the requirements of a nonprofit organization in relation to recordkeeping and EBTs? **(Page 23)**

    a. An economic benefit given to a disqualified person will never be treated as an EBT if it is reasonable in nature. [This answer is incorrect. Organizations must clearly indicate an intent to treat an economic benefit given to a disqualified person as compensation. The failure to do so causes the benefit to be an automatic EBT, regardless of whether the disqualified person's compensation would have been reasonable had the benefit been included.]

b. All nonprofit organizations must follow the same documentation requirements. [This answer is incorrect. Special, easier-to-follow documentation requirements are allowed for organizations with annual receipts (including contributions) of less than $1 million (based on the year or a three-year rolling average).]

c. A manager who takes part in an EBT can still qualify for a safe harbor. [This answer is correct. The regulations expand on the conditions under which "safe harbor" is granted to managers who unknowingly take part in an EBT. The regulations state that as long as the nonprofit organization's authorized body met the rebuttable presumption for the transaction then the manager has in essence achieved a safe harbor.]

d. If the organization creates private inurement, the IRS must revoke its tax-exempt status. [This answer is incorrect. The goal of the EBT penalty is to give the IRS a way to punish those responsible for creating a private inurement without punishing the nonprofit organization as a whole. Before the penalty was implemented, the only option the IRS had was to revoke an organization's tax exemption.]

9. If a Section 501(h) election is made, a Section 501(c)(3) can participate in which of the following activities? **(Page 25)**

a. Endorsing a political candidate. [This answer is incorrect. The IRS specifically identified the following activities as unallowable for 501(c)(3) organizations when performed in relation to a political candidate: (1) engaging in fundraising, (2) donating money, (3) endorsing a candidate, (4) distributing information, and (5) performing any service or action that is detrimental or beneficial to a candidate. No special election for these activities exists.]

b. Lobbying activities. [This answer is correct. All 501(c)(3) organizations are prohibited from performing lobbying activities that are more than an insubstantial part of their activities. Organizations (other than churches and certain related entities) can elect under Section 501(h) of the Internal Revenue Code to have a specific limitation imposed on lobbying activities. Organizations make the election by filing Form 5768.]

c. Taking sides on political issues. [This answer is incorrect. Organizations may take sides with respect to political issues but not political candidates. However, doing so does not require the organization to file a specific election.]

d. Having hyperlinks to a political organization on its website. [This answer is incorrect. Organizations must be careful about political activity on their websites. An organization seeking exempt status that had a hyperlink on its website to a political organization was determined to be involved in prohibited political intervention. However, other organizations have included hyperlinks successfully. It depends on the circumstances and what is being linked to. There is no special election regarding political hyperlinks.]

10. Which of the following nonprofit organizations has correctly acknowledged its contributions? **(Page 28)**

    a. An individual sends a $200 donation to Alpha Organization. The organization returns the donor's cancelled check to support the individual's tax deduction. [This answer is incorrect. For all contributions (even those under $250), a donor's cancelled check is not sufficient to support a deduction (revised by the 2006 Pension Act). Therefore, in this scenario, the deduction claimed by Alpha Organization's donor would be disallowed.]

    b. Beta Organization acknowledges its contributions with a personal phone call to thank each individual or entity who made a donation during the year. [This answer is incorrect. Oral acknowledgement is not sufficient to meet the IRS requirements. Beta Organization must provide a written acknowledgment of the donation by the earlier of the date the taxpayer's return for the year of the donation is due or filed.]

    c. Gamma Organization sends a donor acknowledgment letter that includes the value of all property donated to the organization by the donor. [This answer is incorrect. Gamma Organization's donor acknowledgement letter should include, among other things, the amount of cash and a description (but not the value) of any other property contributed.]

    d. Delta Organization sends a donor acknowledgment letter that includes a statement concerning any goods and services the organization provided in return for the contribution. [This answer is correct. Three things should be included in a donor acknowledgement letter: (1) the amount of cash and a description of any other property contributed, (2) a statement about whether the organization provided any goods or services in return for the contribution, and (3) a description and an estimated value of the item provided if the organization provided something in return for the contribution.]

EXAMINATION FOR CPE CREDIT

Chapter 2

Determine the best answer for each question below. Then log onto our Online Grading Center at **OnlineGrading.Thomson.com** to record your answers.

6. Which of the following actions would put a 501(c)(3) organization's tax-exempt status in jeopardy?

   a. Participating in any political campaign.

   b. Making a profit (revenues exceeding expenses).

   c. Paying a reasonable salary to employees.

   d. Allowing insiders to purchase organization assets at fair market value.

7. A nonprofit organization could lose its tax-exempt status or be ruled a private operating foundation if its public support falls significantly below what percentage?

   a. 10%.

   b. 33⅓%.

   c. 50%.

   d. 66⅔%.

8. List all of the following who would be considered a disqualified person in relation to Heartfelt Help (HH), a 501(c)(3) organization.

   - Aaron is HH's treasurer.
   - Brenda is an independent contractor hired by HH to set up their computer system.
   - Clara is an employee of HH who makes $30,000 per year.
   - Donald and Eli are voting members of HH's governing body.
   - Fern's charitable contributions to HH (his employer), make up 5% of the organization's total annual donations.

   a. Brenda and Clara.

   b. Donald and Eli.

   c. Aaron, Donald, Eli, and Fern.

   d. Aaron, Brenda, Clara, Donald, Eli, and Fern.

9. How does accumulation of earnings affect a Section 501(c)(3) organization?

    a. Tax-exempt status will not be lost unless the organization has two or more nonexempt purposes.

    b. The organization must distribute 5% of its investment assets to charity to stay tax exempt.

    c. The IRS pursues all such organizations with nonexempt purposes equally.

    d. Retention of funds for investment purposes must be justified by the organization.

10. How should quid pro quo contributions be handled under the IRS regulations?

    a. No quid pro quo contribution can be made if the fair market value is above $75.

    b. If the donor rejects the quid pro quo benefit, the full amount of the gift can be deducted.

    c. The disclosure rule applies to both intangible religious benefits and de minimis benefits.

    d. A membership organization with dues can provide an unlimited amount of benefits.

Chapter 3: Reporting Revenues

Introduction

An organization's sources of income are sometimes difficult to distinguish from each other. However, proper revenue categorization is necessary to prepare an accurate return. For certain organizations, an improper classification of income can impact the organization's tax-exempt status (if too much income is classified as unrelated business income) or its status as a publicly supported charity [in the case of an IRC Sec. 501(c)(3) entity].

All organizations must complete column (A), "Total Revenue," reporting gross receipts from all sources. In addition, except for Section 527 political organizations, complete columns (B) through (D).

Note: If the organization enters an amount in column (A) for lines 2a–2e or lines 11a–11c, enter a business code for each line from the instructions for Form 990-T (Exempt Organization Business Income Tax Return). If none of the listed codes accurately describe the activity, enter 900099. Entering one of these codes does not imply that the business activity is unrelated to the organization's exempt purpose.

Learning Objectives

Completion of this chapter will enable you to:

- Compare and contrast the different items reported on Part VIII of Form 990 and how they should be reported.
- Identify what is reported on Schedules B, M, and G on Form 990.

Part VIII Statement of Revenue

			(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
Contributions, gifts, grants and other similar amounts	1a Federated campaigns . . .	1a				
	b Membership dues	1b				
	c Fundraising events	1c				
	d Related organizations . . .	1d				
	e Government grants (contributions) .	1e				
	f All other contributions, gifts, grants, and similar amounts not included above	1f				
	g Noncash contributions included in lines 1a-1f: $					
	h **Total.** Add lines 1a–1f . . . . ▶					
Program Service Revenue		Business Code				
	2a					
	b					
	c					
	d					
	e					
	f All other program service revenue .					
	g **Total.** Add lines 2a–2f . . . . ▶					
Other Revenue	3 Investment income (including dividends, interest, and other similar amounts) . . . . ▶					
	4 Income from investment of tax-exempt bond proceeds ▶					
	5 Royalties . . . . ▶					
		(i) Real / (ii) Personal				
	6a Gross Rents . .					
	b Less: rental expenses					
	c Rental income or (loss)					
	d Net rental income or (loss) . . . . ▶					
	7a Gross amount from sales of assets other than inventory	(i) Securities / (ii) Other				
	b Less: cost or other basis and sales expenses .					
	c Gain or (loss) . .					
	d Net gain or (loss) . . . . ▶					
	8a Gross income from fundraising events (not including $ .... of contributions reported on line 1c). See Part IV, line 18 . . . . a					
	b Less: direct expenses . . . . b					
	c Net income or (loss) from fundraising events . . ▶					
	9a Gross income from gaming activities. See Part IV, line 19 . . . . a					
	b Less: direct expenses. . . . . b					
	c Net income or (loss) from gaming activities . . ▶					
	10a Gross sales of inventory, less returns and allowances . . . . a					
	b Less: cost of goods sold . . . b					
	c Net income or (loss) from sales of inventory . . . ▶					
	Miscellaneous Revenue	Business Code				
	11a					
	b					
	c					
	d All other revenue					
	e **Total.** Add lines 11a–11d . . . . ▶					
	12 **Total revenue.** See instructions. . . . . . ▶					

Part IX **Statement of Functional Expenses**

Section 501(c)(3) and 501(c)(4) organizations must complete all columns.
All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D).

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.	**(A)** Total expenses	**(B)** Program service expenses	**(C)** Management and general expenses	**(D)** Fundraising expenses
1 Grants and other assistance to governments and organizations in the U.S. See Part IV, line 21				
2 Grants and other assistance to individuals in the U.S. See Part IV, line 22				
3 Grants and other assistance to governments, organizations, and individuals outside the U.S. See Part IV, lines 15 and 16 . . .				
4 Benefits paid to or for members				
5 Compensation of current officers, directors, trustees, and key employees				
6 Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) . .				
7 Other salaries and wages				
8 Pension plan contributions (include section 401(k) and section 403(b) employer contributions) . .				
9 Other employee benefits				
10 Payroll taxes				
11 Fees for services (non-employees):				
a Management				
b Legal				
c Accounting				
d Lobbying				
e Professional fundraising services. See Part IV, line 17				
f Investment management fees				
g Other				
12 Advertising and promotion				
13 Office expenses				
14 Information technology				
15 Royalties				
16 Occupancy				
17 Travel				
18 Payments of travel or entertainment expenses for any federal, state, or local public officials				
19 Conferences, conventions, and meetings .				
20 Interest				
21 Payments to affiliates				
22 Depreciation, depletion, and amortization .				
23 Insurance				
24 Other expenses. Itemize expenses not covered above. (Expenses grouped together and labeled miscellaneous may not exceed 5% of total expenses shown on line 25 below.)				
a				
b				
c				
d				
e				
f All other expenses				
25 **Total functional expenses.** Add lines 1 through 24f				
26 **Joint costs.** Check here ▶ ☐ if following SOP 98-2. Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

Contributions, Gifts, Grants, and Similar Amounts Received

Report the total voluntary contributions (cash and non-cash), gifts, grants, and similar amounts (collectively referred to as contributions) received during the year **from the general public, governmental units, foundations, and other exempt organizations** on lines 1a–1f, Part VIII of Form 990. Also report any non-cash property contributions included in lines 1a–1f on line 1g. **The general public includes individuals, corporations, trusts, estates, and other entities.** Voluntary contributions are payments, or the part of any payment, for which the payer/donor does not receive full retail value (fair market value) from the recipient/donee organization. Report contributions on line 1 whether they are deductible by the contributor or not.

Report **gross amounts** of contributions collected in the organization's name by fundraisers.

Report all expenses of raising contributions in "Fundraising expenses," column (D), Part IX. Include on line 11e of Part IX professional fundraising fees relating to the gross amounts of contributions collected in the organization's name by professional fundraisers.

For GAAP and tax reporting, amounts paid to professional fundraisers and all related expenses are reported as fundraising expenses.

Contributions do not include:

- Grants, fees or other support from governmental units, foundations or other exempt organizations that represent a payment for a service, facility, or product that primarily gives some economic or physical benefit to the payer;
- The portion of any fundraising solicitation representing payment for goods, services, or anything else at retail value;
- Donations of services, free use of materials, equipment, or facilities;
- Unreimbursed expenses of officers, employees, or volunteers; or
- Payments received from employers for welfare benefits under plans described in IRC Secs. 501(c)(9), (17), and (18). These amounts are program service revenue reported on line 2.

Note: An organization may report line 1 amounts in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, but is not required to do so. An organization that receives a grant to be paid in future years should, according to **SFAS No. 116**, report the grant's present value on line 1. Accruals of present value increments to the unpaid grant should be reported on line 1 in future years.

In addition to completing lines 1a–1g for contributions, Schedule B, Schedule of Contributors, may also need to be completed and filed.

Completing Line 1 of Part VIII

Line 1a—Federated Campaigns. Enter the total contributions received indirectly from the public through solicitation campaigns conducted by federated fundraising agencies (FFAs) and similar fundraising organizations (e.g., a United Way organization). FFAs typically conduct fundraising campaigns within some part of a particular state, and allocate part of the net proceeds to each participating organization on the basis of the donors' individual designations and other factors. These types of contributions are sometimes referred to as indirect public support.

Note: FFAs must identify the sources of contributions made to them on lines 1a–1g.

Line 1b—Membership Dues. Report membership dues and assessments that represent contributions from the public rather than payments for benefits received or payments from affiliated organizations. If available membership benefits have only a token or nominal value, report members' dues here. This includes a situation in which an organization uses the concept of memberships in its fundraising efforts without actually having a formal set of members (e.g., donors are recognized as "associate members" or "sustaining members" depending on their level of support).

Membership dues include both contributions and payment for goods and services. Report on line 2, "Program Service Revenue," the portion of the membership dues that is a payment for goods or services. Report on line 1b the portion that exceeds the fair market value of the goods or services provided (a contribution).

Note: Although not controlling for tax purposes, AICPA audit standards for contributions may be useful in distinguishing between contributions and member dues. The AICPA standards require that membership revenues be analyzed to determine what portion, if any, is a contribution.

Example 3-1 Membership dues considered a partial contribution.

The Charter Museum operates to encourage and develop the study of fine arts. The museum raises operating funds partly by selling memberships. Although several levels of membership dues exist, each level receives approximately equal benefits. These benefits include free admission to special events at the museum, advance viewing of major exhibitions, discounts on the purchase of certain publications and articles, and invitations to selected lectures offered only for members. (Collectively, these benefits are worth about $40 to the member.) The only additional benefit received by members paying more than the basic membership rate is the recognition they receive in various museum publications as "sustaining," "associate," or "executive" members.

The museum has a total of 1,450 members. Its membership income for the current year is as follows:

Basic memberships (800 members × $40)	$ 32,000
Sustaining memberships (425 × $100)	42,500
Associate memberships (175 × $500)	87,500
Executive memberships (50 × $1,000+)	142,000
Total revenue from membership dues	$ 304,000

The $40 of dues paid by each member that approximates the value of the available membership benefits is reported as income from membership dues and assessments. Thus, $58,000 ($40 × 1,450) is reported in this manner. The balance of $246,000 ($304,000 – $58,000) is reported as contributions on line 1f.

Line 1c—Fundraising Events. Enter the total contributions received from fundraising events, which includes (but is not limited to) gaming events, dinners, auctions, and other events conducted for the sole or primary purpose of raising funds for the organization's exempt purpose.

Example 3-2 Contributions received from a fundraising event.

United Charities, Inc. (United), annually sponsors a concert to raise funds for its charitable programs. United contracts with the local symphony to provide the performance. Tickets are $100 for the orchestra circle seating and $75 for the balcony. They contain a notation that the concert is sponsored by and for the benefit of United. (Tickets for normal symphony concert performances are $50 and $25, respectively.)

The $50 difference ($100 – $50 and $75 – $25) between the ticket price and the retail value of the performance is reported as a contribution on line 1c of Part VIII and again on line 8a (within the parentheses of the description). The balance of the revenue from each ticket and United's payment to the symphony for out-of-pocket expenses are reported on lines 8a and 8b of Part VIII, respectively.

If a contributor pays more than the ticket price for a fundraising event, the excess of the amount actually paid over the ticket's fair market value is a contribution.

Organizations that report more than $15,000 total on lines 1c and 8a must also answer "Yes" to Part IV, line 18, and complete Part II of Schedule G, Supplemental Information Regarding Fundraising Activities.

Line 1d—Related Organizations. Report contributions by a related organization. Do not report on this line contributions received from FFAs reported on line 1a.

Line 1e—Government Grants (Contributions). Enter the total contributions of grants or similar payments from local, state, or federal government sources, as well as foreign governments. Include grants from U.S. possessions. Report a grant or other payment from a governmental unit if its primary purpose is to enable the organization to provide a service to, or maintain a facility for, the direct public benefit rather than to serve the direct and immediate needs of the governmental unit. Therefore, the payment is reported on line 1e if the general public receives the primary and direct benefit from the payment and any benefit to the governmental unit is indirect and insubstantial as compared to the public benefit. This is true even if the grantor specifies how the grant is to be used, so long as it is for a public purpose rather than for the grantor's private benefit

Examples of **governmental grants and other payments that are treated as contributions** and reported on line 1e include payments by a governmental unit:

- For the construction or maintenance of library or museum facilities open to the public;
- To nursing homes to provide health care to their residents; and,
- To child placement or child guidance organizations under government programs to better serve children in the community.

Example 3-3 Government grant treated as a contribution.

Waste Away, Inc. (WAI), is a Section 501(c)(3) public service organization. The Bureau of Solid Waste Management of the Department of Health and Welfare (Bureau) agreed to pay WAI $50,000 to study the feasibility of a particular system for disposal of solid waste. WAI must submit a detailed report to the Bureau when the study is completed.

Although WAI is providing the Bureau with a report on its study (which could be considered a direct benefit to the Bureau), the report is the result of basic research and study in the physical sciences. Therefore, its primary purpose is to directly benefit the general public by furthering the general functions of government rather than to meet a direct and immediate governmental need [Reg. 1.509(a)-3(g)(2)]. Thus, WAI should report the $50,000 as a contribution on line 1e of Part VIII.

Variation: Suppose the municipality of Throckmorton learns of WAI's research study and agrees to pay WAI $100,000 for WAI's help in applying the study's results to the construction of a new sewage disposal plant. Since Throckmorton's payment is primarily directed towards producing an economic benefit to the city by maximizing the efficiency of its new sewage disposal plant, WAI should report this payment on line 2 of Part VIII as program service revenue rather than as a contribution.

Line 1f—All Other Contributions, Gifts, Grants, and Similar Amounts Not Included Above. Enter all other contributions, gifts, and similar amounts the organization received from sources not reported separately on lines 1a through 1e including the following:

- Amounts received directly from individuals, trusts, corporations, estates, and foundations. Also included are contributions received from public charities and other exempt organization that are neither fundraising organizations nor related to the receiving entity, as well as contributions from donor advised funds (discussed further below).
- Amounts received for allowing a third party to use the organization's name in a promotional campaign. (In such a campaign, the donor advertises that it will make a contribution to the organization for each unit of a particular product or service sold, or for each occurrence of a specific event.)
- Grants from nongovernmental entities (public charities and other exempt organizations) to enable the organization to carry on programs or activities that further its exempt purpose (rather than to provide benefits to the grantor).

- Aggregate contributions, gifts, grants, and bequests received during the year from sponsored donor advised funds. A donor advised fund (DAF) is a book account created by a public charity to hold the contribution(s) of a particular donor, and it is usually identified by the donor's name. Although the charity has legal ownership of, and control over, the assets in the fund, it agrees that the donor (or someone appointed by the donor) can suggest the charities that should receive distributions from the fund.

  Note: The abuse of DAFs prompted Congress to adopt extensive definitional rules and to impose penalties on DAFs for participation in certain transactions. Moreover, Congress wants the IRS to monitor DAFs more closely.

Line 1g—Noncash Contributions. Enter the noncash contributions included (discussion following) on lines 1a through 1f. If this amount exceeds $25,000 the organization must answer "Yes" to Part IV, line 29, and complete and attach Schedule M, Noncash Contributions.

Cash Versus Noncash Contributions. Noncash contributions are anything other than cash, checks, money orders, credit card charges, wire transfers, and other transfers and deposits to an account of the organization. Report the value of noncash donated items as of the time of their receipt, even if sold immediately after they were received. For example, **report the fair market value of a donated car at the time the car was received** as a donation.

Example 3-4 Receipt of stock by charity.

United Charity, a Section 501(c)(3) organization, receives a gift of stock from an unrelated donor. The stock is delivered to United's broker, who sells it on the same day and transfers the sales proceeds, net of commissions, to United. The value of the stock at the time of the contribution must be reported on line 1f and on line 1g. The sale of the stock and the related sales expenses (including the amount reported on lines 1f and 1g) must be reported on lines 7a–7d.

Museums and other organizations that do not capitalize their collections in accordance with SFAS 116 should not report an amount here for collection items that were donated to the organization.

Documenting Charitable Contributions for Donors

The donor is required to have proper documentation in order for their charitable contribution to be tax deductible. Therefore, it is important that the organization provide the donor with proper documentation.

Analysis of Income-producing Activities

In addition to reporting total revenue in column (A) of Part VIII, all organizations (except for Section 527 political organizations) must complete columns (B), (C), and (D).

In column (B), report all revenue from activities substantially related to the organization's exempt purpose. Also report here any revenue that is excludable from gross income other than by IRC Sec. 512, 513, or 514 (e.g., interest on state and local bonds that is excluded from tax by IRC Sec. 103).

In column (C), report any unrelated business revenue received by the organization during the tax year from an unrelated trade or business.

In column (D), report any revenue excludable from unrelated business income by IRC Sec. 512, 513, or 514 (e.g., certain interest income, receipts from the sale of donated merchandise and receipts from bingo games).

Related or Exempt Function Revenue—Column (B), Part VIII

Report revenue from activities that are the basis for an organization's tax-exempt status (i.e., related or exempt function income) in Part VIII, column (B). Column (B) is also used to list income that is excluded from unrelated business income (UBI) for some reason other than that it qualifies under one or more of the exclusion codes (e.g., tax-exempt interest income excluded under IRC Sec. 103).

It normally is preferable to qualify the income as exempt function income [column (B) of Part VIII], if possible, rather than as income subject to a statutory exclusion from UBI [column (D) income]. If the revenue is from an activity that is substantially related to the organization's exempt purpose (i.e., exempt function income), there is no need to rely on a statutory exclusion to avoid the requirement to file Form 990-T (Exempt Organization Business Income Tax Return) or the possibility of owing unrelated business income tax.

Identifying Related or Exempt Function Income. Exempt function (or related) income is not the same for every organization.

Exempt function income is generally determined by facts and circumstances. **The ultimate use of the funds generated in an activity does not determine whether the income is exempt function income. The critical issue is whether the activity generating the revenue makes an important contribution toward accomplishing the organization's tax-exempt purpose.** If it does, the revenue should qualify as exempt function income. If an activity is conducted on a scale larger than necessary to accomplish the exempt purpose, however, revenue from the excess portion of the activity is not exempt function income.

To determine whether each of the organization's revenue sources is exempt function income (i.e., income from an activity related to its exempt purpose), the organization's exempt purpose must be understood. This requires knowing what the governing documents (e.g., bylaws and articles of incorporation) state about its exempt purpose and what was disclosed in the exemption application process (on Form 1023 or 1024).

Form 990 is a public document. Thus, it is important to carefully and fully document exempt function income in Part VIII, column (B). The public's analysis of the benefits provided by the organization may be based on reviewing the return. Moreover, **an accurate and full disclosure concerning the nature of income classified as exempt function income is critical in order for the filing of Form 990 to start the running of the three-year statute of limitations on the assessment of unrelated business income tax.**

All Form 990 returns filed with the IRS can be viewed on **www.guidestar.org**, usually within 60-75 days after filing. One must know the legal name of the organization to access its return.

Unrelated Business Revenue—Column (C), Part VIII

An unrelated trade or business is any trade or business, the conduct of which is not substantially related to the exercise or performance of the organization's exempt purpose. The fact that an organization needs or uses the profits from a business activity to support its program services has no bearing on the determination of whether the activity is unrelated.

Example 3-5 Activity that supports an organization's exempt purpose.

The Bedford Humane Society, an exempt organization, is organized and operated for the prevention of cruelty to animals. It receives approximately 80%–85% of the funds needed to maintain its program services from the City of Bedford and from public donations. To generate the rest of its revenue needs, the Society provides boarding and grooming services for the general public. These services are an unrelated trade or business because they are not related to the Society's exempt purpose, even though without this business activity the Society would be unable to fully fund its program services.

An activity is an unrelated trade or business, and the net income from it is subject to tax if three conditions exist:

1. ***Trade or Business.*** The organization is conducting a trade or business. This includes activities (even if unprofitable) carried on for the production of income from selling goods or performing services. However, activities that lack a profit motive are normally not a trade or business.
2. ***Regularly Carried On.*** The trade or business is regularly carried on. If an activity's frequency, continuity, and manner of conduct are comparable to the commercial operations of similar nonexempt entities, it normally is considered regularly carried on.
3. ***Unrelated to Exempt Purpose.*** The trade or business activity is "not substantially related" to the carrying out of the organization's exempt purpose. To determine whether an activity is "unrelated," its relationship to the organization's exempt purpose must be analyzed.

An activity is not taxable if one or more of these conditions is absent. Moreover, certain activities are statutorily excluded from taxation even though they meet each of the three criteria.

Report unrelated business revenue on the "Miscellaneous Revenue" lines 11a through 11d, column (C) of Part VIII.

Note: Lines 11a through 11c are used to report the three largest sources of miscellaneous revenue, which presumably could include income that is not unrelated business income.

Income an organization reports as UBI in column (C) of Part VIII should also be shown on its Form 990-T (Exempt Organization Business Income Tax Return) for the same tax year. However, the total on line 12, column (C), Part VIII, of Form 990 will not always equal line 13, column (A), Part I, of Form 990-T because the two forms require certain revenue to be reported differently [e.g., taxable rental income is reported net of expenses in Part VIII of Form 990, but gross in column (A) of Part I, Form 990-T].

Items Statutorily Excluded from Unrelated Business Income—Column (D), Part VIII

Even though an activity is an unrelated trade or business, income from it may not be UBI, based on a statutory exclusion. Statutorily excluded items are reported in column (D) of Part VIII.

Income That Is Both Exempt Function Income and Excluded Income

An organization sometimes has income that qualifies both as excluded income and as exempt function income (i.e., income from an activity that furthers its exempt purpose). Since the issue of statutory exclusions does not need to be addressed for exempt function income, classify revenue as exempt function income whenever possible. Only when income is not from an exempt function is it necessary to determine if a statutory exclusion applies.

Reporting the Organization's Five Largest Sources of Program Service Revenue

In Part VIII, all revenue is reported in column (A). Program service revenue is also reported in column (B). Unrelated business income (UBI) and revenue statutorily excluded from UBI are also reported in columns (C) and (D), respectively.

Lines 2a through 2e—Program Service Revenue. Enter the organization's five largest sources of program service revenue.

Line 2f—All Other Program Service Revenue. Enter the total received from all other sources of program service revenue not listed individually on lines 2a–2e.

What Is Program Service Revenue?

The revenue from activities forming the basis for an organization's tax-exempt status is program service revenue (in the form of gross receipts from admissions, sales of merchandise, performance of services, or furnishing of facilities). Thus, the revenue so classified varies based on the organization's exempt purpose. It is important to classify this income correctly because it may help an organization qualify as a public charity rather than a private foundation.

Program service revenue includes, but is not limited to:

- Medicare/Medicaid payments, and other payments for medical services.
- Fees and contracts from government agencies for a service, facility, or product that primarily benefited the governmental agencies, rather than the public as a whole.
- Income from program-related investments.
- Membership dues and assessments received that compare reasonably with the membership benefits provided by the organization.

Example 3-6 Program service revenue of a service organization.

The Slydell Rehabilitation Center, Inc. (SRC) was formed to provide assistance to recovering alcoholics. It operates a halfway house that provides room, board, therapy, and counseling for individuals released from treatment centers. SRC receives revenue primarily from three sources: (1) payments made by its clients, (2) reimbursements from clients' insurance companies, and (3) state grants for treatment of alcohol problems among the general public.

The payments received from clients and the insurance companies are program service revenue because they are generated in an activity that forms the basis for SRC's tax-exempt status. Thus, this income is reported in Part VIII of Form 990 (on line 2) as program service revenue.

Although the government grants are generated as part of the same activity, they are reported as contributions rather than program service revenue since the general public, rather than the state, receives the direct benefit.

If SRC's third source of revenue were from Medicare or Medicaid reimbursements (rather than from state grants), it would change how the revenue is reported. Government grants are reported as contributions because they primarily benefit the general public. Medicare and Medicaid payments, however, primarily benefit the individual on whose behalf the payments are made. Thus, these payments would be reported as program service revenue on line 2 since they would be earned as part of SRC's performance of its exempt function.

Example 3-7 Admission charges as program service revenue.

The Philip Philatelic Memorial Museum (PPMM) was organized to promote stamp collecting as a hobby and to educate the general public on the historical significance of stamps. PPMM maintains an extensive collection of stamps that is open to public viewing for a small admission charge.

In addition to revenue from admissions, PPMM generates income by offering memberships in the PPMM Society for an annual $18 donation. Society members receive unlimited free admission to the museum for their immediate family and a monthly newsletter about stamp collecting. The newsletter contains editorials and articles related to PPMM's exempt purpose of promoting stamps and stamp collecting.

The admissions income is reported as program service revenue on line 2, Part VIII, because it is generated in an activity that forms the basis for PPMM's tax-exempt status. The revenue from selling memberships is generally reportable in Part VIII on line 1b as membership dues and assessments.

Note: Expenses related to program services are reported in Part IX of Form 990.

Fees and Contracts from Government Agencies. Program service revenue includes income earned by the organization for providing a government agency with a service, facility, or product which benefited that government agency directly rather than benefiting the public as a whole.

Example 3-8 Payments by governmental agency to a medical clinic.

Glenview Medical Clinic, a Section 501(c)(3) organization, offers free vaccinations to low income individuals. Employees may also receive free vaccinations. A payment by a governmental agency to Glenview for providing vaccinations to employees of the agency is program service revenue reported on line 2. A payment by a governmental agency to Glenview for providing vaccinations to the general public is a contribution reported on line 1e.

Example 3-9 Payments by governmental agency for services.

Community Training, Inc., a Section 501(c)(3) organization, offers job training and placement to physically challenged individuals. A payment by a governmental agency to Community to operate the agency's internal mail delivery system is program service revenue reported on line 2. A payment by a governmental agency to Community to provide job training and placement for disabled individuals is a contribution reported on line 1e.

Income from Program-related Investments. Generally, investment income is reported on line 3. However, it is classified as program service revenue and reported on line 2, if the investment is made primarily to accomplish an exempt function of the investing organization rather than to produce income. Examples of program-related investments include student loans and notes receivable from other exempt organizations that borrowed the funds to pursue the reporting organization's exempt function.

Rental income from an exempt function is another example of program-related investment income. When an organization rents to an unaffiliated exempt organization at less than fair rental value for the purpose of aiding that tenant's exempt function, the reporting organization should report such rental income as program service revenue on line 2. Report all rental income from an affiliated organization on line 2. In addition, an organization whose exempt purpose is to provide low rental housing to low income persons would report such rent as program service revenue on line 2.

Membership Dues. Some nonprofit organizations are membership organizations (e.g., social clubs, veterans' groups, business leagues, and fraternal organizations). Dues and assessments paid by members of these organizations generally have a reasonable relationship with the membership benefits. Examples of membership benefits include subscriptions to publications, newsletters (other than one only about the organization's activities), free or reduced-rate admissions to events sponsored by the organization, use of the organization's facilities, and discounts on articles or services that members and nonmembers can buy. Thus, the organization reports the payments as program service revenue on line 2 of Part VIII.

Example 3-10 Income reportable as membership dues.

The Loyal Order of the Water Buffalos (LOWB) is a nonprofit organization. LOWB was organized for the pleasure and recreational pursuits of its members. Each of its 400 members pays annual dues of $150. Tangible membership benefits at least equal to this amount are available to each member (e.g., substantial discounts on admission to local water amusement parks and reduced-rate ski boat rentals). In the current year, approximately 50 members paid their dues but never used any of the benefits available to them.

LOWB should report the dues income as membership dues and assessments revenue on Part VIII, line 2. Although some of the members received nothing in return for their dues, this does not convert their dues into contributions (Rev. Rul. 68-432). All members have available membership benefits that equal or exceed the value of their dues. Whether they choose to use these benefits does not impact how LOWB reports the dues income on its annual return.

Certain other income of a social club, voluntary employees' beneficiary association, or supplemental unemployment benefit trust qualifies as exempt function income reportable on line 2 of Part VIII if it is set aside for:

- Religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals;
- Payment of life, sick, accident, or other benefits [but only if the organization is described in IRC Sec. 501(c)(9), (17), or (20) and certain funding limits in IRC Sec. 512(a)(3) are followed]; or
- Reasonable administration costs directly attributable to items described in 1 or 2.

Investment Income

Line 3—Investment Income. Report interest income from savings accounts and temporary cash investments, dividend and interest income from equity and debt securities (stocks and bonds), amounts received from payments on securities loans, as defined in IRC Sec. 512(a)(5), as well as interest from notes and loans receivable. These accounts include interest-bearing checking accounts, money market funds, commercial paper, certificates of deposit, and U.S. Treasury bills or other governmental obligations. Do not report unrealized gains and losses on investments carried at market value.

Line 4—Income from Investment of Tax-exempt Bond Proceeds. Report all investment income actually or constructively received from investing the proceeds of a tax-exempt bond issue that are under the control of the organization. Do not include proceeds deposited into a defeasance escrow, irrevocably pledged to pay the principal and interest on a bond issue that is not under the control of the organization.

Royalty Income

Line 5—Royalties. Report royalties received by the organization from licensing the ongoing use of its property to others. Typically, royalties are received for the ongoing use of intellectual property, such as patents and trademarks. In addition, royalties may also include payments to the owner of property for the right to exploit natural resources on the property, such as oil, natural gas, or minerals.

Rent Income

Line 6a—Gross Rents. Enter the rental income received for the year from investment property. Allocate revenue to real property and personal property in columns (i) and (ii), respectively. If the rental income relates to conducting an organization's exempt function (program service), report such income on line 2.

Rent from Unaffiliated Organization. Rental income received from an unaffiliated tax-exempt organization is generally considered unrelated to the reporting organization's exempt purpose and reportable on line 6a unless:

1. The rent collected is well below the property's fair rental value, and the purpose of the low rent is to help the organization renting the property to carry out its own exempt purpose; or
2. The tenant's activities are related to the landlord organization's exempt purpose.

If either of these two exceptions applies, the rental income is reported as program service revenue on line 2.

Rent from Affiliated Organization. Solely for completing Form 990, the reporting organization must report any rental income received from an affiliated tax-exempt organization as program service revenue on line 2. Rental revenue can be from an activity that is related or unrelated to the organization's exempt purpose. In general, rents from real property are excluded in computing unrelated business income (UBI), while rental income from personal property is included. There are special rules when rents are received from a mixed lease (i.e., personal property leased with real property).

Line 6b—Less: Rental Expenses. Enter the expenses paid or incurred for the income reported on line 6a. Include interest related to rental property and depreciation if it is recorded in the organization's books and records. Report in column (B) of Part IX any rental expenses allocable to rental income reportable as program service revenue on line 2.

Example 3-11 Rental income from investment property.

A corporate donor gave United Charities, Inc. (United), a small office building several years ago. Last year, the Women's Haven (an unaffiliated, tax-exempt organization) asked to rent a small amount of low-cost office space to house its administrative staff. United was interested in furthering the goals of the Women's Haven (which are related to its own) and had the space available in its building. Thus, it agreed to rent 900 square feet of office space to the Women's Haven for the nominal amount of $10 per year. The remainder of the building (5,400 square feet) is leased at market rental rates and generated $48,600 of rental income during the current year. United's total expenses for the building (including depreciation) were $17,500.

United should report $48,600 of income from unaffiliated entities on line 6a of Part VIII and $15,000 of related expenses [5,400 ÷ (5,400 + 900) × $17,500] of rental expenses on line 6 of Part VIII.

The $10 of rental income from the Women's Haven is included on line 2 of Part VIII as program service revenue since it is charged at a below-market rate to further that organization's exempt purpose. (Even if the rent from Women's Haven was not at a below-market rate, it still would be reported on line 2 because the activities of Women's Haven relate to the exempt purpose of United.) The $2,500 [900 ÷ (900 + 5,400) × $17,500] of expenses related to this revenue are shown in Part IX, column (B), as part of program service expenses.

Line 6d—Net Rental Income or (Loss). Add line 6c, columns (i) and (ii), and enter on line 6d in column (A) and flow it to the appropriate columns (B) through (D). Show any loss in parentheses.

Sales of Assets Other Than Inventory

Differentiating Asset Sales

Line 7a—Gross Amount from Sale of Assets Other Than Inventory. Enter the total gross sales price of securities and other assets in columns (i) and (ii), respectively. Also include capital gains dividends, capital gains and losses from a partnership (typically reported to the organization on a partnership Schedule K-1), and capital gains distributions from trusts (typically reported on a Schedule K-1 from the trust).

Line 7b—Less: Cost or Other Basis and Sales Expenses. For each column, enter the total cost or other basis (less depreciation) and selling expenses.

Line 7d—Net Gain or (Loss). Combine the gain or loss figures reported on line 7c, columns (i) and (ii), and report that total on line 7d in column (A) and flow it to the appropriate columns (B) through (D). Do not include any unrealized gains or losses on securities carried at market value in the organization's books.

Securities Sales, Line 7, Column (i)

Report, on lines 7a through 7c, all sales of securities in column (i). For this purpose, the term securities includes common and preferred stocks, bonds (corporate and government), and mutual fund shares.

Cost Basis. To determine the gain or loss from a security sale, deduct an organization's basis in the asset and any selling expenses (e.g., broker commissions) from the gross proceeds. If the security was acquired by purchase, its basis is the original cost. If the security was acquired as a donation and sold at a gain, its basis is the same as the donor's. If the donated property is sold at a loss, the organization's basis is the lesser of the donor's basis or the fair market value (FMV) of the property when the donation was received.

Note: For book purposes, organizations must record the basis of contributed property at its FMV on the date of the gift. Statement of Financial Accounting Standards No. 124 (**SFAS No. 124**) requires that organizations also adjust the carrying value of marketable securities (whether bought or received as a donation) to current market value throughout the holding period. The IRS will accept either basis (original FMV or adjusted FMV) for preparing Form 990. However, the regular basis rules for donated property apply when preparing an unrelated business income tax return (Form 990-T) or a return for excise tax on investment income under IRC Sec. 4940 (Form 990-PF).

Calculating Basis in a Partial Disposition. If an organization does not dispose of all of its interest in a particular security at the same time, it has three options for determining its cost or other basis in the actual security sold. If detailed records exist, the organization may specifically identify the actual cost or other basis of the asset sold. If adequate records are not available to specifically identify the actual security, it is assumed the asset sold was the first one of that type acquired by the organization (and not previously sold) (i.e., first-in, first-out) [Reg. 1.1012-1(c)]. For simplicity, the IRS also allows an organization to use an average cost basis. These methods of determining basis are illustrated in Example 3-12.

Example 3-12 Determining the basis of securities sold in a partial disposition.

Save Oceanic Snails, Inc. (SOS), a tax-exempt organization, has accumulated 1,000 shares of the common stock of BIG Corp. that it holds for investment purposes. The stock was acquired as follows:

Date	Acquired by	# of Shares	Cost (if purchased) or FMV (if received as a donation)
1/15/99	Donation	500	$ 5,000
3/21/01	Purchase	100	1,300
10/3/01	Purchase	200	3,600
4/12/03	Donation	200	3,400
		1,000	$ 13,300
Average basis per share ($13,300/1,000)			$ 13.30

In March 2009, SOS sold 400 shares for $8,000 before deducting $63 of commission expense. SOS should report the $8,000 of gross proceeds on line 7a, column (i), of Part VIII. To determine the amount to report on line 7b, column (i), of Part VIII, SOS uses one of three methods for determining its basis in the stock: (1) specific identification; (2) first-in, first-out; or (3) average cost. These methods are described as follows:

Specific Identification. SOS has detailed records concerning its ownership of BIG stock. Thus, it may choose which of the shares were sold by giving its broker the certificates for those specific shares. If the shares are in the custody of the broker, SOS can specifically identify them by instructing him to sell certain shares. The broker must give written confirmation of this request for it to be effective [Reg. 1.1012-1(c)(3)(i)(b)]. If, for example, SOS and the broker complied with these procedures for the 200 shares acquired on October 3, 2001, and the 200 shares acquired on April 12, 2003, SOS reports a basis on line 7b, column (i), of Part VIII of $7,000 ($3,600 + $3,400) plus the $63 of commission expense.

First-in, First-out. If SOS fails to specify which shares are being sold (e.g., because they are held by a broker and no instructions are given regarding which shares to sell), it is assumed that 400 of the shares acquired on January 15, 1999, were disposed of (i.e., the first shares acquired are assumed to be the first ones sold) [Reg. 1.1012-1(c)(1)]. Thus, SOS reports $4,063 ($4,000 pro rata basis for 400 of the 500 shares acquired on that day + $63 commission) on line 7b, column (i), of Part VIII.

Average Cost. In lieu of either of the first two methods, SOS may determine the basis of the shares sold by taking the average basis of all the shares owned at the time of the sale. Under this method, the basis of the shares sold is $5,320 ($13.30 × 400) and the amount reported on line 7b, column (i), of Part VIII is $5,383 ($5,320 + $63).

Note: Average cost normally should not be used to determine gain or loss in reporting the sale of a security on Form 990-T (e.g., when the gain is unrelated business income because the security was debt-financed property). However, in the authors' opinion, average cost can be used to calculate gain on mutual fund shares.

Sales of Other Assets, Line 7, Column (ii)

Except for securities sales (as discussed previously) and inventory items, an organization's gross proceeds from assets sales are reported in column (ii), line 7a, of Part VIII. Cost or other basis, net of any depreciation or amortization claimed and plus any expenses of the sale, is reported on line 7b, column (ii).

Example 3-13 Sales of assets other than inventory.

In addition to the 400 shares of BIG stock that SOS sold (see Example 3-12), a $2,317 capital gain dividend was received from a mutual fund. SOS also disposed of the following assets during the year.

- **Office Furniture.** The furniture was purchased in March 2000 for $3,300; depreciation of $2,800 has been claimed on it. It was sold for $700 to Sam Mead, a used furniture dealer, on January 28 of this year.
- **Undeveloped Land.** The land was received as a donation in June 2002 when its FMV was $112,000. It was sold to Tyson Homes on June 18 of this year for $160,000.
- **Nonpublicly Traded Securities.** SOS sold 330 shares of TSP, Inc. (a privately held company), back to the corporation itself. The shares were sold on September 14 of this year for $16,500. They were originally received as a donation in December 2001 when their FMV was estimated to be $12,000.

SOS should report the capital gain dividend as well as all of the asset sales on line 7a of Part VIII. The following amounts are reported on the lines and in the columns indicated:

Form 990

Line	Column	Amount	Consisting of:	
7a	(i)	$ 26,817	$ 8,000	(Sales price—BIG Corp. stock)
			16,500	(Sales price—TSP stock)
			2,317	(Capital gain distribution)
	(ii)	160,700	700	(Sales price—furniture)
			160,000	(Sales price—land)
7b	(i)	17,383	5,320	(Basis—BIG Corp. stock, using average cost method)
			63	(Commission expense—BIG Corp. sale)
			12,000	(Basis—TSP stock)
	(ii)	$112,500	3,300	(Cost—furniture)
			2,800	(Accumulated depreciation—furniture)
			$112,000	(Basis—land)

Recordkeeping

The organization should maintain books and records to substantiate information regarding any securities or other assets sold for which market quotations were not published or were not otherwise readily available. The records should include:

- An asset description,
- Date acquired,
- How acquired (e.g., donation or purchase),
- Cost or other basis,
- Expense of sale, and
- Depreciation.

Reporting Dispositions of Donated Property

An organization that sells or otherwise disposes of donated property within three years after its contribution generally must provide the IRS with certain details concerning the disposition on Form 8282 (Donee Information Return). The information required by Form 8282 helps the IRS determine whether the donor might have claimed a deduction for more than the FMV of the property. In addition, the information that must be submitted indicates whether the organization used the property for an exempt purpose.

The form must be filed with the IRS Service Center in Ogden, UT 84201-0027 within 125 days after a disposition of property. A copy of the form must be given to the donor of the property (although there appears to be no deadline for satisfying this requirement). Special rules apply if an organization transfers donated property to another organization.

Note: A donor can deduct only his tax basis in tangible personal property, rather than FMV, if it is not used in the donee organization's exempt purpose. An organization may initially expect to use donated tangible personal property for exempt purposes but ultimately dispose of it within the three-year period. A donor who claimed a charitable deduction of more than $5,000 must reduce it to his or her tax basis if the disposition occurs in the contribution year; or include in income the amount of the claimed deduction in excess of his or her tax basis for a disposition subsequent to the contribution year. These rules do not apply under certain circumstances, including where the organization can certify to the IRS that its use of the property in its exempt purposes prior to disposition was "substantial" (a term that had not been defined when this publication went to press).

Example 3-14 Reporting a disposition of donated property.

On January 25, 2009, the Quincy Art Museum (Quincy) received the donation of a painting valued at $25,000. Although Quincy was grateful for the donation, its Board of Directors and Curator determined that the painting did not fit in its collection. Thus, on July 31, 2009, it was sold at auction for gross proceeds of $22,500.

Quincy must file Form 8282 within 125 days of the sale (i.e., by December 3, 2009) and furnish a copy of Form 8282 to the painting's donor.

Note: In this example, the donor's income tax deduction would be limited to cost basis.

The following **dispositions of donated property are exempt from the requirement to file Form 8282:**

- A disposition of money or publicly traded securities.
- A disposition of property for which the donor's claimed value at the time of the original donation was $5,000 or less (including the value of any similar items donated at the same time) [IRC Sec. 6050L(b)]. If the claimed value exceeded $5,000 for the item (or group of similar items), the organization should have received Form 8283 (Noncash Charitable Contributions) from the donor. Thus, an organization is not required to file Form 8282 unless it receives a Form 8283 or has reason to believe it should have received one but did not.
- In a disposition of certain inventory, scientific equipment, and other property described in IRC Sec. 170(e)(3) or (4) and donated by a C corporation, a special rule applies for determining when Form 8283 (and thus Form 8282) must be filed. For these donations, neither form is required unless the donor corporation's claimed deduction is more than $5,000 over the amount it could have deducted as cost of goods sold had it sold (rather than donated) the property.
- Dispositions occurring more than three years after the donor's contribution.
- A disposition of an individual item included in a donation of several items if the donor indicated on the Form 8283 (in Section B, Part II) given to the organization that the item's appraised value was $500 or less.
- Any consumption or distribution by the organization of an item, without consideration, in fulfilling an exempt purpose or function [Reg. 1.6050L-1(a)(3)]. For example, the Red Cross's distribution to disaster victims of a $6,000 donation of food received from a local business need not be reported.
- Property dispositions that came from the donor's inventory and were acquired by the donor in the same year the contribution was made. Such property is deductible by the donor as part of cost of goods sold rather than as a contribution.

Income from Fundraising Events

What Is Fundraising?

Fundraising events and activities are those endeavors with a primary purpose of raising funds for the organization by selling goods or services for more than their direct cost. (Event refers to the fact that the fundraiser involves some event or activity, rather than being purely a solicitation of funds.) The event only incidentally accomplishes an exempt purpose by generating operating funds. Income from a fundraising event or activity can generate both revenue reported on line 8a of Part VIII as well as receipts reported as contributions on line 1c.

Fundraising vs. Charitable Contribution. Fundraising events include dinners/dances, door-to-door sales of merchandise, concerts, carnivals, sports events, and auctions. Fundraising events do not include sales or gifts of goods or services of only nominal value, lotteries or raffles where (1) prizes have only nominal value, (2) the names of contributors or event attendees are entered in a drawing for prizes without the purchase of a raffle ticket, or (3) solicitation campaigns that generate only contributions (these are contributions and should be reported on line 1f).

Example 3-15 Donor receives only an item of nominal value.

One of United Charity's annual fundraisers is a mail solicitation to previous donors. In return for a contribution of any amount, donors receive a keychain with United's logo. All amounts received should be reported as contributions on line 1c and all associated expenses in Part IX, column (D). In such a case, no amounts would be reported on line 8.

Fundraising vs. Program Service. Fundraising events do not include events or activities that substantially further the organization's exempt purpose even if they also raise funds.

Example 3-16 Event that furthers the exempt purpose.

Frye County Folk Music is an organization formed to promote and preserve folk music and related cultural traditions. It holds an annual folk music festival featuring concerts, handcraft demonstrations, and similar activities. Since the festival furthers the organization's exempt purpose, income from ticket sales is reported on line 2 as program service revenue. No amounts would be reported on line 8.

Mixed Fundraising and Charitable Events. Fundraising events sometimes generate both contributions and event income, such as when an individual pays more than the FMV for the goods or services furnished. If a buyer pays more than FMV for the goods or services received, report the excess as contributions. (See Example 3-2.) If the goods or services offered have only a nominal value, report the full amount received as a contribution.

Tip: On fundraising event invitations, organizations should give donors the option of checking a box to indicate that they will not attend the event so that the entire amount of the ticket (not just the excess over FMV) is tax deductible by the donor.

Reporting Fundraising Event Income in Part VIII

Line 8a—Gross Income from Fundraising Events. Report the organization's gross income from fees, ticket sales or other revenue from fundraising events. These are events and activities conducted for the primary purpose of raising funds to finance the organization's exempt activities. Report in the parentheses the total amount from fundraising events that represents contributions rather than payment for goods or services.

Preparation Pointer: If the sum of lines 1c and 8a exceeds $15,000, then answer "Yes" to Part IV, Form 990, line 18 and complete Part II of Schedule G. When completing Schedule G, Part II, make sure that the total reported on Schedule G, Part II, line 3, column (d) equals the amount reported on Part VIII, Form 990, line 8a.

Line 8b—Less: Direct Expenses. Report the expenses directly related to producing the fundraising revenue (e.g., food costs associated with a fundraising dinner). Indirect fundraising expenses, such as advertising, associated with raising these contributions, must be reported on the appropriate lines in Part IX, column (D), and not on line 8b.

Line 8c—Net Income or (Loss) from Fundraising Events. Report the difference between lines 8a and 8b. The organization must report net income from fundraising events as unrelated business revenue [column (C)] or as revenue excluded from tax under IRC Sec. 512, 513, or 514 [column (D)].

Example 3-17 Reporting income from a dinner and auction.

Gimbel Art Museum (Gimbel), a Section 501(c)(3) organization, held a dinner and auction during the year. Event tickets sold for $200 each (FMV of each ticket was $75, and 250 tickets were purchased). Direct expenses of $5,000 were incurred. Ticket sales receipts were $75,000 and reported as follows:

Fundraising event income	$18,750 ($75 FMV × 250 tickets)	Part VIII, 8a
Contribution income	$56,250 ($75,000 – $18,750)	Part VIII, 1c

The auction generated $20,000 of revenue. The FMV of the items donated to Gimbel for the auction were $16,000. The auction receipts were reported as follows:

Contribution income	$4,000 ($20,000 – $16,000)	Part VIII, 1c
Noncash contributions	$16,000	Part VIII, 1c and g

Income from Gaming Activities

When Does Gaming Exist?

Proceeds of fundraising campaigns where the donors' names are entered into a sweepstakes, raffle, or lottery normally are treated as contributions (on line 1c). However, if the prizes to be awarded have more than a nominal value and a donor pays a minimum amount to be entered in the event, the resulting income is treated as from gaming activities.

Reporting Gaming in Part VIII

Line 9a—Gross Income from Gaming Activities. Report the organization's gross income from gaming activities. Gaming includes (but is not limited to) bingo, pull tabs/instant bingo (including satellite and progressive bingo), Texas Hold-em Poker and other card games, raffles, scratch-offs, charitable gaming tickets, break-opens, hard cards, banded tickets, jar tickets, pickle cards, Lucky Seven cards, Nevada Club tickets, casino nights, and Las Vegas nights. Gaming also includes coin-operated gambling devices such as slot machines, electronic video slot or line games, video poker, video blackjack, video keno, video bingo, and video pull tab games.

Organizations that report more than $15,000 on line 9a must also answer "Yes" to Part IV, Form 990, line 19 and complete Part III of Schedule G.

Line 9b—Less: Direct Expenses. Report the expenses directly related to producing gaming revenue. Direct expenses of gaming include cash prizes, noncash prizes, compensation to bingo callers and workers, rental of gaming equipment, and cost of bingo supplies (e.g., pull tabs, etc.).

Example 3-18 Reporting income from a raffle.

As part of its annual fundraising campaign, Relief Agency, Inc. (RAI) [a Section 501(c)(3) organization located in Dallas, Texas] offered donors a chance to enter a drawing for a $25,000 car. A minimum donation of $10 was required to be entered in the drawing.

RAI raised $84,000 as a result of this raffle ($82,300 from donors who gave at least $10 each and $1,700 from donors who gave less). It incurred $9,100 of advertising, printing, and other direct costs to publicize the fundraising effort and the raffle. (The car was donated by a local dealer.)

The prize awarded in the raffle has more than a nominal value and a minimum donation was required to enter the drawing. Thus, RAI should report $82,300 of the receipts as gaming revenue on line 9a of Form 990, and a total of $26,700 as contributions ($1,700 of cash, plus $25,000 for the value of the donated car) on line 1c of Part VIII.

The direct expenses of the gaming activity is reported on line 9b of Part VIII, Form 990. Thus, RAI reports total expenses of $34,100 ($25,000 for the car, plus $9,100 of other expenses related to the drawing). Any expenses associated with obtaining the contributions raised during the drive (e.g., out-of-pocket expenses for soliciting the donation of the car) are reported as fundraising expenses in column (D) of Part IX of Form 990.

Because RAI's gross income from gaming exceeds $15,000, attach to the organization's return a completed Schedule G, Part III.

RAI must also file Form 1098-C (Contribution of Motor Vehicles, Boats, and Airplanes). In addition, as a result of disposing of the donated automobile within three years of its receipt, RAI must also file Form 8282 (Donee Information Return) unless the car was acquired by the auto dealer in the same year it was donated.

Unrelated Business Income Implications of Gaming

Games of chance are generally taxable. Consequently, Form 990-T (Exempt Organization Business Income Tax Return) must be filed when gross receipts from taxable gaming activities are $1,000 or more.

However, there are major exemptions from the unrelated business income tax (UBIT) rules. For example, income from bingo games is not subject to UBIT. For a game to meet the legal definition of bingo, wagers must be placed, winners must be determined, and prizes or other property must be distributed in the presence of all persons placing wagers in that game. Wagering games that do not meet the legal definition of bingo do not qualify for the exclusion, regardless of its name (e.g., instant bingo, in which a player buys a prepackaged bingo card with pull-tabs that the player removes to determine if he or she is a winner).

Reporting Inventory Sales

Line 10a—Gross Sales of Inventory, Less Returns and Allowances. Report the organization's gross income from sales of inventory items, less returns and allowances. Include sales of those items the organization makes to sell to others or buys for resale.

Report the sales revenue regardless of whether the sales activity is an exempt function of the organization or an unrelated trade or business. The following sales are exceptions to this general rule:

- Sales of inventory items at special fundraising events are reported on line 8, Part VIII.
- Program-related sales of inventory by hospitals, colleges, and universities are sometimes reported as program service revenue on line 2, Part VIII.

Example 3-19 Inventory sales that generate program service revenue.

DeBawl University (DU) operates a bookstore for the benefit of its students. The store sells textbooks required in the courses taught at DU. It also sells sundry products for the convenience of the students on campus. DU should report bookstore sales as part of its program service revenue on line 2, Part VIII, and the related expenses must be detailed in Part IX.

Sales of investments on which the organization held for investment are reported on line 7 and not line 10a.

Line 10b—Cost of Goods Sold. Report the cost of goods sold (COGS) related to the inventory sales. COGS usually includes direct and indirect labor, materials and supplies consumed, freight-in, and a portion of overhead expenses. Marketing and distribution costs are not included in the COGS but are reported in column (B) of Part IX.

The COGS expense for a particular sale follows the income reporting. If the revenue is reported on line 10a of Part VIII, the COGS expense is claimed on line 10b. The COGS for items reported as special fundraising events revenue is deducted on line 8b of Part VIII. If an inventory sale is reported as program service revenue on line 2, the applicable expense of the sale is reported in Part IX, column (B).

Example 3-20 Accounting for inventory sales.

Helping Hands, Inc. (HHI) manufactures kitchen brooms for the primary purpose of helping to fund HHI's exempt activities. The broom factory is otherwise unrelated to those activities.

The books of HHI show the following information for the current year:

Inventory:	
Beginning of year	$13,000
End of year	11,500
Purchases of raw materials for the year	34,000
Payroll costs for factory employees	98,700
Indirect costs of manufacturing facility (utilities, maintenance, repairs, etc.)	17,200
Gross proceeds from broom sales	312,400
Credit given to wholesalers who returned unsold brooms	3,500

HHI should report $308,900 of sales ($312,400 – $3,500) on line 10a of Part VIII. COGS of $151,400 is reported on line 10b of Part VIII and is calculated as follows:

Beginning Inventory:	$ 13,000
+ Raw material purchases	34,000
+ Labor costs	98,700
+ Indirect costs	17,200
* Ending inventory	(11,500)
COGS	$ 151,400

Suppose HHI's exempt purposes include assisting handicapped individuals to become self-sufficient and that the labor force used in its broom factory consists almost solely of people who are legally blind. Unless HHI is a college, university, or hospital, it is required to report the sale of inventory items on line 10a even if the sales relate to program service activities. (See the Form 990 instructions for line 2.)

Miscellaneous Revenue

Line 11. Report all other types of revenue not included on lines 1 through 10. List the three largest sources on lines 11a through 11c and all other revenue on line 11d.

Total Revenue

Line 12. For column (A), add lines 1h, 2g, 3–5, 6d, 7d, 8c, 9c, 10c, and 11e. For columns (B) through (D), add lines 2a–2f, 3, 4, 5, 6d, 7d, 8c, 9c, 10c, and 11a–11d. The amounts reported on line 12 in columns (B), (C), and (D), plus the amount reported on line 1h, should equal line 12, column (A).

Schedule B (Form 990, 990-EZ, or 990-PF)—Schedule of Contributors

Who Must File

An organization must complete and attach Schedule B to its Form 990, 990-EZ, or 990-PF, unless it certifies that it does not meet the filing requirements of this schedule by answering “No” on Part IV, line 2, of Form 990; or by checking the proper box in the heading of Form 990-EZ, or on line 2 of Form 990-PF. Organizations that meet either the general rule and/or one of the special rules for listing substantial contributors are required to file Schedule B.

The definition of person includes individuals, business entities and nonprofit organizations.

Note: An organization not required to file Form 990, Form 990-EZ, or Form 990-PF is not required to file Schedule B.

Group Returns. The parent organization of a group ruling that files a group Form 990 return must file a separate Form 990 for itself (unless it is exempt from filing Form 990). However, with respect to Schedule B, the parent organization reports a consolidated Schedule B for all subordinates included in the group return. The dollar and percentage thresholds [including the greater of $5,000 or 2% threshold for organizations described in Sections 509(a)(1) and 170(b)(1)(A)(vi)] are applied on a subordinate-by-subordinate (not on a group) basis.

Public Inspection

Schedule B is open to public inspection in its entirety for Section 527 political organizations that file a Form 990 or Form 990-EZ and organizations that file Form 990-PF (Return of Private Foundation). For the other organizations that file a Form 990 or Form 990-EZ, the contributors' names and addresses are not open to public inspection. All other information required by Schedule B (including the contribution amount, description of noncash contributions, and any other information) will be open to public inspection unless it clearly identifies the contributor.

Organizations that file a copy of their Form 990 or 990-EZ with any state should not include the Schedule B in the attachments for the state unless a schedule of contributors is specifically required by the state. States not requiring the information could inadvertently make the schedule available for public inspection.

Listing Substantial Contributors—Part I

General Rule. List the names and addresses of **every contributor** who gave (directly or indirectly) an organization at least $5,000 in money, securities, or any other property type during the year on Schedule B of Form 990 [Reg. 1.6033-2(a)(2)(ii)(f)]. The schedule also requires that the total amount given and type (person, payroll, or noncash) be shown. Noncash contributions require Part II be completed, which includes describing the property, the fair market value (FMV), and the date the contribution was received. (For exceptions to this reporting requirement, see Examples 3-21 and 3-22 and the discussion that follows.)

A contributor (person) includes individuals, fiduciaries, partnerships, corporations, associations, trusts, and exempt organizations. Governmental units are contributors for purposes of IRC Secs. 509(a), 170(b)(1)(A)(iv), and 170(b)(1)(A)(vi).

Note: Donors of qualified intellectual property may be entitled to charitable contribution deductions in years subsequent to the donation year. These additional deductions are not required to be reported on Schedule B. However, the organization may be required to file Form 8899 (Notice of Income from Donated Intellectual Property).

Whether or not the organization enters any amount on line 1h (total contributions, gifts, grants, and other similar amounts received) of Part VIII, the organization must either answer item 2 of Part IV "No" or attach Schedule B. Failure to either answer item 2 of Part IV "No" or file Schedule B causes the return to be incomplete.

Generally, when determining if a contributor gave at least $5,000 during a year, separate and independent gifts are counted only if they are at least $1,000 each. However, related gifts are aggregated to determine whether they meet the $5,000/$1,000 thresholds regardless of their amount. (Thus, 12 monthly gifts of $500 each to fulfill an annual pledge of $6,000 cause the donor to be a substantial contributor even though each gift was below the $1,000 minimum.) See discussion below for special rules that may apply.

Special Rules. Special reporting requirements apply to certain organizations. Check the applicable box on page one of Schedule B if any of the following special rules apply.

Section 501(c)(3) Organizations That File Form 990 or Form 990-EZ. Organizations described in IRC Sec. 501(c)(3) that meet the 33⅓% support test of the regulations under IRC Secs. 509(a)(1) and 170(b)(1)(A)(vi) and not just the 10% support test [whether or not the organization is otherwise described in IRC Sec. 170(b)(1)(A)] list in Part I only those contributors whose contribution of $5,000 or more exceeds 2% of the total contributions reported on line 1h of Part VIII of Form 990 (or line 1 of Form 990-EZ). Complete Parts I and II of Schedule B.

Example 3-21 Furnishing a list of substantial contributors.

United Charities, Inc. (United), received a total of $697,300 in contributions during the year. Of this amount, $132,000 was given by the following donors who gave at least $5,000 each.

Colonel and Mrs. Henry Barton	$ 6,500
Elaine Sanderson	15,000
Dandy Corporation (represents voluntary contributions withheld from its employees' pay; no employee gave enough to be listed individually)	93,000
Richardson Foundation (grant to assist United in conducting a program that furthers United's exempt purpose)	17,500
	$ 132,000

General Rule: United should report the total of $697,300 on line 1h of Part VIII. In addition, United must complete Schedule B, listing the names and addresses of the four contributors who gave at least $5,000 during the year, the amounts they gave, and indicate the type of contribution. If United knows a particular employee of Dandy individually gave at least $5,000, information on that employee must be listed separately on the schedule. Otherwise, United may assume all the employees gave less than $5,000.

Special Rule: If United normally receives at least 33⅓% of its support from governmental units and/or from the general public, it is only required to list contributors who made gifts exceeding the greater of $5,000 or 2% of total gifts for the year. Since United's total gifts for the year were $697,300, only gifts exceeding $13,946 (2% × $697,300) would be separately listed. Thus, the gift of $6,500 from the Bartons would not be included.

Social, Recreational, and Fraternal Organizations. Special reporting requirements apply to social and recreation clubs, fraternal beneficiary societies, and domestic fraternal societies. These organizations must complete Parts I and III of Schedule B, listing the name and address of each contributor who gave more than $1,000 during the year to be used exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals. To determine whether the $1,000 floor has been met, aggregate all of a contributor's gifts for the year (regardless of the amount). For noncash contributions, Part II also must be completed. In addition, for any charitable contribution listed on Part I, Part III must be completed.

For listed contributors, show the specific purpose for each gift and how it was used. If the organization has not used the gift by the time its return is filed, describe how the amount is being held (i.e., in a separate account or commingled with other funds). Finally, if the gift is transferred to another organization, name and describe that entity and explain the relationship between the two organizations.

These organizations must also list in Part I contributors who gave $5,000 or more for noncharitable purposes under the general rules.

If a Section 501(c)(7), (8), or (10) organization received charitable gifts, but is not required to list any charitable contributors on Part I, check the last box under "Special Rules" on page 1 of Schedule B and enter the charitable contributions received in the space provided.

Example 3-22 Reporting contributions received by a social club.

The Gotham Independent School District (GISD) created an Adopt-A-School program. The program seeks businesses to serve as sponsors of a school or individual classroom. A sponsor encourages its employees to donate their time for Career Day and other activities at the schools. In addition, some sponsors provide field trip activities and other benefits to the school they sponsor.

The Gotham City Batting Club (Club), a Section 501(c)(7) tax-exempt entity, participates in the Adopt-A-School program by sponsoring Springdale Elementary School. Each year, it solicits contributions from its members to help offset the expenses of participating in the program. For the current year, the club received the following donations earmarked for this program:

Donor	Amount
Don Walker	$ 150
Bill Polodin	1,500
Ellen Kubik	100
Jerry Barton	25
Paul Stromsem	300
Debbie Reardon	1,700
	$ 3,775

The donations were used during the year for the following activities related to Springdale:

Purpose	Amount
Sponsoring a booth at the Fall and Spring school carnivals	$ 1,810
Out-of-pocket expenses of inviting the 6th grade boys to the club for batting practice	425
End of school party for 6th graders with good attendance records	915
Club employees' out-of-pocket expenses for trips to the school	625
	$ 3,775

Club must complete Schedule B (Schedule of Contributors) to report the donations of more than $1,000 it received from any one contributor.

Noncash Property Reporting—Schedule B

Part II—Noncash Property. In column (a), show the number that corresponds to the contributor's number in Part I. In column (b), describe the noncash contribution received by the organization. In columns (c) and (d), report on property with readily determinable market value (e.g., market quotations for securities) by listing its FMV.

If the organization immediately sells securities contributed to the organization (including through a broker or agent), the contribution still must be reported as a gift of property rather than cash, in the amount of the net proceeds plus the broker's fees and expenses. If the property is not immediately sold, for marketable securities registered and listed on a recognized securities exchange, FMV is the average of the highest and lowest quoted selling prices (or the average between the bona fide bid and asked prices) on the contribution date. See Reg. 20.2031-2 to determine the value of contributed stocks and bonds. When FMV cannot be readily determined, use an appraised or estimated value. To determine the amount of a noncash contribution that is subject to an outstanding debt, subtract the debt from the property's FMV. Enter the date the property was received by the organization, if the donor has fully given up use and enjoyment of the property at that time.

If the organization received a partially completed Form 8283 (Noncash Charitable Contributions) from a donor, complete and return it to the donor so the donor can obtain a charitable contribution deduction. Keep a copy for the organization's records.

Original (first) and successor donee (recipient) organizations must file Form 8282 (Donee Information Return) if they sell, exchange, consume, or otherwise dispose of (with or without consideration) charitable deduction property (property other than money or certain publicly traded securities) within three years after the date the original donee received the property.

Schedule M (Form 990)—Noncash Contributions

Schedule M is used by an organization that files Form 990 to report the types of noncash contributions received during the year by the organization and certain other information. Report the quantity and financial statement amount of noncash contributions received by type of property. Report noncash contributions received even if immediately sold. Do not report donations of services, the use of facilities, or noncash contributions received by the organization in a prior year.

Who Must File

Any organization that answered "Yes" to Form 990, Part IV, line 29 or 30, must complete Schedule M and attach it to Form 990. Therefore, **organizations that reported more than $25,000 of aggregate noncash contributions on Form 990, Part VIII, line 1g, or that during the year received contributions of art, historical treasures, or other similar assets, or qualified conservation contributions (regardless of whether it reported any revenues for such contributions in Part VIII) must complete Schedule M.**

Note: Donated services and use of facilities can be reported (disclosed) on Part III as program services.

Reporting Noncash Contributions Received in Part I

Column (a). Check the applicable boxes if the organization received during the year any property contributions of the type listed.

Column (b). Enter either the number of contributions or items contributed (based on the organization's recordkeeping) for each property type. See the discussion of line 29 for information about retaining a copy of any Form 8283 the organization signed during the year. Explain in Part II whether the organization is reporting the number of contributions or the number of items received, or a combination of both.

Column (c). Enter the revenues reported on Form 990, Part VIII, line 1g, for each property type. Enter "-0-" if none were reported.

Column (d). Describe the method used to determine the amount reported in Part VIII, line 1g (e.g., cost or selling price of the donated property, comparable sales, replacement cost, expert opinions, etc.).

Aggregate noncash contributions on Part I of Schedule M by the following types of property:

Line 1. Works of art which includes paintings, sculptures, prints, drawings, ceramics, antiques, decorative arts, textiles, carpets, silver, photography, film, video, installation and multimedia arts, rare books and manuscripts, historical memorabilia, and other similar objects (not including collectibles, such as stamps and coins, reported on line 18).

Line 2. Historical treasures including a building, structure, area, or property with recognized cultural, aesthetic, or historical value that is significant in the history, architecture, archeology, or culture of a country, state, or city.

Line 3. A fractional interest of art is an undivided portion of a donor's entire interest in a work of art. Report in column (b) the fractional interest for each year an interest in the property is received with respect to the underlying item or work of art.

Museums and other organizations that do not capitalize their collections as allowed by GAAP should enter "-0-" in column (c) and leave column (d) blank. The organization should explain in Part II that a zero amount is reported in Form 990, Part VIII, line 1g, because it did not capitalize its collection, as allowed under **SFAS 116**.

Line 4. Report information about contributions of books and publications. Do not include rare books and manuscripts reported on line 1, collectibles reported on line 18, and archival records reported on lines 25–28. Column (b) is not required.

Line 5. Report **clothing and household goods** (e.g., furniture, furnishings, electronics, appliances, linens, and other similar items) received which were in good used condition or better. Items not in good used condition or better are to be reported as a separate type in "other" beginning with line 25. Column (b) is not required.

Lines 6 and 7. On line 6 include only contributions of **motor vehicles** manufactured primarily for use on public streets, roads, and highways. Do not include in line 6 or 7 contributions of the donor's inventory held for resale in their trade or business.

Tip: Organizations must issue acknowledgments within 30 days of contribution of an auto or sale, if disposed of.

Line 8. Intellectual property is any patent, copyright [other than a copyright described in IRC Sec. 1221(a)(3) or 1231(b)(1)(C)], trademark, trade name, trade secret, know-how, software [other than software described in IRC Sec. 197(e)(3)(A)(i)], or similar property. Certain contributions of intellectual property may require the organization to file a Form 8899 (Notice of Income from Donated Intellectual Property). See Form 990, Part V, line 7g.

Line 9. Publicly traded securities are securities for which (as of the date of the contribution) market quotations are readily available on an established securities market. Include interests in publicly traded partnerships, limited liability companies or trusts, as well as publicly traded corporations.

Line 10. Closely held stock means shares of stock issued by a corporation that is not publicly traded.

Line 11. Enter information about contributions of **interests in a partnership, limited liability company (LLC), or trust, which is not publicly traded.**

Line 12. Enter information about contributions of **securities that are not reported on lines 9–11.** See the course Glossary for a definition of *security*.

For lines 9 through 12, treat each separate gift (rather than each share or unit received) as a contribution.

Lines 13–14. A **qualified conservation contribution** is a contribution of a qualified real property interest exclusively for conservation purposes. A qualified real property interest includes an entire interest, remainder interest, or an interest with a restriction on the property's use which may be granted in perpetuity (e.g., an easement). Conservation purposes include protection of natural habitat; the preservation of open space; or the preservation of property for historic, educational, or recreational purposes.

Line 15. Residential real estate includes a remainder interest (not in trust) in a personal residence which was not the donor's entire interest. Personal residence includes (1) any property used by the donor as a personal residence but is not limited to the donor's principal residence, and (2) stock owned as a tenant-stockholder in a cooperative housing corporation if the dwelling the donor is entitled to occupy is used by the donor as a personal residence.

Line 16. Commercial real estate includes a commercial office building or a remainder interest (not in trust) in a farm (including improvements) that was not the donor's entire interest in the property.

Line 17. Enter information about real estate interests not reported on line 15 or 16.

Line 18. Collectibles include autographs, sports memorabilia, dolls, stamps, coins, books (other than books and publications reported on line 4), gems, and jewelry (other than costume jewelry reported on line 5), but not art (reported on lines 1 through 3) or historical artifacts or scientific specimens (reported on line 22 or 23).

Line 19. Food items include food inventory contributed by corporations and other businesses.

Line 20. Enter information about **drugs, medical supplies,** and similar items contributed by corporations and other businesses that manufactured or distributed such items.

Line 21. Taxidermy property means any work of art that is the reproduction or preservation of an animal, in whole or in part; is prepared, stuffed, or mounted to recreate one or more characteristics of the animal; and contains a part of the body of the dead animal.

Line 22. Historical artifacts include furniture, fixtures, textiles and household items of a historic nature. Do not include art or historical treasures reported on lines 1 and 2 and archeological artifacts reported on line 24.

Line 23. Scientific specimens includes living plant and animal specimens and objects or materials that relate to, or exhibit, the methods or principles of natural and physical science.

Line 24. An **archaeological artifact** is any object that is over 250 years old and is normally discovered as a result of scientific excavation, clandestine or accidental digging, or exploration on land or under water. Also report ethnological artifacts on this line.

Lines 25–28. Separately report other types of property that are not reportable on previous lines. This includes items that did not satisfy the requirements applicable to the specific property types (e.g., clothing and household items not in good or better condition or conservation easements that do not constitute a qualified conservation contribution). In addition, self-created items (e.g., personal papers, manuscripts, and archival records) are listed separately as a type. Include donated items used at the organization's charitable auction (other than goods sold at the auction) such as food served at the event or centerpieces.

Line 29. Enter the number of Forms 8283 received by the organization during the year for contributions for which the organization completed Part IV, Donee Acknowledgment, of such form. If the organization does not keep complete records of such forms, leave line 29 blank (do not provide an estimate).

Organizations should be able to reconcile the number of Forms 8283 signed to the amount in column (b). While these numbers may not match, the organization should be able to account for the differences.

Line 30a–b. Answer "Yes" if the organization received during the year a noncash contribution reportable on lines 1 through 28 of Part I for which the organization is required, by the terms of the gift or otherwise, to hold the property for at least three years from the date of the contribution and which property is not required to be used for exempt purposes for the entire holding period. If "Yes," describe the arrangement in Part II.

Line 31. Answer "Yes" if the organization has a gift acceptance policy that requires the review of any nonstandard contributions. A nonstandard contribution includes a contribution of an item that is not reasonably expected to be used to satisfy or further the organization's exempt purpose and for which (1) there is no ready market to which the organization may go to liquidate the contribution and convert it to cash, and (2) the value of the item is highly speculative or difficult to ascertain.

Note: An organization's governing body should decide whether it will accept noncash donations (in-kind gifts) and formalize its decision in policy. No board wants the headache of having accepted a piece of real estate that is environmentally contaminated. A gift acceptance policy should include the organization's mission statement, the purpose of the policy guidelines, and the type of assets accepted (or not accepted) and any restrictions (e.g., contributions of real estate are not accepted in the last quarter of the year). In addition, the policy should include how donor conflicts of interest will be handled (i.e., independent counsel) and allowable restrictions on gifts by donors.

Line 32a–b. Answer "Yes" if the organization hires or uses third parties or related organizations to solicit, process, or sell noncash contributions. If "Yes," describe these arrangements in Part II.

Line 33. Describe in Part II of this schedule why the organization did not report revenue in column (c) for a type of property for which column (a) is checked.

Reporting Supplemental Information in Part II

Use Part II to provide narrative information required in Part I, lines 30b, 32b, and 33. Also use Part II to provide other narrative explanations and descriptions. Identify the specific line number that the response supports. Part II may be copied if more space is needed.

Schedule G (Form 990 or 990-EZ)—Supplemental Information Regarding Fundraising or Gaming Activities

Schedule G is used to report professional fundraising, fundraising events, and gaming. Organizations that answered "Yes" to Form 990, Part IV, line 17, 18, or 19 must complete the appropriate parts of Schedule G and attach it to Form 990. An organization that files Form 990-EZ and reported more than $15,000 from fundraising events and gaming on line 6a must also complete the appropriate part of Schedule G and attach it to Form 990-EZ.

Fundraising Activities

Complete Part I if the organization reported more than $15,000 on Form 990 Part IX, column (A), line 11(e). **Fundraising activities are undertaken to encourage potential donors to contribute money, securities, services, materials, facilities, other assets, or time.** They include publicizing and conducting fundraising campaigns; maintaining donor mailing lists; conducting fundraising events; preparing and distributing fundraising manuals, instructions, and other materials; and conducting other activities involved with soliciting contributions from individuals, foundations, governments, and others. For purposes of completing Part I, fundraising activities do not include gaming (other than gaming that is incidental to a fundraising activity), or the conduct of any trade or business that is regularly carried on. Gaming activities are reported on Part II.

Line 1—Methods of Fundraising. Indicate each method of fundraising used by the organization to raise funds during the tax year by checking boxes a through g for the applicable methods.

Websites and newsletters with donation solicitations are generally considered fundraising for both book and tax.

Line 2a—Written or Oral Agreements. Check “Yes” if at any time during the year the organization had an agreement with another person or entity to perform professional fundraising services. Do not include an officer, director, trustee, or key employee who conducts professional fundraising services solely in his or her capacity as an officer, director, trustee, or key employee of the organization (e.g., a development officer).

Report all agreements for professional fundraising services regardless of the form of the agreement (i.e., written, oral). For example, an organization that had a written contract with a business to supply printing and mailing services would report that agreement here if the business also provided professional fundraising services (e.g., advice on graphic design or strategy for mailing).

Line 2b—List the Ten Highest Paid Fundraisers. If line 2a is answered “Yes,” then complete line 2b with the following information:

- **Column (i).** Name of Individual or Entity. List the ten highest paid individuals or entities who were each paid at least $5,000 during the tax year for professional fundraising services. For purposes of this form, professional fundraising services include services performed (other than by an officer, director, or employee in such capacity) for the organization requiring the exercise of professional judgment or discretion consisting of planning, management, or the preparation of materials (e.g., direct mail solicitation packages, or the provision of advice and consulting regarding solicitation of contributions, or the direct solicitation of contributions). However, professional fundraising does not include purely ministerial tasks, such as printing, mailing services, or receiving and depositing contributions to a charity, such as the services provided by a bank or caging service.

- **Column (ii).** Activity. Enter the type(s) of fundraising activities in which the fundraiser performed services (e.g., consults on direct mail campaign).

- **Column (iii).** Custody or Control of Contributions. For this purpose, custody or control includes possessing the funds or the authority to deposit, direct the use of, or use the funds. If column (iii) is answered "Yes," describe the custody or control arrangement in Schedule O.

- **Column (iv).** Gross Receipts from Activity. Enter the gross receipts that the organization collected or the fundraiser listed in column (i) collected on behalf of the organization from the fundraising activity of the organization during the tax year.

  Note: A professional fundraiser may deliver services during the tax year and the expense be property reported in column (v) but have no corresponding receipts to report in column (iv) (e.g., a professional fundraiser might be retained to perform a feasibility study for a capital campaign to be implemented in a future year).

- **Column (v).** Amount Paid to Fundraiser. Enter the fees paid to or fees withheld by the fundraiser for its professional fundraising services. If the arrangement provides for expense reimbursements such as printing, paper, envelopes, postage, mailing list rental, and equipment rental, the organization must report such amounts paid during the year in Schedule O and describe how the arrangement distinguishes payments for professional fundraising services from expense reimbursements. If the organization entered into any arrangements under which payments were made exclusively for such expenses and no payment was made for professional fundraising services also describe these arrangements in Schedule O. If the agreement does not distinguish between fees for professional fundraising services and reimbursement of fundraising expense, report in column (v) the gross amount paid to (or withheld by) the fundraiser.

Note: Form 990-EZ filers are not required to complete line 2b.

Line 3—State Listing. List all states in which the organization is registered or licensed to solicit funds or has been notified it is exempt from registration or licensing. If the organization is registered, licensed, or has been notified that it is exempt from registration or licensing, in all states requiring registration or licensing for solicitation, answer "All States."

Fundraising Events

Complete Part II only if the organization reported a total of more than $15,000 on Form 990, Part VIII, lines 1c and 8a. List only events with gross receipts greater than $5,000 that the organization conducted at any time during the year. Events include dinners/dances, door-to-door sales of merchandise, concerts, carnivals, sports events, auctions, and casino nights that are not regularly carried on.

Revenue. Complete the table listing the two largest fundraising events with gross receipts greater than $5,000 each in columns (a) and (b). In column (c), report the total number of other events with gross receipts greater than $5,000 each, aggregating the revenues and expenses from these events. If no events other than those listed in columns (a) and (b) exceeded the $5,000 threshold, enter "None."

Line 1—Gross Receipts. In columns (a) and (b), enter the gross amount the organization received from event #1 and event #2, respectively, during the tax year, without subtracting any costs or expenses or charitable contributions received in connection with the event. In column (c), enter the total amount the organization received from all other events with gross receipts greater than $5,000 during the tax year without subtracting any costs or expenses, or charitable contributions received in connection with the events. Report the sum of columns (a), (b), and (c) in column (d).

Line 2—Less: Charitable Contributions. In columns (a) and (b), enter the total contributions, gifts and similar amounts (including the total value of noncash contributions) received by the organization for event #1 and event #2, respectively, during the tax year. Enter the total amount of contributions, gifts and similar amounts received by the organization from all other fundraising events with gross receipts greater than $5,000 during the tax year. Report the sum of columns (a), (b), and (c) in column (d).

Line 3—Gross Revenue. Enter the gross revenue (gross receipts less contributions) from events listed without reduction for catering, entertainment, cost of goods sold, compensation, fees, or other expenses. Report the sum of columns (a), (b), and (c) in column (d).

Direct Expenses. Report expense amounts in the appropriate column [(a) through (c)] for events with gross receipts greater than $5,000 each. Catering and entertainment expenses should be included as other direct expenses. Report the sum of columns (a), (b), and (c) in column (d).

Line 4—Cash Prizes. Enter the total amount paid as cash prizes.

Line 5—Noncash Prizes. Enter the FMV of the noncash prizes awarded.

Line 6—Rent/facility Costs. Enter the expenses paid or incurred for the rent or lease of property or facilities.

Line 7—Food and Beverages. Enter the expenses paid or incurred.

Line 8—Entertainment. Enter the expenses paid or incurred.

Line 9—Other Direct Expenses. Enter the other direct expense items not included on lines 4 through 8 of Part II (e.g. labor). The organization should retain in its records a schedule providing an itemized listing of all other direct expenses not included on lines 4 through 8. For labor costs and wages, include the total amount of compensation paid to fundraising event workers or paid to independent contractors for labor costs.

Gaming

Complete Part III only if the organization reported more than $15,000 on Form 990, Part VIII, line 9a.

Column (a)—Bingo. Bingo is a game of chance played with cards that are generally printed with five rows of five squares each. Participants place markers over randomly called numbers on the cards in an attempt to form a pre-selected pattern such as a horizontal, vertical, or diagonal line, or all four corners. The first participant to form the pre-selected pattern wins the game. To qualify as a bingo game, the game must be of the type described in which wagers are placed, winners are determined, and prizes or other property are distributed in the presence of all persons placing wagers in that game. Treat all bingo as a single event for column (a).

Column (b)—Pull-tabs/Instant Bingo/Progressive Bingo. These include games in which an individual places a wager by purchasing preprinted cards that are covered with pull-tabs. Winners are revealed when the individual pulls back the sealed tabs on the front of the card and compares the patterns under the tabs with the winning patterns preprinted on the back of the card. Included in the definition of pull-tabs are instant bingo, mini bingo, and other similar scratch-off cards. Satellite, Internet, and progressive bingo are games conducted in many different places simultaneously and the winners are not all present when the wagers are placed, the winners are determined, and the prizes are distributed. Revenue and expenses associated with satellite, Internet, and progressive bingo should be included under this category. However, certain consolation bingo games within a progressive bingo game should be included in column (a). Treat all pull-tabs as a single event for column (b).

Column (c)—Other Gaming. This includes all other types of gaming not included in column (a) or (b). Complete Part III for each type of gaming conducted.

Revenue. Enter the revenue amount in the appropriate column [(a) through (c)] for each type of gaming conducted. Report the sum of columns (a) through (c) in column (d).

Line 1—Gross Revenue. Enter the gross revenue from gaming for each type of gaming conducted without reduction for cash or noncash prizes, cost of goods sold, compensation, fees, or other expenses.

Direct Expenses. Enter the expense amount in the appropriate column [(a) through (c)] for each type of gaming conducted. Report the sum of columns (a) through (c) in column (d).

Line 2—Cash Prizes. Enter the total amount paid as cash prizes.

Line 3—Noncash Prizes. Enter the FMV of the noncash prizes awarded for each type of gaming conducted.

Line 4—Rent/facility Costs. Enter the expenses paid or incurred for the rent or lease of property or facilities.

Line 5—Other Direct Expenses. Enter the other direct expense items not included on lines 2 through 4. The organization should retain in its records a schedule providing an itemized listing of all other direct expenses not included on lines 2 through 4.

The itemized listing of direct expenses not included on lines 2 though 4 should include labor costs and wages (include the total compensation paid to gaming workers or paid to independent contractors for labor costs) and employer's share of employment taxes that are imposed on the organization. This includes the employer's share of social security and Medicare taxes, the federal unemployment tax (FUTA), state unemployment compensation taxes, and other state and local payroll taxes. Also include any excise taxes, including any wagering tax paid with Form 730 (Monthly Tax Return for Wages) and occupational tax paid with Form 11-C (Occupational Tax and Registration Return for Wagering).

Line 6—Volunteer Labor. If substantially all of the organization's work is performed by volunteers, check "Yes" and enter the percentage of total workers who are volunteers for each type of gaming conducted. The percentage is determined by dividing the number of volunteers used in the conduct of the gaming activity by the total number of workers used by the organization, both paid and unpaid.

Line 9—States in Which Gaming Operated. List all state(s) in which the organization operated gaming during the tax year. If additional space is needed, use Schedule O.

Line 9a—Licensed to Operate. Check "Yes" only if the organization is licensed or registered to operate gaming in each state listed on line 9.

Line 9b—Explain. If the organization is not licensed or registered to operate gaming in any state listed on line 9, provide an explanation. Use Schedule O if additional space is needed.

Lines 10a and 10b—Were Gaming Licenses Revoked, Suspended or Terminated? Check "Yes" or "No." If "Yes," provide an explanation for each state in which the organization's license has been revoked, suspended, or terminated during the taxable year. If additional space is needed, use Schedule O.

Line 11—Gaming Operated with Nonmembers? There are several types of organizations whose exempt function includes providing social and recreational activities for members and their bona fide guests [e.g., Section 501(c)(7) social clubs, 501(c)(8) fraternal beneficiary societies, 501(c)(10) domestic fraternal societies, and 501(c)(19) veterans' organizations]. Gaming activities involving only members directly further the exempt social/recreational purposes under these sections. A nonmember is an individual who is not a member of the organization but who participates in recreational activities sponsored by the organization or receives services or goods from the organization and pays for the services or goods received. A nonmember, even when accompanied by a member, is generally considered to be in a business transaction with the organization. Gaming open to the general public may result in unrelated business income tax or adversely affect exempt status. If the organization conducts gaming with nonmembers, check "Yes."

Line 12—Grantor, Beneficiary, Trustee, or Partner? Check "Yes" if the organization is a grantor, beneficiary, or trustee of a trust, or a member of a partnership formed to administer charitable gaming. For purposes of this question, partnership or other entity, such as a "unit," means two or more organizations that are authorized under state law to conduct bingo or other gaming at the same location joining together to account for and/or share revenues, authorized expenses, and inventory related to bingo and gaming operations.

Line 15a—Contract with a Third Party from Which It Receives Gaming Revenue? An organization may pay its own employees to operate gaming or contract with a third party for such services. Check “Yes” or “No” to indicate whether the organization has a contract with a third party from which it receives gaming revenue.

Line 15b—Revenue Received and Retained. If the organization checked “Yes” to line 15a, report the gaming revenue received by the organization and the amount retained by the third party. If there is more than one third-party operator, use Schedule O for additional space.

Line 15c—Name and Address. If the organization checked “Yes” to line 15a, report the name and address of the third party. If there is more than one third-party operator, use Schedule O for additional space.

Line 16—Gaming Manager Information. Complete this line for the individual who has overall supervision and management of the gaming operation. Generally, this person has responsibilities that may include record keeping, money counting, hiring and firing of workers, and making the bank deposits for the gaming operation. Use Schedule O for additional space if more than one person shares this responsibility.

Line 17a—Mandatory Distributions Required by States. Some states require that charitable organizations make mandatory distributions from gaming proceeds to obtain and retain a valid gaming license. Check “Yes” or “No” to indicate whether the organization is required to make mandatory distributions from the gaming proceeds to retain its gaming license or registration in any state.

***Line 17b—Required Distributions Made During the Year**.* For all states in which the organization operated gaming activities, enter the aggregate distributions required under state law to be distributed to other exempt organizations or spent in the organization’s own exempt activities during the taxable year. Provide a breakdown of required distributions, by each state, in Schedule O.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

11. On what line of Part VIII should an organization report membership dues?
    a. Line 1a.
    b. Line 1b.
    c. Line 1c.
    d. Line 1d.
12. Which of the following would be reported on Line 1f of Part VIII of Form 990?
    a. Contributions from public charities that are neither fundraising organizations or related to the receiving entity.
    b. Government payments to nursing homes that are used to provide health care to the residents.
    c. A car donated to the nonprofit organization.
13. Exempt function revenue is reported in Column (B), Part VIII, of Form 990. How is an organization's exempt function income identified?
    a. By the ultimate use of the funds that are generated by a certain activity.
    b. By whether the revenue-generating activity contributes toward the organization's tax-exempt purpose.
    c. By whether all of the income is used toward the organization's tax-exempt purpose.
14. Some nonprofit organizations have unrelated business revenue that they must report in Column (C) of Part VII of the Form 990. Net income from such activities is subject to taxation if three conditions exist. Which of the following is **not** one of those conditions?
    a. The trade or business is carried on regularly by the organization.
    b. The trade or business is not substantially related to the organization's tax-exempt purpose.
    c. The trade or business is profitable.
15. The Collin Creeley Museum (CCM) promotes coin collecting as a hobby and educates the general public on the historical significance of coins. CCM maintains a collection of rare coins that is open to the public for viewing with only a small admission fee. The museum also offers memberships for an annual $20 donation. Members get free access to the museum and a free monthly newsletter related to CCM's exempt purpose. Where should CCM report its income on Part VIII of Form 990?
    a. All of CCM's income should be reported on Line 2.
    b. All of CCM's income should be reported on Lines 11a through 11c.
    c. Admissions income is reported on Lines 1f and 1g. Membership income is reported on Lines 7a through 7d.
    d. Admissions income is reported on Line 2. Membership income is reported on Line 1b.

16. What is reported on Line 5 of Part VIII of the Form 990?
    a. Investment income.
    b. Royalties.
    c. Gross rents.
    d. Securities sales.
17. Which of the following would be considered a fundraising event?
    a. Selling merchandise door-to-door.
    b. Solicitation campaigns generating contributions only.
    c. Activities furthering the organization's tax-exempt purpose.
    d. Selling tickets for a raffle for prizes of a nominal value.
18. The Golden Retriever Rescue holds a poker tournament with an entrance fee as its spring fundraiser. Slot machines and a raffle are also available for tournament guests. The organization earns $20,000 at this event, and gives out $10,000 in prize money, including a $5,000 jackpot for the tournament winner. How would the proceeds be treated?
    a. As contributions (Line 1c).
    b. As income from gaming activities (Line 9a).
    c. As miscellaneous revenue (Line 11).
19. Which of the following statements most accurately describes the Schedule B (Schedule of Contributors) and its relationship to Form 990?
    a. Schedule B is open to public inspection in its entirety for all organizations that file Form 990.
    b. A parent organization filing a group Form 990 must file a separate Schedule B for itself.
    c. Generally, every contributor who gave at least $5,000 must be listed on Schedule B.
    d. Subsequent deductions for donors of intellectual property must be reported on Schedule B.
20. The Dew Family Charity received $7,000 at its annual concert and carnival. Where would this be reported on its Schedule G assuming the organization reported a total of more than $15,000 on Form 990, Part VIII, Lines 1c and 8a??
    a. Part I.
    b. Part II.
    c. Part III.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

11. On what line of Part VIII should an organization report membership dues? **(Page 45)**

    a. Line 1a. [This answer is incorrect. The total contributions received indirectly from the public through solicitation campaigns conducted by federated fundraising agencies (FFAs) and similar fundraising organizations should be reported on Line 1a per the instructions.]

    b. Line 1b. [This answer is correct. On Line 1b, the organization should report membership dues and assessments that represent contributions from the public rather than payments for benefits received or payments from affiliated organizations per Form 990 instructions.]

    c. Line 1c. [This answer is incorrect. Per the instructions, the total contributions received from fundraising events (dinners, auctions, etc.) should be reported on Line 1c.]

    d. Line 1d. [This answer is incorrect. Contributions by a related organization (not including FFAs reported on Line 1a) should be reported on Line 1d per the Form 990 instructions.]

12. Which of the following would be reported on Line 1f of Part VIII of Form 990? **(Page 47)**

    a. Contributions from public charities that are neither fundraising organizations or related to the receiving entity. [This answer is correct. Per the instructions, Line 1f is used to report all contributions, gifts, grants, and similar amounts that were not included in Lines 1a through 1e. The payment described in this answer choice falls into that category.]

    b. Government payments to nursing homes that are used to provide health care to the residents. [This answer is incorrect. This type of payment would be reported on Line 1e per the Form 990 instructions.]

    c. A car donated to the nonprofit organization. [This answer is incorrect. Noncash contributions (anything other than cash, checks, money orders, credit card charges, wire transfers, and other transfers and deposits to an account of the organization) are reported on Line 1g of Form 990. The donation of a car would qualify as a noncash contribution.]

13. Exempt function revenue is reported in Column (B), Part VIII, of Form 990. How is an organization's exempt function income identified? **(Page 49)**

    a. By the ultimate use of the funds that are generated by a certain activity. [This answer is incorrect. Exempt function income is not the same for every organization. Exempt function income is generally determined by facts and circumstances. The ultimate use of the funds generated in an activity does *not* determine whether the income is exempt function income.]

    b. By whether the revenue-generating activity contributes toward the organization's tax-exempt purpose. [This answer is correct. The critical issue in determining if income is exempt function income is whether the activity generating the revenue makes an important contribution toward accomplishing the organization's tax-exempt purpose. If it does, the revenue should qualify as exempt function income and should be reported in Column (B), Part V111, of Form 990.]

    c. By whether all of the income is used toward the organization's tax-exempt purpose. [This answer is incorrect. If an activity is conducted on a scale larger than necessary to accomplish the exempt purpose, revenue from the excess portion of the activity is not exempt function income. However, this is not the main consideration used to determine if income is exempt function income.]

14. Some nonprofit organizations have unrelated business revenue that they must report in Column (C) of Part VII of the Form 990. Net income from such activities is subject to taxation if three conditions exist. Which of the following is **not** one of those conditions? **(Page 50)**

    a. The trade or business is carried on regularly by the organization. [This answer is incorrect. The existence of this condition is one of the three that would render such income taxable for the organization. If an activity's frequency, continuity, and manner of conduct are comparable to the commercial operations of similar nonexempt entities, it normally is considered regularly carried on.]

    b. The trade or business is not substantially related to the organization's tax-exempt purpose. [This answer is incorrect. This is one of the three conditions that would render net income from a trade or business activity taxable. To determine whether an activity is "unrelated," its relationship to the organization's exempt purpose must be analyzed.]

    c. The trade or business is profitable. [This answer is correct. The third condition that makes net income from an unrelated trade or business taxable is whether the organization is conducting a trade or business, not whether that activity is profitable. Conducting a trade or business includes activities (even if unprofitable) carried on for the production of income from selling goods or performing services. However, activities that lack a profit motive are normally not a trade or business.]

15. The Collin Creeley Museum (CCM) promotes coin collecting as a hobby and educates the general public on the historical significance of coins. CCM maintains a collection of rare coins that is open to the public for viewing with only a small admission fee. The museum also offers memberships for an annual $20 donation. Members get free access to the museum and a free monthly newsletter related to CCM's exempt purpose. Where should CCM report its income on Part VIII of Form 990? **(Page 52)**

    a. All of CCM's income should be reported on Line 2. [This answer is incorrect. Line 2 is used to report program service income. As all of CCM's income would not be classified as program service income, this reporting location would not be accurate.]

    b. All of CCM's income should be reported on Lines 11a through 11c. [This answer is incorrect. These lines are used to report the three largest sources of miscellaneous revenue, which does not apply to the scenario above.]

    c. Admissions income is reported on Lines 1f and 1g. Membership income is reported on Lines 7a through 7d. [This answer is incorrect. If CCM received a gift of stock, which it then sold, the value of the stock at the time of the contribution would be reported on Lines 1f and 1g and the sale of the stock and related sales expenses would be reported on lines 7a through 7d.]

    d. Admissions income is reported on Line 2. Membership income is reported on Line 1b. [This answer is correct. CCM's admissions income is reported as program service income on Line 2 because it is generated in an activity that forms the basis for CCM's tax-exempt status. Revenue CCM earns from selling memberships is generally reportable on Line 1b as membership dues and assessments.]

16. What is reported on Line 5 of Part VIII of the Form 990? **(Page 54)**

    a. Investment income. [This answer is incorrect. Investment income is reported on Line 3. Examples include income from savings accounts and temporary cash dividends, dividend and interest income from equity and debt securities, and amounts received from payments on securities loans.]

    b. Royalties. [This answer is correct. Per the instructions, Line 5 of Part VIII of Form 990 is used to report royalties received by the organization from licensing the ongoing use of its property to others. Typically, royalties are received for the ongoing use of intellectual property, such as patents and trademarks.]

    c. Gross rents. [This answer is incorrect. Gross rents are reported on Line 6a. Enter the rental income received for the year from investment property. Allocate revenue to real property and personal property in columns (i) and (ii), respectively.]

    d. Securities sales. [This answer is incorrect. Report on lines 7a through 7c, all sales of securities in column (i). For this purpose, the term securities includes common and preferred stocks, bonds (corporate and government), and mutual fund shares.]

17. Which of the following would be considered a fundraising event? **(Page 60)**

    a. Selling merchandise door-to-door. [This answer is correct. Fundraising events and activities are those endeavors with a primary purpose of raising funds for the organization by selling goods or services for more than their direct cost. Examples include dinners/dances, door-to-door sales of merchandise, concerts, and carnivals.]

    b. Solicitation campaigns generating contributions only. [This answer is incorrect. Contributions from such a campaign would be considered contributions and reported on line 1f. Fundraising can generate both revenue reported on line 8a of Part VIII of Form 990, as well as receipts reported as contributions on Line 1c.]

    c. Activities furthering the organization's tax-exempt purpose. [This answer is incorrect. Fundraising events do not include events or activities that substantially further the organization's exempt purpose even if they also raise funds.]

    d. Selling tickets for a raffle for prizes of a nominal value. [This answer is incorrect. Fundraising events do not include sales or gifts of goods or services of only nominal value or lotteries or raffles where prizes have only nominal value.]

18. The Golden Retriever Rescue holds a poker tournament with an entrance fee as its spring fundraiser. Slot machines and a raffle are also available for tournament guests. The organization brings in $20,000 at this event, and gives out $10,000 in prize money, including a $5,000 jackpot for the tournament winner. How would the proceeds be treated? **(Page 62)**

    a. As contributions (Line 1c). [This answer is incorrect. The proceeds of fundraising campaigns where donors' names are entered into a sweepstakes, raffle, or lottery normally are treated as contributions. However, in the scenario above, the value of the prizes would not be considered nominal, so the proceeds from this event cannot be treated as contributions.]

    b. As income from gaming activities (Line 9a). [This answer is correct. Because the prizes in this scenario have more than a nominal value and the donors pay a minimum amount to be entered into the tournament, the Rescuers must treat resulting income from this event as gaming activities. Slot machines and poker tournaments would both be considered gaming activities.]

    c. As miscellaneous revenue (Line 11). [This answer is incorrect. Miscellaneous revenue is all types of revenue not included on Lines 1 through 10. The income described in the scenario above does not qualify as this type of income.]

19. Which of the following statements most accurately describes the Schedule B (Schedule of Contributors) and its relationship to Form 990? **(Page 66)**

    a. Schedule B is open to public inspection in its entirety for all organizations that file Form 990. [This answer is incorrect. Schedule B is open to public inspection in its entirety for Section 527 political organizations that file a Form 990 or Form 990-EZ and organizations that file Form 990-PF. For other organizations that file a Form 990 or Form 990-EZ, the contributors' names and addresses are not open to public inspection.]

    b. A parent organization filing a group Form 990 must file a separate Schedule B for itself. [This answer is incorrect. Such an organization should file a separate Form 990 for itself, but, with respect to Schedule B, the parent organization can report a consolidated Schedule B for all subordinates included in the group return.]

    c. Generally, every contributor who gave at least $5,000 must be listed on Schedule B. [This answer is correct. List the names and addresses of every contributor who gave (directly or indirectly) an organization at least $5,000 in money, securities, or any other property type during the year on Schedule B of Form 990. The schedule also requires that the total amount given and type (person, payroll, or noncash) be shown.]

    d. Subsequent deductions for donors of intellectual property must be reported on Schedule B. [This answer is incorrect. Donors of qualified intellectual property may be entitled to charitable contribution deductions in years subsequent to the donation year. These additional deductions are not required to be reported on Schedule B. However, the organization may be required to file Form 8899.]

20. The Dew Family Charity received $7,000 at its annual concert and carnival. Where would this be reported on its Schedule G assuming the organization reported a total of more than $15,000 on Form 990, Part VIII, Lines 1c and 8a? **(Page 75)**

    a. Part I. [This answer is incorrect. Part I of Schedule G is used to report fundraising activities {more than $15,000 on Form 990 Part IX, column (A), Line 11(e)}. Fundraising activities are undertaken to encourage potential donors to contribute money, securities, services, materials, facilities, other assets, or time. Examples of fundraising activities include conducting fundraising campaigns, maintaining donor mailing lists, and preparing and distributing fundraising manuals.]

    b. Part II. [This answer is correct. The concert/carnival described in the scenario above would be considered a fundraising event. Fundraising events are reported on Part II of Schedule G. List only events with gross receipts greater than $5,000 that the organization conducted at any time during the year.]

    c. Part III. [This answer is incorrect. Part III of Schedule G is used to report gaming. It should be completed only if the organization reported more than $15,000 on Form 990, Part VIII, Line 9a.]

EXAMINATION FOR CPE CREDIT

Chapter 3

Determine the best answer for each question below. Then log onto our Online Grading Center at **OnlineGrading.Thomson.com** to record your answers.

11. Total voluntary contributions, grants, gifts, and similar amounts from the general public and several other types of entities must be reported on Lines 1a through 1f of the Form 990. List all of the following that are considered part of the *general public*.

i. Governmental units	iii. Individuals	v. Trusts
ii. Corporations	iv. Foundations	vi. Estates

a. v. and vi.

b. i., iii., and iv.

c. ii., iii., v., and vi.

d. i., ii., iii., iv., v., and vi.

12. Helping Hands sponsors a play to raise funds for its charitable programs. It contracts with a local theater to provide the performance. Tickets for the fundraising performance cost $125 for orchestra seating and $100 for balcony seating. The tickets contain a notation that the performance is sponsored by and for the benefit of Helping Hands. Normally, the theater charges $175 for orchestra seating and $50 for balcony seating. How much should Helping Hands report on Line 1c of Part VIII of Form 990 as a contribution from this event?

a. $25.

b. $50.

c. $100.

d. $125.

13. What types of organizations are required to complete columns (B), (C), and (D) of Part VIII of Form 990?

a. All organizations.

b. All organizations, except Section 527 political organizations.

c. Section 527 political organizations only.

d. Section 510(c)(3) organizations only.

14. What is reported in Column (C) of Part VIII of Form 990?

a. Unrelated business revenue.

b. Exempt function revenue.

c. Items that are statutorily excluded from unrelated business income.

d. Do not select this answer choice.

15. Where on Part VIII of the Form 990 should an organization report rental income from an exempt function?

    a. Line 1.

    b. Line 2.

    c. Line 3.

    d. Line 4.

16. Rob donates a car to Wheel Meals, a local nonprofit organization that delivers meals to handicapped and disabled individuals. The organization proceeds to use the donated car in its delivery program. How much can Rob deduct for this donation?

    a. Fair market value of the car.

    b. His tax basis in the car.

    c. The price of the car if it were purchased new.

    d. Do not select this answer choice.

17. When would an organization need to complete Part II of Schedule G?

    a. If more than $15,000 of gaming income is reported on Line 9a.

    b. If net loss from fundraising activities (Lines 8a and 8b) is reported.

    c. If the organization is required to file Form 990-T.

    d. If the sum of Lines 8a and 1c exceeds $15,000.

18. If an organization sells inventory, where should the gross amount of those sales (less returns and allowances) be reported on Part VIII of Form 990?

    a. Line 2.

    b. Line 8.

    c. Line 10a.

    d. Line 10b.

19. The Mayfair Ladies Association (MLA) is considered a social organization. Over the course of a year, Mary contributes $1,000 per month to MLA. Betty makes a one-time donation to MLA of $750, while her sister Lucy makes a one-time donation of $6,000. Charlene makes three donations to MLA during the year—one of $2,500, and two of $50. Which of these women must MLA list on its Schedule B?

    a. Lucy only.

    b. Lucy and Mary.

    c. Charlene and Betty.

    d. Charlene, Betty, Mary, and Lucy.

20. Organizations that file Form 990 use Schedule M to report the types of noncash contributions they received during the year. Match the following types of noncash contributions with the line on which they are reported on Part I of the Schedule M.

Noncash Contributions	**Location on Schedule M**
1. Food items	i. Line 1
2. Works of art	ii. Line 2
3. Clothing/household goods	iii. Line 4
4. Intellectual property	iv. Line 5
5. Historical treasures	v. Line 8
6. Information regarding contributions of books and publications	vi. Line 10
7. Closely held stock	vii. Line 15
8. Residential real estate	viii. Line 19

a. 1., iv.; 2., ii.; 3., viii.; 4., iii.; 5., i.; 6., v.; 7., vii.; 8., vi.

b. 1., iii.; 2., vi.; 3., i.; 4., ii.; 5., viii.; 6., vii.; 7., iv.; 8., v.

c. 1., vi.; 2., v.; 3., ii.; 4., viii.; 5., vii.; 6., i.; 7., iii.; 8., iv.

d. 1., viii.; 2., i.; 3., iv.; 4., v.; 5., ii.; 6., iii.; 7., vi.; 8., vii.

Chapter 4: Reporting Functional Expenses

Introduction

Part IX of Form 990 provides the IRS and donors with information to use in determining if an appropriate amount of expenditures is being directed to activities that further an entity's exempt purpose. The IRS is interested in ensuring that the organization's financial resources are focused on performing its charitable programs. Also, since Form 990 is publicly disclosed, the general public can see how much of the organization's funds are spent on program services (compared to fundraising and management and general expenses) and consequently form opinions about an organization's stewardship.

Learning Objectives

Completion of this chapter will enable you to:

- Classify a functional expense by type.
- Correctly complete the Statement of Functional Expenses section of Form 990.

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns.
All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D).

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.	**(A)** Total expenses	**(B)** Program service expenses	**(C)** Management and general expenses	**(D)** Fundraising expenses
1 Grants and other assistance to governments and organizations in the U.S. See Part IV, line 21				
2 Grants and other assistance to individuals in the U.S. See Part IV, line 22				
3 Grants and other assistance to governments, organizations, and individuals outside the U.S. See Part IV, lines 15 and 16 . . .				
4 Benefits paid to or for members				
5 Compensation of current officers, directors, trustees, and key employees				
6 Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) . .				
7 Other salaries and wages				
8 Pension plan contributions (include section 401(k) and section 403(b) employer contributions) . .				
9 Other employee benefits				
10 Payroll taxes				
11 Fees for services (non-employees):				
a Management				
b Legal				
c Accounting				
d Lobbying				
e Professional fundraising services. See Part IV, line 17				
f Investment management fees				
g Other				
12 Advertising and promotion				
13 Office expenses				
14 Information technology				
15 Royalties				
16 Occupancy				
17 Travel				
18 Payments of travel or entertainment expenses for any federal, state, or local public officials				
19 Conferences, conventions, and meetings .				
20 Interest				
21 Payments to affiliates				
22 Depreciation, depletion, and amortization .				
23 Insurance				
24 Other expenses. Itemize expenses not covered above. (Expenses grouped together and labeled miscellaneous may not exceed 5% of total expenses shown on line 25 below.)				
a				
b				
c				
d				
e				
f All other expenses				
25 **Total functional expenses.** Add lines 1 through 24f				
26 **Joint costs.** Check here ▶ ☐ if following SOP 98-2. Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

General Reporting of Functional Expenses

Report an organization's functional expenses on Part IX using the organization's normal accounting method. Total expenses are reported in column (A). All Section 501(c)(3) and (c)(4) organizations and Section 4947(a)(1) nonexempt charitable trusts must complete columns (A) through (D). Other organizations must complete column (A), but columns (B) through (D) are optional.

Note: Some expenses are reported on Form 990, Part VIII, Statement of Revenue. Do not duplicate any expenses reported on Part VIII on lines 6b, 7b, 8b, 9b, or 10b.

Expense Classification in General

Some costs incurred by an organization clearly relate to a specific program or support function (e.g., the salary of an individual working exclusively on a particular program service) and should be charged directly to that function. The function of other costs may not be readily identifiable. For these costs, generally accepted accounting principles (GAAP) may be used as a guide for distinguishing between the different types of functional costs. However, in one departure from GAAP, **the value of services donated to an organization, or items such as the free use of materials, equipment, or facilities, are not reportable as expenses in Part IX of Form 990.**

Examples of costs directly charged to a specific function are discussed in this chapter. Certain costs, however, cannot be allocated to a single function because they apply to more than one area (e.g., overhead costs such as rent or telephone). **In allocating this second category of expenses among the different functions, an organization is allowed to use any reasonable method.** The method used must be documented in the organization's records.

Program Service Expenses

Report program service expenses in column (B). **Program services expenses are the direct and indirect costs related to providing the organization's programs and social services (i.e., those activities that are the basis for the organization's exemption from tax). Do not report fundraising expenses as program-service expenses even though one of the organization's purposes is to solicit contributions.** However, include lobbying expenses in this column if the lobbying is directly related to the organization's exempt purposes.

Example 4-1 Lobbying directly related to exempt purpose.

Senior Care (SC), a Section 501(c)(3) organization, has the exempt purpose of improving health care for senior citizens. SC operates in state N. The legislature of state N is considering legislation to improve funding of health care for senior citizens. SC lobbies state legislators in support of the legislation. Since this lobbying is directly related to SC's exempt purpose, it is considered an exempt function expense and included under column (B).

Certain expenses incurred for unrelated business income (UBI) activities are also reported in column (B). For example, all expenses incurred in publishing a magazine are program service expenses even though the magazine contains both editorials and articles that further the organization's exempt purpose as well as advertising, the income from which is taxable as UBI. For GAAP purposes, however, any expense incurred in soliciting revenue from exchange transactions, such as advertising, would be reported as management and general expenses.

All UBI and related expenses are reported on Form 990. They are also separately reported on Form 990-T (Exempt Organization Business Income Tax Return).

Also include costs to secure a grant to conduct research, produce an item, or perform a service, whether the activities were conducted to meet the grantor's specific needs or to benefit the public directly. Do not report these costs as fundraising expenses in column (D), even if the organization reports the grant on Part VIII, Statement of Revenue, line 1, as a contribution. (As previously noted, for GAAP purposes any expenses incurred in soliciting revenue from exchange transactions, such as costs to secure a grant, would be reported as management and general expenses.)

Management and General Expenses

Use column (C) to report management and general expenses that are not identifiable with a specific program or fundraising activity, but are normally indispensable to the organization's operation. The extent to which certain salaries and related payroll costs, occupancy and related costs, and other expenses are identified as management and general costs varies widely among organizations. In a large national organization, overall planning and coordination of activities may require the full-time attention of several executives and their staffs. In small organizations, the executive director's time may be divided between management functions, program activities, and fundraising efforts.

Management and general expenses are normally identified in the same manner as those related to program services or fundraising—by identifying the organization's activities and then determining the direct and indirect expenses of those activities. **Examples of activities, the costs of which should be reported as management and general expenses, include:**

- Determining the overall direction of the organization;
- General recordkeeping;
- Office management (e.g., negotiating lease agreements for office space or office equipment rentals and setting policies for office procedures);
- General board and committee meetings;
- Executive direction and planning;
- General staff meetings (unless they involve specific program services or fundraising activities);
- Business management (e.g., determining the need for and helping to establish new local chapters of the national organization);

- Managing the organization's investments, unless related to rental income (reportable on line 6b of Part VIII) or program service income [reportable in column (B) of Part IX];
- General legal services;
- Personnel administration;
- Reception, switchboard, mail distribution, filing, and other general office activities; and
- General accounting, auditing, budgeting, and financial reporting.

Certain types of expenses (e.g., general liability insurance) should also be reported as management and general expenses. In addition, lobbying expenses should be reported in this column if they do not directly relate to the organization's exempt purposes.

Fundraising Expenses

Use Column (D) of Part IX to Report Fundraising Expenses. Fundraising expenses are the expenses incurred in soliciting contributions, gifts, and grants. This includes preparing and distributing fundraising manuals, instructions, and other materials and conducting fundraising events that generate contributions reportable on Part VIII, line 1c, or revenue reportable on Part VIII, line 8a.

The following are also reported as fundraising expenses in Part IX:

- Fees paid to professional fundraisers or public relations firms.
- Expenses of participating in joint fundraising campaigns (e.g., United Way campaigns).
- Costs of soliciting gifts or grants from foundations and other organizations, including the cost of obtaining government grants reportable on line 1e of Part VIII of Form 990. [However, if the organization receives a grant specifically to do research, produce an item, or perform a service that provides a direct benefit to the grantor, the costs of obtaining the grant and fulfilling its requirements are reported as program service expenses in Part IX, column (B), rather than as fundraising expenses.]
- Expenses of attending clinics, workshops, and other activities for improving fundraising techniques.
- Costs of radio and television material (to the extent it is not program related).
- Expenses of campaign "kick-off" dinners for an organization's fundraising volunteers.
- Overhead costs allocable to fundraising activities.

Although certain expenses may relate entirely to one function, many expenses (i.e., either shared or indirect expenses) must be allocated among the three functions because they are incurred for multiple activities. The proper allocation of these expenses in Part IX of the return is important since the allocation can affect how the IRS and any applicable states perceive the organization's worthiness for retaining its tax exemption. (Unusually high fundraising or management and general expenses can indicate a potential problem.)

Example 4-2 Allocating salary to more than one function.

Sally spends 40% of her time on fundraising and 60% on program management for Good Cause (GC), a Section 501(c)(3) organization. GC must allocate Sally's salary 40% to fundraising and report that portion in column (D) and 60% to program service expenses and report that portion in column (B). GC may not report the 100% of salary as program expenses simply because the employee spent over 50% of her time on program management.

Note: Proper allocation of expenses between exempt function and unrelated business income (UBI) activities is very important. An organization's liability for tax on any UBI may be impacted by how indirect and shared expenses are allocated to such income. Depending on the type of income, expenses related to UBI are reported on Form 990 in Part VIII or in Part IX. How these expenses are allocated on Form 990 could impact their treatment on Form 990-T (Exempt Organization Business Income Tax Return). An organization may have to justify an allocation of expenses on Form 990-T that differs from that shown on its Form 990. An organization's cost allocations on other types of reports should also be consistent (e.g., a medical clinic's Medicare cost reports).

Allocating Joint Expenses

Allocating to More Than One Function. It is sometimes difficult to properly allocate direct expenses that are common to more than one function (i.e., joint expenses). For example, if an organization incurs costs for program service activities that also include a fundraising appeal (such as newsletters, mass mailings, or telethons), the allocation of the costs between the program service activity and fundraising may not be clear cut. The IRS provides little guidance concerning the allocation of these joint expenses. The instructions to Part IX of Form 990 state that **the organization's normal accounting method should be used to report total expenses** in column (A) and to segregate them into functions under columns (B), (C), and (D). If the accounting system does not provide for this type of segregation, "the organization may use any reasonable method of allocation." Thus, the return preparer must sometimes determine an appropriate allocation method.

Note: Apparently, some organizations have been treating fundraising expenses as program-related expenditures or reporting contributions net of such expenses rather than specifically disclosing them. The IRS has said fundraising expenses must be identified and properly reported on Form 990 and that the absence of an internal accounting system capable of capturing fundraising expenses does not excuse the failure to identify them on Form 990. The Form 990 instructions make it clear that fundraising expenses must be reported as such and not netted against fundraising receipts. The gross amount of contributions received should be reported, not the net amount after subtracting fundraising expenses. Similarly, the entire amount of a gift solicited in the organization's name by a fundraiser should be reported—not the net.

Allocating joint expenses based on the portion of an activity's content that relates to one function (e.g., a program service) versus another (e.g., fundraising) may be appropriate, but difficult to do in practice. A reasonable alternative may be to allocate based on time spent on each separate function within the activity. However, this is not always true. (See Example 4-3 for information on the direct-cost method.)

Accounting Guidance. A more basic question than how to allocate such expenses is whether an allocation should be made at all. As discussed in the Form 990 instructions for Part IX, the organization's normal accounting method [which is frequently based on generally accepted accounting principles (GAAP)] can provide a useful reference in this situation.

GAAP's guidance on how to allocate costs that include elements of both program services and a fundraising appeal is found in Statement of Position (SOP) 98-2, Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising. Organizations that report joint costs from a combined educational campaign and fundraising solicitation in column (B) must complete line 26. SOP 98-2 requires that **three criteria (purpose, audience, and content**) be satisfied before any costs of joint activities can be allocated between fundraising and program service or management and general expenses. If any of the criteria are not met, all costs of the activity (with one exception) must be reported as fundraising costs, even though some of the costs might be considered program or management and general costs if they had been incurred in a different activity. The single exception is that costs of goods or services provided in an exchange transaction that is part of the joint activity [such as costs of direct donor benefits of a special event (e.g., a meal)] are not reported as fundraising costs but rather as costs of goods sold.

SOP 98-2's detailed discussion of the purpose, audience, and content criteria can be summarized as follows:

> **Purpose. The accomplishment of the organization's mission(s) or its management and general functions must be one of the reasons for the joint activity.** If the reason relates to the organization's mission, the audience must be requested to take specific action (other than simply providing financial support) to achieve that objective. In addition, certain factors are paramount in determining whether the purpose criterion is satisfied. For example, the joint activity will fail the purpose test if a majority of the compensation paid to a participant in the activity is contingent upon contributions raised. On the other hand, the fact that the organization already separately conducts a similar program or management and general activity (that does not include a fundraising component) on the same or greater scale will be sufficient to satisfy the purpose test as long as the call to action and compensation tests are met.
>
> **Audience. The audience criterion is met, generally, if the members of the audience were selected primarily because of either their need for the action called for, their ability to help the organization accomplish its program, or their need for the management and general component of the joint activity.** Audience selection based on prior financial support or on their ability or likelihood to contribute to the organization raises a rebuttable presumption that the audience criterion is not met. However, the organization may be able to overcome that presumption if it primarily selects the audience for one of the reasons mentioned in the first sentence.
>
> **Content. The content criterion is satisfied if the need for, and benefits of, the action the audience is called upon to undertake in support of the organization's mission is explained in the information presented.** Alternatively, the test is met if an element of the joint activity fulfills one or more of the organization's management and general responsibilities.

SOP 98-2 also illustrates some commonly used and acceptable (at least for GAAP purposes) methods of allocating costs of joint activities (including the direct-cost method shown in Example 4-3) without requiring or prohibiting any particular method.

Example 4-3 Reporting program service activity expenses that include a fundraising appeal.

The National Wildlife Association (NWA) is a tax-exempt organization devoted to protecting wildlife. NWA sent a package of materials to individuals included in lists rented from various organizations that support causes NWA believes are similar to its own. In addition to donor response cards and return envelopes, the package included a bumper sticker urging the public to protect native animals and a letter asking the reader to take specific action to further NWA's goals.

The following costs were incurred in connection with distributing this material:

Expenses directly related to fundraising (printing the donor response cards and return envelopes, etc.)	$ 3,500
Expenses directly related to program service activity (printing the bumper stickers, etc.)	5,000
Joint costs (list rentals, outbound postage, and consulting and design costs, etc.)	25,000

Based on the content of the mailout, the audience to which it was mailed, and the call to action contained in the letter, NWA should allocate the expenses of the mailout between fundraising and program services. The directly related expenses should be listed in the appropriate function's column. The $25,000 of joint costs should be allocated between the two functions using a reasonable method.

Although not the only reasonable method, one method of allocating the joint costs is to use what is sometimes referred to as the direct-cost method. Using this method, the portion of total joint costs allocated to fundraising equals the ratio of direct fundraising expenses to total direct expenses for the activity [$25,000 × $3,500 ÷ ($3,500 + $5,000) = $10,294]. Using this same method, the portion of joint costs allocated to program services is $14,706 [$25,000 × $5,000 ÷ ($3,500 + $5,000)].

NWA is including joint costs from a combined program service and fundraising campaign in column (B) of Form 990, Part IX. Thus, it must complete the information below line 26 of Part IX.

Accounting System and Chart of Accounts for Expense Allocation

Whenever possible, charge expenses directly to a particular function. Establish an organization's accounting system and chart of accounts to facilitate this. For example, in addition to recording expenses by object code (i.e., salaries, supplies, rent, etc.), expenses can be recorded by function. Thus, if an individual spends 50% of the time on program related activities, 40% on management and general activities, and 10% conducting fundraising activities, salary and related expenses for the individual are recorded accordingly when entered in the accounting system. Without an on-the-spot allocation, an organization may face large accounting fees for the hours required to determine the proper allocation of expenses among functions.

Allocating Indirect Costs. Some organizations (e.g., colleges, universities, and hospitals) accumulate indirect costs in cost centers such as the physical plant, or cost centers set up to track the expenses associated with grants from various funding sources. The total expense in a particular cost center is then reallocated among the functions. When preparing Part IX of Form 990, the cost center's expenses are reported on lines 5 through 24 of the "Management and general" column [column (C)], and then reallocated in a single step on line 24 (in lieu of reallocating each of the cost center's expenses on a line-by-line basis) as shown in Example 4-4. On line 24, enter the description, "Allocation of [name of indirect cost center] expenses."

Example 4-4 Allocating indirect costs.

Main State University (MSU) reallocates to its program services and other functional areas indirect expenses it accumulates in the physical plant cost center. In the current year, it has $50,000 of management and general expenses and $150,000 of expenses in the physical plant cost center that are allocable in part to other functions ($25,000 to fundraising, $100,000 to program services, $10,000 to management and general, and $15,000 to special events and activities).

The following steps may be followed to allocate these items:

- Report the expenses on line 5–24 in Part IX of Form 990 in column (C) (Management and general), along with the other expenses that should properly be reported in that column.
- Allocate the expenses for each cost center to columns (B) (Program services), (C) (Management and general), and (D) (Fundraising) of Part IX as a separate item on line 24 (Other expenses). Enter the name of the cost center from which the amount is allocated in the blank on the left side of Part IX on the line on which the amount is entered.
- If any expense is to be allocated to the expenses listed on Part VIII of the Form 990 (e.g., fundraising events), enter that expense as a negative figure in columns (A) (Total) and (C) (Management and general) of Part IX to avoid duplication of the expense amount.
- If any expense is to be allocated to either column (B) (Program services) or (D) (Fundraising), enter the amount as a positive amount in column (B) or (D) and a negative amount in column (C) (Management and general). No offsetting entries should be made in Column (A) (Total) for these expenses.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

21. Which of the following costs would be classified in its entirety as a program service expense on Form 990, Part IX?

    a. Charity A received free use of the convention center for its annual awards ceremony.

    b. Charity B hosted a kick-off dinner for its fundraising volunteers. [This answer is incorrect.

    c. Charity C paid salaries for personnel who administer a program for the entity's exempt purpose.

    d. Charity D paid premiums for general liability insurance.

22. Which of the following expenses are fundraising expenses reported in Column (D) of Part IX of Form 990?

    a. Radio and television spots that are not program related.

    b. Executive direction and planning.

    c. Business management workshops.

    d. Investment management.

23. Which of the following is **not** one of the three criteria included in the GAAP guidance on allocating costs between program services, management and general, or fundraising?

    a. Content.

    b. Audience.

    c. Function.

    d. Purpose.

24. Organization A is a tax-exempt organization. Organization A sent a package of materials to individuals included in lists rented from various organizations that support causes the organization believes are similar to its own. In addition to donor response cards and return envelopes, the package included a bumper sticker urging the public to support the organization's cause and a letter asking the reader to take specific action to further the organization's goals.

    The following costs were incurred in connection with distributing this material:

Expenses directly related to fundraising (printing the donor response cards and return envelopes, etc.)	$ 1,500
Expenses directly related to program service activity (printing the bumper stickers, etc.)	2,000
Joint costs (list rentals, outbound postage, and consulting and design costs, etc.)	15,000

    Based on the content of the mailout, the audience to which it was mailed, and the call to action contained in the letter, Organization A should allocate the expenses of the mailout between fundraising and program services. Using the direct-cost method, what amount of the joint costs should be allocated to program services?

    a. $6,429.

    b. $7,500.

    c. $8,571.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

21. Which of the following costs would be classified in its entirety as a program service expense on Form 990, Part IX? **(Page 93)**

    a. Charity A received free use of the convention center for its annual awards ceremony. [This answer is incorrect. The free use of facilities is not reportable as an expense in Part IX for Form 990. Likewise, donations of services or use of materials and equipment are not reported as program service expenses.]

    b. Charity B hosted a kick-off dinner for its fundraising volunteers. [This answer is incorrect. The expense of campaign kick-off dinners for an organization's fundraising volunteers is considered a fundraising expense. Fundraising expenses are not classified as program service expenses.]

    c. Charity C paid salaries for personnel who administer a program for the entity's exempt purpose. [This answer is correct. Program service expenses include costs related to providing the organization's programs and social services. This includes the salary for personnel who spend all of their time administering a program that constitutes the basis of the organization's exempt purpose.]

    d. Charity D paid premiums for general liability insurance. [This answer is incorrect. General liability insurance premiums are reportable on Part IX of Form 990 as management and general expenses.]

22. Which of the following expenses are fundraising expenses reported in Column (D) of Part IX of Form 990? **(Page 95)**

    a. Radio and television spots that are not program related. [This answer is correct. The cost of radio and television material is a fundraising expense to the extent it is not program related.]

    b. Executive direction and planning. [This answer is incorrect. Costs related to executive direction and planning for an organization are reported as management and general expenses.]

    c. Business management workshops. [This answer is incorrect. Business management functions such as determining the need for and helping to establish new local chapters of the national organization are reported as management and general expenses.]

    d. Investment management. [This answer is incorrect. Managing the organization's investments is a management and general expense unless related to rental income or program service income.]

23. Which of the following is **not** one of the three criteria included in the GAAP guidance on allocating costs between program services, management and general, or fundraising? **(Page 97)**
    a. Content. [This answer is incorrect. As outlined in SOP 98-2, the content criterion must be satisfied before allocating the costs.]
    b. Audience. [This answer is incorrect. GAAP guidance specifies that to meet the audience criterion, the members of the audience should be selected primarily because of either their need for the action called for, their ability to help the organization accomplish its program, or their need for the management and general component of the joint activity.]
    c. Function. [This answer is correct. SOP 98-2 requires that three criteria (purpose, audience, and content) be satisfied before any costs of joint activities can be allocated according to the functional expense. A functional expense is an expense classified by type, such as program services, management & general, and fundraising.]
    d. Purpose. [This answer is incorrect. The purpose criterion requires that the activity's purpose should accomplish the organization's mission or be a performance of a management and general function.]

24. Organization A is a tax-exempt organization. Organization A sent a package of materials to individuals included in lists rented from various organizations that support causes the organization believes are similar to its own. In addition to donor response cards and return envelopes, the package included a bumper sticker urging the public to support the organization's cause and a letter asking the reader to take specific action to further the organization's goals.

    The following costs were incurred in connection with distributing this material:

Expenses directly related to fundraising (printing the donor response cards and return envelopes, etc.)	$ 1,500
Expenses directly related to program service activity (printing the bumper stickers, etc.)	2,000
Joint costs (list rentals, outbound postage, and consulting and design costs, etc.)	15,000

    Based on the content of the mailout, the audience to which it was mailed, and the call to action contained in the letter, Organization A should allocate the expenses of the mailout between fundraising and program services. Using the direct-cost method, what amount of the joint costs should be allocated to program services? **(Page 98)**
    a. $6,429. [This answer is incorrect. Using the direct-cost method, the portion of total joint costs allocated to fundraising, not program services, equals the ratio of direct fundraising expenses to total direct expenses for the activity [$15,000 × $1,500 ÷ ($1,500 + $2,000) = $6,429].]
    b. $7,500. [This answer is incorrect. The direct-cost method does not automatically allocate the joint costs evenly between the two functions. The direct-cost method is not the only reasonable method of allocating costs of joint activities.]
    c. $8,571. [This answer is correct. Using the direct-cost method, the portion of joint costs allocated to program services is $8,571 [$15,000 × $2,000 ÷ ($1,500 + $2,000)].]

Reporting Grants and Other Assistance in Part IX (Form 990) and Schedule I

Reporting Grants and Other Assistance in Part IX

Report grants and other assistance on lines 1 through 3, Part IX. "Grants" include awards, prizes, cash allocations, stipends, scholarships and other types of similar payments made to organizations or individuals for an exempt purpose. The Form 990 separates grants paid to U.S. governments, organizations, and individuals, and grants paid outside the U.S. Report expenses incurred in selecting recipients or monitoring compliance with the terms of a grant or award on lines 5 through 24.

The IRS is interested in the payments to other organizations for at least three reasons. First, the payments could suggest that there is "private inurement" (i.e., payments benefiting an individual because of that individual's relationship with the organization, rather than to fulfill an exempt purpose). Second, the IRS is concerned that some organizations may be inflating the public contributions they receive by participating in a plan that transfers title to various noncash property from entity to entity (with the receiving entity showing the property as a contribution on line 1 of Part VIII and the transferring entity reporting it as a grant on line 1, 2 or 3 of Part IX). Third, the IRS is particularly interested in foreign grants reported on line 3 of Part IX.

Two new schedules have been added to the 990 series that increase transparency. Schedule I (Grants and Other Assistance to Organizations, Governments and Individuals in the U.S), discussed in this key issue, requires additional information regarding the qualifications of the recipients and method of selection. Schedule F (Statement of Activities Outside the United States) requires additional information on foreign activities.

Note: Reporting in accordance with SFAS No. 116 is acceptable but not required by the IRS. For example, an organization that follows SFAS 116 and makes a grant during the tax year to be paid in future years should report the grant's present value on this year's Form 990 and report accruals of additional value increments in future years.

Line 1—Grants and Other Assistance to Governments and Organizations in the U.S. Enter the discretionary amount that the organization paid in grants to governmental units and other organizations in the U.S. United Way and similar federated fundraising organizations should report grants to member or participating agencies on line 1. Organizations must report voluntary grants to state or local affiliates for specific (restricted) purposes or projects on line 1.

If line 1 exceeds $5,000, the organization must complete Parts I and II of Schedule I (Form 990). See "Schedule I—Grants and Other Assistance to Organizations, Governments, and Individuals in the U.S."

Line 2—Grants and Other Assistance to Individuals in the U.S. Enter the amount paid to individuals in the U.S. as scholarships, fellowships, stipends, research grants, and similar payments. Also include grants or other assistance paid to third party providers for the benefit of specified individuals. For example, report a grant payment to a hospital to cover the medical expenses of a particular patient on line 2. However, report a grant to the same hospital to provide services to the general public or to unspecified charity patients on line 1.

If line 2 exceeds $5,000, the organization must complete Parts I and III of Schedule I. See "Schedule I—Grants and Other Assistance to Organizations, Governments, and Individuals in the U.S." below for information on completing this schedule.

Line 3—Grants and Other Assistance to Governments, Organizations, and Individuals Outside the U.S. Enter the total amount of grants and other forms of assistance made to foreign governments, foreign organizations, and foreign individuals outside the U.S. Foreign grants to organizations include grants to organizations, partnerships, corporations, and other business entities that are not organized in the U.S. or under the law of the U.S. or any state or U.S. possession, to foreign estates, and to foreign trusts. Foreign grants to organizations do not include grants to U.S. government agencies. Foreign grants or assistance to individuals outside the U.S. includes such payments to U.S. citizens residing in foreign countries or for the primary purpose of study or research in foreign countries, as well as grants or assistance to non-U.S. citizens and non-U.S. residents.

If line 3 exceeds $5,000, the organization must complete Parts II and/or III of Schedule F (Statement of Activities Outside the United States).

Schedule I—Grants and Other Assistance to Organizations, Governments, and Individuals in the U.S.

Any organization that answered "Yes" on Form 990 Part IV, line 21 or 22, must complete Part I, and either Part II or Part III of Schedule I (Form 990).

Grants and other assistance include awards, prizes, allocations, stipends, scholarships, fellowships, research grants, and similar payments and distributions. Grants and other assistance do not include salaries or other compensation to employees; grants to affiliates that are not organized as legal entities separate from the filing organization; or grants made to branch offices, accounts, or employees located in the U.S.

Organizations in the U.S. include nonprofits or other exempt organizations, partnerships, corporations, or other business entities that are created or organized in the U.S. (or under the laws of the U.S.) or of any state, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, Guam, American Samoa, and the U.S. Virgin Islands, and an estate or trust other than a foreign estate or trust. Governments in the U.S. include the federal government, and any state or political subdivisions thereof, including the District of Columbia and any possession of the U.S.

Include a grant to a U.S. government agency on this schedule regardless of where the agency is located or operated. Individuals in the U.S. include persons who are citizens or residents of the U.S., but do not include citizens or residents of the U.S. living or residing outside the U.S. when the grant is paid.

Use as many Schedules I-1 as needed to report additional information for Part II or III of Schedule I (Form 990).

Except as noted regarding grants to individuals, grants and other assistance to foreign organizations, foreign governments, and foreign individuals should not be reported on this schedule, but should be reported on Schedule F (Statement of Activities Outside the United States).

SCHEDULE I
(Form 990)

Department of the Treasury
Internal Revenue Service

Grants and Other Assistance to Organizations, Governments, and Individuals in the United States

Complete if the organization answered "Yes" to Form 990, Part IV, line 21 or 22.
▶ Attach to Form 990.

OMB No. 1545-0047
2009
Open to Public Inspection

Name of the organization | **Employer identification number**

Part I General Information on Grants and Assistance

1 Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance? . . . . . ☐ **Yes** ☐ **No**
2 Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States.

Part II Grants and Other Assistance to Governments and Organizations in the United States.

Complete if the organization answered "Yes" to Form 990, Part IV, line 21, for any recipient that received more than $5,000. Check this box if no one recipient received more than $5,000. Use Part IV and Schedule I-1 (Form 990) if additional space is needed . . . . . ▶ ☐

1 (a) Name and address of organization or government	(b) EIN	(c) IRC section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance

2 Enter total number of section 501(c)(3) and government organizations . . . . . ▶
3 Enter total number of other organizations . . . . . ▶

Part III **Grants and Other Assistance to Individuals in the United States.** Complete if the organization answered "Yes" to Form 990, Part IV, line 22. Use Part IV and Schedule I-1 (Form 990) if additional space is needed.

(a) Type of grant or assistance	**(b)** Number of recipients	**(c)** Amount of cash grant	**(d)** Amount of non-cash assistance	**(e)** Method of valuation (book, FMV, appraisal, other)	**(f)** Description of non-cash assistance

Part IV **Supplemental Information.** Complete this part to provide the information required in Part I, line 2, and any other additional information.

Part I—General Information on Grants and Assistance (Schedule I). Complete this part if the organization answered "Yes" on Form 990, Part IV, line 21 or 22.

Line 1. Indicate "Yes" or "No" regarding whether the organization maintains records to substantiate amounts, eligibility, and selection criteria used for grants. Describe in general terms how the organization monitors its grants to ensure that such grants are used for the intended purposes and are not diverted. For example, describe periodic reports required or field investigations conducted.

If no one recipient received more than $5,000 from the organization (i.e., the box in Part II is checked), do not complete line 1.

Line 2. Use Part IV to provide the narrative requested.

Part II—Grants and Other Assistance to Governments and Organizations in the United States (Schedule I). Complete the table only for each recipient U.S. organization or government entity that received more than $5,000 aggregate of grants or assistance from the organization during the tax year.

If no one recipient received more than $5,000 from the organization [i.e., the organization checked the box on Schedule I (Form 990), Part II], do not complete the table. Instead, check the box above the table.

Use a separate line of Part II to enter the details of each organization or entity. If there are more organizations or entities to report in Part II than space available, use Part I of Schedule I-1. Use as many Schedules I-1 as needed. Use Part IV if additional space is needed for descriptions.

Column (a). State the complete legal name and mailing address of each recipient organization or government entity.

Column (b). Enter the employer identification number of the grant recipient.

Column (c). If the recipient organization is tax-exempt, enter the IRC section that is the basis for its tax exemption [e.g., a school described in IRC Sec. 501(c)(3), or a social club described in IRC Sec. 501(c)(7)]. However, if a recipient is a government entity, indicate so in column (c). If a recipient is neither a tax-exempt nor a government entity, leave column (c) blank.

Column (d). Enter total amount of cash grants to each recipient organization or entity during the filing organization's tax year. Cash grants include grants and allocations paid by cash, checks, money orders, electronic fund or wire transfers, and other charges against funds on deposit at a financial institution.

Column (e) and (f). Enter the fair market value (FMV) of non-cash property and describe the method of valuation used. Report property with a readily determinable market value (e.g., market quotations for securities) at its FMV. For marketable securities registered and listed on a recognized securities exchange, use the average of the highest and lowest quoted selling prices or the average between the bona fide bid and asked prices, on the date the property is distributed to the grantee. Use an appraised or estimated value if FMV cannot be readily determined.

Column (g). For non-cash property or assistance distributed, enter a description of the property or assistance distributed (e.g., medical supplies or equipment, pharmaceuticals, blankets, books or other educational supplies).

Column (h). Describe the purpose or ultimate use of the grant funds. Do not use broad terms such as charitable, educational, religious or scientific. Instead, use more specific descriptions such as payments for nursing services or laboratory construction. Enter the type of assistance, such as food, medical care, or free care for indigent hospital patients. In the case of disaster assistance, the description should include a description of the disaster and the assistance provided (e.g., food and clothing for Organization A's assistance to Hurricane Katrina disaster victims). Use Part IV if additional space is needed for descriptions.

Line 2. Enter the total number of recipient organizations listed in line 1 that (1) are tax-exempt under IRC Sec. 501(c)(3), or (2) are government units or entities in the U.S. Also include grants to a church (or integrated auxiliary thereof) and to any organization that has gross revenues not greater than $5,000 on this line unless the filing organization has knowledge that the recipient organization does not qualify for tax-exempt status.

Line 3. Enter total number of recipient organizations listed in line 1 not described in line 2. This number should include organizations that are exempt under IRC Sec. 501(c) other than IRC Sec. 501(c)(3).

Part III—Grants and Other Assistance to Individuals in the United States (Schedule I). Complete this table if the organization answered "Yes" to Form 990, Part IV, line 22. Enter information for grants or other assistance directly made to or for the benefit of individual recipients. For example, report a designated payment to a hospital to cover the medical expenses of a particular individual in Part III. Enter the details of each type of assistance to individuals on a separate line of Part III. If there are more types of assistance than space available, report the additional assistance transactions in Part II of Schedule I-1. Use as many Schedules I-1 as needed. Use Part IV if additional space is needed for descriptions.

Do not complete Part III for grants or assistance provided to individuals through another organization or entity. Instead, complete Part II above. For example, report a designated contribution to a hospital to provide some service to the general public or to unspecified charity patients in Part II.

Column (a). Specify type(s) of assistance provided, or describe the purpose or use of grant funds. Do not use broad terms such as charitable, educational, religious, or scientific. Rather, use more specific descriptions, such as scholarships for students attending school in a particular county or attending a particular school; provision for books or other educational supplies; food, clothing, shelter for indigents or direct cash assistance to indigents, etc. In the case of specific disaster assistance, the type of assistance provided and identification of the disaster should be included (e.g., food, shelter, and clothing for immediate relief for Hurricane Katrina disaster victims).

Column (b). Enter the number of recipients for each type of assistance. If an actual number is not available, provide an estimate of the number and explain in Part IV how the estimate was determined.

Column (c). Enter the aggregate dollar amount of cash grants for each type of grant or assistance. Cash grants include only grants and allocations paid by cash, checks, money orders, electronic fund or wire transfers, and other charges against funds on deposit at a financial institution.

Column (d) and (e). Prepare columns (d) and (e) using the instructions for columns (e) and (f) of Part II described above.

Column (f). Prepare column (f) using the instructions for column (g) of Part II described above.

Part IV—Supplemental Information (Schedule I). Use Part IV to provide narrative information required in Part I, line 2, regarding monitoring of funds. Also use Part IV to provide other narrative explanations and descriptions. Identify the specific part and line(s) that the response supports. Duplicate Part IV if needed for more space.

Example 4-5 Recording payments to specific individuals.

Tri-County Charities, Inc. (TCCI), annually awards two $20,000 scholarships. (TCCI does not maintain donor advised funds.) The awards allow the recipients to devote full time to obtaining an advanced degree in social services. To be eligible to receive one of the scholarships, an individual must have completed a four-year degree (or be in the final year of completing one) and attend one of the two universities in the counties where TCCI operates.

TCCI also conducts a public assistance program for indigent families. In addition to maintaining a food pantry and clothing closet for the needy, TCCI occasionally makes direct payments to service providers to assist specific individuals with housing or medical needs. During the current year, the following amounts were expended for direct public assistance:

1. Cost or other basis (e.g., fair market value at date of donation to TCCI) of food distributed to needy individuals through the food pantry	$ 234,300
2. Cost or other basis of clothing distributed to needy individuals	9,700
3. Payments to various apartment owners to assist specific individuals with their monthly rent payment	1,500
4. Payments to the Tri-County Community Hospital for a portion of the hospital costs of six specified indigent individuals	3,200
Total payments	$ 248,700

The $40,000 expended for scholarships is reported on Form 990, Part IX, line 2. In addition, the $248,700 distributed in direct public assistance is reported on line 2. Since TCCI reported more than $5,000 of grants and other assistance to individuals on Part IX, line 2, the organization must answer “Yes” on line 22 of Part IV and attach Schedule I (Form 990) with Parts I and III completed.

Reporting Benefits Paid in Part IX

Line 4. Report the cost of benefits provided to members (or a member's dependents). These benefits normally include death, sickness, hospitalization, or disability benefits; unemployment compensation benefits; and other benefits. Do not report the cost of employment-related benefits provided to officers and employees on this line; rather, report these expenses on lines 8 and 9.

Organizations providing member benefits include fraternal beneficiary societies [IRC Sec. 501(c)(8)], voluntary employees' beneficiary associations [IRC Sec. 501(c)(9)], and supplemental unemployment benefit trusts [IRC Sec. 501(c)(17)]. Thus, the cost of the benefits is reported only in column (A) of line 4 since these organizations are not required to complete columns (B) through (D).

Example 4-6 Reporting the costs of providing member benefits.

The Loyal Order of the Water Buffalos (LOWB), an organization described in IRC Sec. 501(c)(8), provides supplemental death, accident, and disability benefits for its members. It also provides the same benefits for its sole employee, Joe Smiley. During the current year, LOWB paid the following amounts related to providing these benefits:

Benefit	Amount
Death	$ 40,000
Accident	18,000
Disability	2,400
	$ 60,400

Joe received $2,300 of the total benefits paid because of an accident his son had during the year. Benefits paid to employees of the organization are not reported on line 4 of Part IX, even if the employee is also a member of the organization and receives the same benefits as other members. Instead, the $2,300 is reported on line 9 of Part IX as an employee benefit. The remaining $58,100 ($60,400 – $2,300) is reported on line 4.

Reporting Compensation and Related Benefits

Report compensation for Part IX based on the accounting method and reporting period used by the organization, rather than the definitions and calendar year used to complete Part VII or Schedule J regarding compensation of certain officers, directors, trustees and other employees.

Compensation of Current Trustees, Directors, Officers, and Key Employees

Line 5. Enter the total compensation paid to current trustees, directors, officers, and key employees (TDOKEs) for the organization's tax year. Compensation includes all forms of income and other benefits earned or received in return for services rendered including salary and wages, bonuses, severance payments, deferred payments, retirement benefits, fringe benefits, and other financial arrangements or transactions (e.g., personal vehicles, meals, housing, personal and family travel or entertainment) but does not include non-compensatory expense reimbursements or allowances. Report all compensation amounts relating to TDOKEs, including those related to services performed in a capacity other than as a TDOKE.

Example 4-7 Reporting compensation of a key employee.

Cathy, is a key employee of HELP, a Section 501(c)(3) organization. Cathy receives $100,000 of salaries and wages. In addition, HELP paid Cathy $25,000 of fringe benefits, $10,000 of non-compensatory travel reimbursements, and $7,500 of pension plan contributions relating to Cathy. HELP reports $132,500 ($100,000 + $25,000 + $7,500) as compensation on line 5 and reports the $10,000 of expense reimbursements on line 17.

Compensation to Other Disqualified Persons

Line 6. Report the total compensation and other distributions not included on line 5, to disqualified persons as defined under IRC Sec. 4958(f)(1) and persons related to a supporting organization as defined in IRC Sec. 4958(c)(3)(B). Compensation includes all forms of income and other benefits earned or received in return for services rendered but does not include non-compensatory expense reimbursements or allowances.

Other Salaries and Wages

Line 7. Enter the total amount of employee compensation (e.g., salaries, wages, fees, bonuses, severance payments, and similar amounts) not reported on line 5 or 6.

Once compensation and benefits have been entered in column (A) of the proper lines of Part IX, the next issue is how to allocate expenses among the three functional areas in columns (B)–(D). If an organization has unrelated business income (UBI), it is especially important to ensure that all employee-related expenses applicable to the UBI are properly allocated.

The entire salary and related expenses of an individual who works solely on activities related to one function are charged to that function. Alternatively, allocate expenses of an individual performing tasks related to multiple functions among the functions based on the time spent on each activity. Allocate an individual's salary and benefits, along with the organization's share of related payroll taxes (i.e., social security and Medicare taxes, federal and state unemployment taxes, and any local payroll taxes) using the same percentages.

Example 4-8 Allocating personnel costs.

Gimbel Art Museum (GAM), a Section 501(c)(3) organization, paid compensation to three individuals. Their salaries and related payroll tax expenses for the current year are as follows:

Individual	**Position**	**Salary**	**GAM's Share of Payroll Taxes**
Albert Snow	Executive Director	$ 29,000	$ 2,662
Jim Java	Former Development Officer	23,000	2,203
Judy Lemons	Secretary/Bookkeeper	17,300	1,766
		$ 69,300	$ 6,631

Each individual's time is divided among program services, management and general, and fundraising, as follows:

Individual	Percentage of Time Spent on: Program Services	Management and General	Fundraising
Albert Snow	60%	15%	25%
Jim Java	—	5%	95%
Judy Lemons	20%	80%	—

GAM's personnel related expenses should be allocated in Part IX based on the time spent by the individuals on each of the three functions. Thus, GAM's expenses are allocated as follows:

Line Number	Total	Program Services	Management and General	Fundraising
5—Compensation–Current officer[a]	$29,000	$17,400[b]	$4,350	$7,250
6—Compensation–Disqualified person[c]	23,000	—	1,150	21,850[d]
7—Other salaries	17,300	3,460	13,840[e]	—
10—Payroll taxes	6,631	1,951[f]	1,922	2,758

Notes:

[a] Although Mr. Snow is not an officer, he is a key employee, and his salary must be reported on line 5.

[b] $29,000 × 60% = $17,400.

[c] Jim Java retired from the position as Vice President—Development in the prior year; therefore, he is a disqualified person.

[d] $23,000 × 95% = $21,850.

[e] ($17,300 × 80%) = $13,840.

[f] ($2,662 × 60%) + ($1,766 × 20%) = $1,951.

Note: Because of the recordkeeping involved, it may be unreasonable to expect an organization's employees to keep detailed time records throughout the year. A more practical approach may be to select certain time periods to represent the entire year. Keep detailed time records for those periods, and allocate the employee-related costs for the entire year based on the percentages developed.

Pension Plan Contributions

Line 8. Enter the employer's share of contributions to qualified and nonqualified pension plans for the year. Include contributions made to Section 401(k) and 403(b) pension plans on behalf of employees. However, do not include contributions to qualified pension, profit-sharing, and stock bonus plans under IRC Sec. 401(a) solely for the benefit of current or former TDOKEs that are reportable on line 5 or 6.

Other Employee Benefits

Line 9. Report the organization's contributions to employee benefit programs (e.g., insurance, health, and welfare programs that are not an incidental part of a pension plan included on line 8) and the cost of other employee benefits (e.g., picnic or holiday party) on line 9. Do not include contributions on behalf of current or former TDOKEs or other persons that were reported on line 5 or 6.

Payroll Taxes

Line 10. Enter the employer's share of federal, state, and local payroll taxes for the year [e.g., Social Security and Medicare taxes, the federal unemployment tax (FUTA), state unemployment compensation taxes, and other state and local payroll taxes]. Do not include on line 10 taxes withheld from employees' salaries, which should be reported as compensation. (See Example 4-8.)

Fees for Services Paid to Non-employees (Independent Contractors)

Report on lines 11a through 11g of Part IX amounts for services provided by independent contractors for management, legal, accounting, lobbying, professional fundraising, investment management, and other services, respectively. Include amounts regardless of whether a Form 1099 was issued to the independent contractor. Amounts paid to or earned by the reporting organization's employees for these types of services must be reported on lines 5 through 7, and not on line 11.

Management Fees

Line 11a—Management. Enter the fees for management services provided by outside firms and non-employee individuals.

Legal and Accounting

Line 11b—Legal. Enter the amounts for outside legal fees (i.e., charged by outside firms and non-employee individuals) and allocate as management and general costs in column (C). However, legal expenses directly attributable to a program activity should be reported as a program service expense in column (B) (e.g., legal fees incurred in connection with operating an adoption clinic). Do not include any penalties, fines, settlements or judgments imposed against the organization as a result of legal proceedings that should be reported on line 24. Report any amounts for lobbying services provided by attorneys on line 11d.

Line 11c—Accounting. Enter amounts for outside accounting and auditing services (i.e., charged by outside firms and individuals and allocate as management and general costs in column (C). In the authors' opinion, this includes situations where such services relate to a specific program. However, if the accounting firm is also providing consulting services for a particular program (e.g., to improve the efficiency of the program's operations), then report the fees applicable to those services as a program service expense in column (B).

Lobbying

Line 11d. Enter amounts for activities intended to influence foreign, national, state, or local legislation including both direct and grassroots lobbying. Do not report on this line activities to influence executive, judicial, or administrative actions or other advocacy services; these are reported on line 11g.

Professional Fundraising

Line 11e. Enter amounts for professional fundraising services, including solicitation campaigns and advice or other consulting services supporting in-house fundraising campaigns. If fundraising services and expenses are distinguishable, do not include the payment of fundraising expenses (i.e., printing, paper, envelopes, postage, mailing list rental, and equipment rental) that should be reported on line 24.

Caution: Professional fundraising fees can be a sensitive subject. If a large percentage of contributions raised is paid to professional fundraisers, the purpose or need for such fees may be questioned by potential donors or the IRS. In one case, an organization lost its tax-exempt status for four years due to the compensation received by a hired fundraiser. Thus, reasons for incurring substantial fundraising fees should be well documented in the organization's files.

Investment Management Fees

Line 11f. Report investment counseling and portfolio management fees, including monthly account service fees. Do not include brokerage fees, and commissions (i.e., transaction costs) that are sales expenses and reported on line 7b, Part VIII.

Other

Line 11g. Enter amounts for other independent contractor services not listed on lines 11a through 11f (e.g., amounts paid to an independent contractor for advocacy services that are not considered lobbying). Health care organizations report payments to health care professionals who are independent contractors on line 11g.

Advertising and Promotion

Line 12. Enter amounts for advertising including amounts for print and electronic media advertising. Also include Internet site link costs, signage costs, and advertising costs for the organization's in-house fundraising campaigns. However, do not include fees paid to independent contractors for conducting professional fundraising campaigns reported on line 11e.

Office Expenses

Line 13. Enter amounts for supplies (office, classroom, medical, or other supplies); telephone (cell phones and landlines) and facsimile; postage (overnight delivery, parcel delivery, trucking, and other delivery expenses) and mailing expenses; shipping materials; equipment rental; bank fees and other similar costs. Also include general printing costs; however, printing costs that relate to conferences or conventions are reported on line 19.

For organizations required to allocate the expense among different functions, the allocation should be made based on actual use. In many cases, the type of supplies or where they are used will give a clear indication of the function to which they relate. (For example, the cost of medical supplies used by an organization operating clinics for low-income families is easily identified as a program service expense, while office supplies consumed in the national headquarters of a large organization are not readily identified.)

Information Technology

Line 14. Enter amounts for information technology, including hardware, software, and support services (e.g., maintenance, help desk, and other technical support services). Also include expenses for infrastructure support (e.g., web site design and operations, virus protection, and other information security programs and services) to keep the organization's web site operational and secured against intrusions.

Royalties

Line 15. Enter amounts for royalties, license fees, and similar amounts to use intellectual property (i.e., patents and copyrights).

Occupancy

Line 16. Enter amounts for the use of office space or other facilities, including rent, heat, light, power, and other utilities expenses; property insurance; real estate taxes; mortgage interest; and other occupancy-related expenses. Do not include expenses reportable as office expenses such as telephone expenses, on line 13. Allocate occupancy costs based on use of the facilities.

Travel

Line 17. Enter the total travel expenses, including transportation costs (i.e., fares, mileage allowances, and automobile expenses), meals and lodging, and per diem payments. Travel costs include the expenses of leasing, operating, and repairing any vehicles owned by the organization and used for the organization's activities.

Allocate costs to each function based on the nature of the travel (e.g., travel expenses of the organization's program director, who attends a program-related conference, are charged to program services, while travel expenses of the executive director attending a fundraising dinner are allocated to fundraising expense).

If the organization leases vehicles on behalf of its executives or other employees as part of a compensation program, the leasing costs are considered employee compensation and reported on lines 5 through 7.

Payments of Travel or Entertainment Expenses for Any Federal, State, or Local Public Officials

Line 18. Enter total amounts for travel or entertainment expenses (including reimbursement for such costs) for any federal, state or local public officials [as determined under IRC Sec. 4946(c)] and their family members [as determined under IRC Sec. 4946(d)]. Report amounts for a particular public official (including family members) only if the aggregate expenditures exceed $1,000 for the filing organization's tax year.

Caution: Allocate expenditures to an individual that are not specifically identifiable to a particular individual using any reasonable allocation method. Report amounts not described above in the total amount for line 18 or on line 24. Keep records of all travel and entertainment expenses related to a government official regardless of where reported.

Conferences, Conventions, and Meetings

Line 19. Enter the total expenses incurred by the organization in conducting meetings related to its activities. Include such expenses as facility rentals, speakers' fees and expenses, and printed materials. Include the registration fees (but not travel expenses) paid for sending any of the organization's staff to conferences, conventions, and meetings conducted by other organizations. Allocate costs to each function based upon the specific nature of the conference, convention, or meeting attended. Travel expenses incurred by officers, directors, and employees attending such conferences, conventions and meetings must be reported on line 17.

Interest

Line 20. Enter the total interest expense for the year. Do not include any interest attributable to rental property (reported on Part VIII, line 6b) or any mortgage interest reported on line 16. Interest reported on this line normally is allocated to management and general expenses. If use of the borrowed funds can be traced to a specific function (e.g., a specific program service activity), allocate the related interest to that function.

Depreciation, Depletion, and Amortization

Line 22. Report depreciation, depletion, amortization, or similar expenses including depreciation or amortization of leasehold improvements and intangible assets. Maintain books and records to substantiate any amount reported.

When completing Form 990, exempt organizations are not required to use the depreciation methods and rules that apply to for-profit entities and to the UBI calculation. Thus, organizations without unrelated business activities usually record depreciation using the straight-line method. Allocate depreciation based on the use of the items being depreciated (similar to the way occupancy costs are allocated).

Insurance

Line 23. Enter total insurance expenses other than insurance attributable to rental property (reported on Part VIII, Statement of Revenue, line 6b). Do not report on this line (1) payments made by organizations exempt under IRC Sec. 501(c)(8), (9), or (17) to obtain insurance benefits for members (reported on line 4); (2) the cost of employment-related benefits (e.g., health insurance, life insurance, or disability insurance) provided by the organization to its officers and employees (reported on lines 8 and 9); or (3) property or occupancy-related insurance (reported on line 16).

Other Expenses

Line 24. Enter the types and amounts of miscellaneous expenses which were not reportable on lines 1 through 23. Include payments by the organization to professional fundraisers for identifiable fundraising expenses such as printing, paper, envelopes, postage, mailing list rental, and equipment rental.

Preparation Pointer: Enter the five largest dollar amounts on lines 24a–24e and the total of all remaining expenses on line 24f. However, separately report the amount, if any, of UBI taxes on line 24. Amounts labeled “other expenses” or “miscellaneous expenses” or something similar, cannot exceed 5% of the total expenses reported on line 25.

Total Functional Expenses

Line 25. Section 501(c)(3) and (c)(4) organizations and Section 4947(a)(1) nonexempt charitable trusts should add lines 1 through 24f and enter the totals on line 25 in columns (A), (B), (C), and (D). All other organizations should add lines 1 through 24f and enter the total on line 25 in column (A) [and columns (B),(C), and (D) if they voluntarily complete them].

Joint Costs

Example 4-9 Completing the Statement of Functional Expenses.

The Rocky Mountain Society (RMS) regularly conducts educational programs to inform the public about the dangers of Rocky Mountain Spotted Fever. Most of the seminars are conducted by volunteers, although all the planning and arrangements are handled by the RMS staff. All of the seminars are provided free to the public.

To raise money for its operations, RMS conducts a general fundraising campaign each fall using direct mail solicitations. The educational programs and the fall fundraising effort are the staff’s only activities.

During the current year RMS incurred the following expenses related to its operations:

(1)	Salaries for current employees:		
	Executive director	$ 27,000	
	Program director	23,500	
	Volunteer coordinator	17,500	
	Secretary/bookkeeper	14,300	82,300
(2)	Benefits costs (55% payroll taxes, 45% health insurance costs) for current employees:		
	Executive director	4,320	
	Program director	3,760	
	Volunteer coordinator	2,800	
	Secretary/bookkeeper	2,288	13,168
(3)	Occupancy expenses:		
	Rent	9,000	
	Telephone	1,150	
	Utilities	1,900	
	Depreciation (furniture/fixtures)	600	
	Supplies	500	13,200
(4)	Insurance (general liability)		800
(5)	Professional and contract fees:		
	Audit	3,500	
	Legal	1,400	
	Mailing lists for fundraising effort	350	5,250
(6)	Facility rental (for seminars)		5,500
(7)	Outside printing:		
	Brochures for educational seminars	800	
	Fundraising brochures	550	1,350
(8)	Postage and shipping ($315 for fundraising campaign, $140 for administrative items, remainder for program service activities)		950
(9)	Volunteers' expense reimbursements (for seminars)		1,300
(10)	Miscellaneous ($125 related to fundraising campaign, balance to program services)		900
(11)	Travel related to:		
	Conducting educational seminars	1,600	
	Local miscellaneous travel for administrative purposes	500	
	Other travel (workshop for employee to improve skills in arranging and presenting educational seminars; includes $400 seminar fee)	600	2,700
			$ 127,418

Assume 20% of the executive director's time and 10% each of the program director's and secretary/bookkeeper's time is spent on fundraising efforts. The executive director and secretary/bookkeeper also spend 30% of their time on management and general activities. Also assume 8% of the occupancy expenses, telephone, and supplies are allocable to fundraising efforts and 19% to management and general activities.

Reporting Payments to Affiliates in Part IX

Line 21. Enter certain types of payments to organizations affiliated with (closely related to) the reporting organization.

- Payments to Affiliated State or National Organizations. Dues paid by the local organization to its affiliated state or national (parent) organization are usually reported on line 21. Report on this line predetermined quota support and dues (excluding membership dues of the type described below) by local agencies to their state or national organizations for unspecified purposes; that is, the general use of funds for the national organization's own program and support services.

- Purchases from Affiliates. Do not report the purchase of goods or services from affiliates on line 21, but report the purchases as expenses in the usual manner.

- Expenses for Providing Goods or Services to Affiliates. In addition to payments made directly to affiliated organizations, expenses for providing goods or services to affiliates may be reported on line 21 if:

  - The goods or services provided are not related to the program services conducted by the organization furnishing them (e.g., when a local organization incurs expenses in the production of a solicitation film for the state or national organization); and

  - The costs involved are not connected with the management and general or fundraising functions of the reporting organization. For example, when a local organization gives a copy of its mailing list to the state or national organization, the expense of preparing the copy provided may be reported on line 21, but not the expenses of preparing and maintaining the local organization's master list.

- Federated Fundraising Agencies (FFAs). FFAs include the full amount of contributions received in connection with a solicitation campaign they conduct, even though donors designate specific agencies to receive part or all of their individual contributions. FFAs must report the allocations to participating agencies as grants and allocations and quota support payments to their state or national organization as payments to affiliates.

- Voluntary Awards or Grants to Affiliates. Do not report on line 21 voluntary awards or grants made by the organization to its state or national organizations for specified purposes.

- Membership Dues Paid to Other Organizations. Report membership dues paid to obtain general membership benefits from other organizations (i.e., regular services, publications, and other materials) as miscellaneous expenses on line 24. For example, if a charitable organization pays dues to a trade association comprised of otherwise unrelated members.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

25. A grant paid to a local hospital to provide services to unspecified charity patients is reported on which of the following lines?

    a. Line 1—Grants and other assistance to governments and organizations in the U.S.

    b. Line 2—Grants and other assistance to individuals in the U.S.

    c. Line 3—Grants and other assistance to governments, organizations, and individuals outside the U.S.

26. Grants and other assistance listed on Schedule I (Form 990) include:

    a. Any type of compensation to employees.

    b. Grants made to branch offices located in the U.S.

    c. Grants to affiliates that are not organized as legal entities separate from the filing organization.

    d. Stipends, fellowships, research grants, and similar payments and distributions.

27. How do exempt organizations report depreciation on Form 990?

    a. Exempt organizations are required to record depreciation using MACRS if the organization does not have unrelated business activities.

    b. Exempt organizations without unrelated business activities usually record depreciation using the straight-line method.

    c. Exempt organizations are required to use the depreciation methods and rules that apply to for-profit entities and to the UBI calculation.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

25. A grant paid to a local hospital to provide services to unspecified charity patients is reported on which of the following lines? **(Page 104)**
    a. **Line 1—Grants and other assistance to governments and organizations in the U.S. [This answer is correct. Report a grant to a hospital to provide services to the general public or to unspecified charity patients on Line 1, per the Form 990 instructions.]**
    b. Line 2—Grants and other assistance to individuals in the U.S. [This answer is incorrect. This line is used to report a grant payment to a hospital to cover the medical expenses of a particular patient.]
    c. Line 3—Grants and other assistance to governments, organizations, and individuals outside the U.S. [This answer is incorrect. Foreign grants or assistance to individuals outside the U.S. would include payments to U.S. citizens residing in foreign countries, non-U.S. citizens and non-U.S residents.]
26. Grants and other assistance listed on Schedule I (Form 990) include: **(Page 105)**
    a. Any type of compensation to employees. [This answer is incorrect. Salaries or other compensation to employees are included on the Form 990, Part IX, in the Statement of Functional Expenses section.]
    b. Grants made to branch offices located in the U.S. [This answer is incorrect. The activity of a branch office or division of the parent organization is reported on the parent's Form 990 as if the parent organization conducted the activity.]
    c. Grants to affiliates that are not organized as legal entities separate from the filing organization. [This answer is incorrect. The activity of local units that are not separate legal entities under state law is reported on the parent's Form 990.]
    d. **Stipends, fellowships, research grants, and similar payments and distributions. [This answer is correct. Grants and other assistance to be included on Schedule I, Part II consist of awards, prizes, allocations, stipends, scholarships, fellowships, research grants, and similar payments and distributions per the Form 990 instructions.]**
27. How do exempt organizations report depreciation on Form 990? **(Page 117)**
    a. Exempt organizations are required to record depreciation using MACRS if the organization does not have unrelated business activities. [This answer is incorrect. Organizations without unrelated business activities usually record depreciation using another method. They are not required to use MACRS.]
    b. **Exempt organizations without unrelated business activities usually record depreciation using the straight-line method. [This answer is correct. As indicated in the text, organizations without unrelated business activities usually record depreciation using the straight-line method. Depreciation is allocated based on the use of the items being depreciated (similar to the way occupancy costs are allocated).]**
    c. Exempt organizations are required to use the depreciation methods and rules that apply to for-profit entities and to the UBI calculation. [This answer is incorrect. When completing Form 990, the IRS does not require exempt organizations to use the depreciation methods and rules that apply to for-profit entities and to the UBI calculation.]

EXAMINATION FOR CPE CREDIT

Chapter 4

Determine the best answer for each question below. Then log onto our Online Grading Center at **OnlineGrading.Thomson.com** to record your answers.

21. Where are lobbying expenses directly related to an organization's exempt purpose reported on the Statement of Functional Expenses section of Form 990?

    a. Reported in column (B), Program service expenses.

    b. Reported in column (C), Management and general expenses.

    c. Reported in column (D), Fundraising expenses.

    d. Do not select this answer choice.

22. Which choice best states how joint expenses should be allocated?

    a. Joint expenses are allocated based upon the portion of an activity's content that relates to one function versus another.

    b. Joint expenses are allocated based upon the time spent on each separate function within the activity.

    c. Joint expenses are allocated based upon the organization's normal accounting method.

    d. Joint expenses are allocated based upon the purpose, audience, and content criteria.

23. Organization B is a tax-exempt organization. The following costs were incurred in a joint activity that meets the criteria of SOP 98-2.

Expenses directly related to fundraising	$15,000
Expenses directly related to program service activity	28,000
Joint costs	4,500

    Using the direct-cost method, what amount of the joint costs should be allocated to fundraising?

    a. $1,570.

    b. $2,930.

    c. $4,500.

    d. $15,000.

24. Indirect costs may be reported in the "Management and general expenses" column then reallocated in a single step in the "Other expenses" section.

    a. True.

    b. False.

    c. Do not select this answer choice.

    d. Do not select this answer choice.

25. Grants and assistance paid as a part of program service expenses are reportable on the Statement of Functional Expenses section of Form 990 in all of the following categories **except**:

    a. Grants and other assistance to governments, organizations, and individuals outside the U.S.

    b. Grants and other assistance to governments and organizations in the U.S.

    c. Grants and other assistance to individuals in the U.S.

    d. Contributions, gifts, grants and other similar amounts.

26. Erica is a key employee of a Section 501(c)(3) organization. Erica receives $103,000 of salaries and wages. In addition, the organization paid Erica $18,000 of fringe benefits, $7,500 of non-compensatory travel reimbursements, and $6,500 of pension plan contributions relating to Erica. How much does the organization report as compensation on line 5 of the Statement of Functional Expenses?

    a. $103,000.

    b. $121,000.

    c. $127,500.

    d. $135,000.

27. Which payment to an affiliate is reported on line 21 of the Statement of Functional Expenses?

    a. Dues paid to the parent organization.

    b. Voluntary awards to affiliates.

    c. Purchases from affiliates.

    d. Dues paid to other organizations.

Chapter 5: Balance Sheet Reporting

Introduction

Part X of Form 990 is used to report the organization's balance sheet items. It must be prepared by all organizations filing Form 990. A substitute balance sheet is not permissible.

Learning Objectives

Completion of this chapter will enable you to:

- Correctly complete the Balance Sheet section of Form 990.

Part X Balance Sheet

			(A) Beginning of year		(B) End of year
Assets	1	Cash—non-interest-bearing		1	
	2	Savings and temporary cash investments		2	
	3	Pledges and grants receivable, net		3	
	4	Accounts receivable, net		4	
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L		5	
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B). Complete Part II of Schedule L		6	
	7	Notes and loans receivable, net		7	
	8	Inventories for sale or use		8	
	9	Prepaid expenses and deferred charges		9	
	10a	Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D — 10a			
	b	Less: accumulated depreciation — 10b		10c	
	11	Investments—publicly traded securities		11	
	12	Investments—other securities. See Part IV, line 11		12	
	13	Investments—program-related. See Part IV, line 11		13	
	14	Intangible assets		14	
	15	Other assets. See Part IV, line 11		15	
	16	**Total assets.** Add lines 1 through 15 (must equal line 34)		16	
Liabilities	17	Accounts payable and accrued expenses		17	
	18	Grants payable		18	
	19	Deferred revenue		19	
	20	Tax-exempt bond liabilities		20	
	21	Escrow or custodial account liability. Complete Part IV of Schedule D		21	
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L		22	
	23	Secured mortgages and notes payable to unrelated third parties		23	
	24	Unsecured notes and loans payable to unrelated third parties		24	
	25	Other liabilities. Complete Part X of Schedule D		25	
	26	**Total liabilities.** Add lines 17 through 25		26	
Net Assets or Fund Balances		**Organizations that follow SFAS 117, check here ▶ ☐ and complete lines 27 through 29, and lines 33 and 34.**			
	27	Unrestricted net assets		27	
	28	Temporarily restricted net assets		28	
	29	Permanently restricted net assets		29	
		Organizations that do not follow SFAS 117, check here ▶ ☐ and complete lines 30 through 34.			
	30	Capital stock or trust principal, or current funds		30	
	31	Paid-in or capital surplus, or land, building, or equipment fund		31	
	32	Retained earnings, endowment, accumulated income, or other funds		32	
	33	Total net assets or fund balances		33	
	34	Total liabilities and net assets/fund balances		34	

General Rules for Completing Part X of Form 990

In column (A), enter the amount from the preceding year's Form 990, column (B). If the organization was not required to file Form 990 for the preceding year, enter amounts the organization would have entered in column (B) for that year. If this is the organization's first year of existence, enter "-0-" on lines 16, 26, 33, and 34 in column (A).

If this is the organization's final return, enter "-0-" on lines 16, 26, 33, and 34 in column (B).

Schedules D and L are used to provide supplemental information for the balance sheet. When Schedules D and L reporting is required for any item in Part X, it is only for the end-of-year balance sheet amount reported in column (B).

Cash

Line 1. Report all cash held by the organization, including "petty cash" on hand and amounts held in banks in non-interest bearing accounts. Also report cash held in investment accounts.

Savings and Temporary Cash Investments

Line 2. The organization's beginning and end-of-the-year balances in interest bearing checking and savings accounts are included here. Other temporary cash investments entered on this line include:

- Money market funds,
- Commercial paper (e.g., short-term corporate I.O.U.s),
- Certificates of deposit, and
- U.S. Treasury bills or other governmental obligations maturing in less than one year. (Those not reported here are reported on line 11.)

Do not include advances to employees or officers or refundable deposits paid to suppliers or other independent contractors on line 2.

Income from these investments is reported on line 3, Part VIII of Form 990.

Net Pledges and Grants Receivable

Line 3. Report the total of (1) pledges receivable, less amounts estimated to be uncollectible, and (2) grants receivable.

Organizations that follow Statement of Financial Accounting Standards No. 116 (**SFAS No. 116**) may report the present value of the grants receivable as of each balance sheet date.

Net Accounts Receivable

Line 4. Report the organization's total accounts receivable (reduced by any allowance for doubtful accounts) from the sale of goods and the performance of services. Also, report claims against vendors or refundable deposits with suppliers or others here, if not significant in amount. Otherwise, report them on line 15.

Receivables from Current Trustees, Directors, Officers, and Key Employees (TDOKEs)

Line 5. Include all receivables and secured and unsecured loans due from current and former TDOKEs and highest compensated employees (HCEs) listed in Form 990, Part VII. For credit unions, include here only loans or other receivables that are not made on the same terms as to other members of the organization. Note that pledges from TDOKEs are reported on line 3.

Receivables from Other Disqualified Persons

Line 6. Section 501(c)(3) and 501(c)(4) organizations report the receivables due from disqualified persons [as defined under IRC Sec. 4958(f)(1)] and persons described in IRC Sec. 4958(c)(3)(B) on line 6. However, do not include amounts already reported on line 5.

Note: Report interest from such receivables on Part VIII, line 11.

Schedule L (Form 990 or 990-EZ), Part II

If there are amounts reported on either line 5 or line 6 of Form 990, Part X, the organization may need to complete Schedule L reporting the end-of-the-year amount of receivables and loans due from “interested parties.” Also complete Schedule L, Part II, if Form 990-EZ, Part V, line 38, is answered “Yes.”

SCHEDULE L (Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Transactions With Interested Persons

► Complete if the organization answered "Yes" on Form 990, Part IV, line 25a, 25b, 26, 27, 28a, 28b, or 28c, or Form 990-EZ, Part V, line 38a or 40b.
► Attach to Form 990 or Form 990-EZ. ► See separate instructions.

OMB No. 1545-0047

2009

Open To Public Inspection

Name of the organization | **Employer identification number**

Part I Excess Benefit Transactions (section 501(c)(3) and section 501(c)(4) organizations only).

Complete if the organization answered "Yes" on Form 990, Part IV, line 25a or 25b, or Form 990-EZ, Part V, line 40b.

1 (a) Name of disqualified person	(b) Description of transaction	(c) Corrected?	
		Yes	No

2 Enter the amount of tax imposed on the organization managers or disqualified persons during the year under section 4958 . . . . . ► $ ______

3 Enter the amount of tax, if any, on line 2, above, reimbursed by the organization . . . . . ► $ ______

Part II Loans to and/or From Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 26, or Form 990-EZ, Part V, line 38a.

(a) Name of interested person and purpose	(b) Loan to or from the organization?		(c) Original principal amount	(d) Balance due	(e) In default?		(f) Approved by board or committee?		(g) Written agreement?	
	To	From			Yes	No	Yes	No	Yes	No
Total . . . . . ► $										

Part III Grants or Assistance Benefiting Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 27.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount and type of assistance

Part IV Business Transactions Involving Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 28a, 28b, or 28c.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No

For Privacy Act and Paperwork Reduction Act Notice, see the Instructions for Form 990 or 990-EZ. Cat. No. 50056A **Schedule L (Form 990 or 990-EZ) 2009**

Report details on loans, including salary advances and other advances and receivables (referred to collectively as "loans"), as described in Form 990, Part IV, line 26. Report each loan separately.

Interested persons include:

- For all organizations, current or former TDOKEs and five HCEs listed in Form 990 Part VII;
- For organizations described in IRC Sec. 501(c)(3) or (4), disqualified persons as described in IRC Sec. 4958(f)(1);

Disqualified Person

For this purpose, a disqualified person includes anyone who was, at any time during the five-year period ending on the date of the loan transaction, in a position to exercise substantial influence (whether or not actually exercised) over the affairs of an organization; a member of such person's family; and any entity (corporation, partnership, LLC, trust, or estate) in which such person and members of his family have more than a 35% ownership interest. The members of a person's family are his spouse, siblings (whether by whole or half blood) and their spouses, ancestors, direct descendants through great-grandchildren, and spouses of such descendants. Ownership of an entity includes constructive ownership using the private foundation rules of IRC Sec. 4946(a)(3) and (a)(4). The list of disqualified persons for an organization that sponsors donor advised funds also includes anyone who provides investment advice regarding fund assets and certain related parties.

- For organizations described in IRC Sec. 509(a)(3), disqualified persons as described in IRC Sec. 4958(c)(3)(B). A disqualified person includes a substantial contributor to such organization, a member of such person's family, and any entity (corporation, partnership, LLC, trust, or estate) in which a substantial contributor and members of his family have more than a 35% ownership interest. Family members are defined the same as in item 2, and the same constructive ownership rules are applicable.

The following is a guide to reporting in Schedule L (Form 990 or 990-EZ), Part II.

Type of Transaction	**Reportable on Schedule L, Part II**	
	Yes	**No**
Demand or term loan, secured or unsecured	X	
Advances under nonaccountable expense reimbursement plan	X	
Salary advances	X	
Excess benefit transaction reported in Schedule L, Part I		X
Advances under an accountable expense reimbursement plan		X
Charitable pledges (receivable)		X
Accrued compensation to employee		X
Receivables created in ordinary course of business on same terms as offered to public (e.g., receivable for medical services provided by hospital to officer)		X
Loan by credit union to interested party on same terms as to other members		X

Completing Schedule L (Form 990 or 990-EZ), Part II

Column (a). Provide the name of the interested person that was the debtor or creditor on the loan. Also, state the organization's purpose for engaging in the transaction (e.g., "compensation package").

Column (c). Report the original dollar amount owed (i.e., the loan principal).

Column (d). Enter the balance due as of the end of the organization's tax year, including outstanding principal, accrued interest, and any applicable penalties and collection costs.

Column (e). Answer "Yes" if any payment by the debtor was past due at the end of the organization's tax year, or if the debtor is otherwise in default under the terms and conditions of the loan.

Column (f). Indicate whether the organization's governing body (or a committee of the governing body) approved the loan transaction (e.g., documented within the minutes of a board meeting).

Column (g). Indicate whether the loan is evidenced by a written agreement (e.g., note) signed by the debtor.

Reporting Net Notes and Receivables

Line 7. Report the organization's receivables that are not included on line 4 (related to the sale of goods and services), 5 or 6 (due from related parties), 12 (receivables acquired as investments), or 13 (receivables associated with program-related investments). Include receivables from unrelated third parties.

Unrelated third parties includes independent contractors providing goods or services and employees who are not current or former trustees, directors, officers, key employees (TDOKEs), or disqualified persons.

Inventories for Sale or Use

Line 8. Report the amount of materials, goods, and supplies held for future sale or use, whether purchased, manufactured by the organization, or donated.

Prepaid Expenses and Deferred Charges

Line 9. Report the amount of short-term and long-term prepayments of expenses attributable to one or more future accounting periods. Examples include prepayments of rent, insurance, or pension costs, and expenses incurred for a solicitation campaign to be conducted in a future accounting period.

Intangible Assets

Line 14. Report the total value of all non-monetary, nonphysical assets such as copyrights, patents, trademarks, mailing lists, or goodwill.

Other Assets

Line 15. Report the total book value of any assets held and not reported on lines 1–14.

SCHEDULE D (Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

▶ Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 8, 9, 10, 11, or 12.

▶ Attach to Form 990. ▶ See separate instructions.

OMB No. 1545-0047

2009

Open to Public Inspection

Name of the organization | **Employer identification number**

Part I Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

		(a) Donor advised funds	(b) Funds and other accounts
1	Total number at end of year		
2	Aggregate contributions to (during year)		
3	Aggregate grants from (during year)		
4	Aggregate value at end of year		

5 Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control? ☐ Yes ☐ No

6 Did the organization inform all grantees, donors, and donor advisors in writing that grant funds can be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit? ☐ Yes ☐ No

Part II Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

1 Purpose(s) of conservation easements held by the organization (check all that apply).

☐ Preservation of land for public use (e.g., recreation or pleasure)
☐ Preservation of an historically important land area
☐ Protection of natural habitat
☐ Preservation of a certified historic structure
☐ Preservation of open space

2 Complete lines 2a through 2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year.

			Held at the End of the Tax Year
a	Total number of conservation easements	2a	
b	Total acreage restricted by conservation easements	2b	
c	Number of conservation easements on a certified historic structure included in (a)	2c	
d	Number of conservation easements included in (c) acquired after 8/17/06	2d	

3 Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the tax year ▶ ____________

4 Number of states where property subject to conservation easement is located ▶ ____________

5 Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds? ☐ Yes ☐ No

6 Staff and volunteer hours devoted to monitoring, inspecting, and enforcing conservation easements during the year ▶ ____________

7 Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year ▶ $ ____________

8 Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and section 170(h)(4)(B)(ii)? ☐ Yes ☐ No

9 In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements.

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items.

b If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items:

(i) Revenues included in Form 990, Part VIII, line 1 ▶ $ ____________

(ii) Assets included in Form 990, Part X ▶ $ ____________

2 If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items:

a Revenues included in Form 990, Part VIII, line 1 ▶ $ ____________

b Assets included in Form 990, Part X ▶ $ ____________

Part III **Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets** *(continued)*

3 Using the organization's acquisition, accession, and other records, check any of the following that are a significant use of its collection items (check all that apply):

a ☐ Public exhibition
b ☐ Scholarly research
c ☐ Preservation for future generations
d ☐ Loan or exchange programs
e ☐ Other ....

4 Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV.

5 During the year, did the organization solicit or receive donations of art, historical treasures, or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection? . . . ☐ Yes ☐ No

Part IV **Escrow and Custodial Arrangements.** Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X? . . . ☐ Yes ☐ No

b If "Yes," explain the arrangement in Part XIV and complete the following table:

		Amount
c Beginning balance	1c	
d Additions during the year	1d	
e Distributions during the year	1e	
f Ending balance	1f	

2a Did the organization include an amount on Form 990, Part X, line 21? . . . ☐ Yes ☐ No

b If "Yes," explain the arrangement in Part XIV.

Part V **Endowment Funds.** Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

	(a) Current year	**(b)** Prior year	**(c)** Two years back	**(d)** Three years back	**(e)** Four years back
1a Beginning of year balance					
b Contributions					
c Net investment earnings, gains, and losses					
d Grants or scholarships					
e Other expenditures for facilities and programs					
f Administrative expenses					
g End of year balance					

2 Provide the estimated percentage of the year end balance held as:

a Board designated or quasi-endowment ► ....%

b Permanent endowment ► ....%

c Term endowment ► ....%

		Yes	No
3a Are there endowment funds not in the possession of the organization that are held and administered for the organization by:			
(i) unrelated organizations	3a(i)		
(ii) related organizations	3a(ii)		
b If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?	3b		

4 Describe in Part XIV the intended uses of the organization's endowment funds.

Part VI **Investments—Land, Buildings, and Equipment.** See Form 990, Part X, line 10.

Description of investment	**(a)** Cost or other basis (investment)	**(b)** Cost or other basis (other)	**(c)** Accumulated depreciation	**(d)** Book value
1a Land				
b Buildings				
c Leasehold improvements				
d Equipment				
e Other				
Total. Add lines 1a through 1e. *(Column (d) must equal Form 990, Part X, column (B), line 10(c).)* ►				

Part VII Investments—Other Securities. See Form 990, Part X, line 12.

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation: Cost or end-of-year market value
Financial derivatives		
Closely-held equity interests		
Other		
Total. *(Column (b) must equal Form 990, Part X, col. (B) line 12.)* ▶		

Part VIII Investments—Program Related. See Form 990, Part X, line 13.

(a) Description of investment type	(b) Book value	(c) Method of valuation: Cost or end-of-year market value
Total. *(Column (b) must equal Form 990, Part X, col. (B) line 13.)* ▶		

Part IX Other Assets. See Form 990, Part X, line 15.

(a) Description	(b) Book value
Total. *(Column (b) must equal Form 990, Part X, col. (B) line 15.)* ▶	

Part X Other Liabilities. See Form 990, Part X, line 25.

1. (a) Description of liability	(b) Amount
Federal income taxes	
Total. *(Column (b) must equal Form 990, Part X, col. (B) line 25.)* ▶	

2. FIN 48 Footnote. In Part XIV, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48.

Part XI **Reconciliation of Change in Net Assets from Form 990 to Audited Financial Statements**

1	Total revenue (Form 990, Part VIII, column (A), line 12)	1	
2	Total expenses (Form 990, Part IX, column (A), line 25)	2	
3	Excess or (deficit) for the year. Subtract line 2 from line 1	3	
4	Net unrealized gains (losses) on investments	4	
5	Donated services and use of facilities	5	
6	Investment expenses	6	
7	Prior period adjustments	7	
8	Other (Describe in Part XIV.)	8	
9	Total adjustments (net). Add lines 4 through 8	9	
10	Excess or (deficit) for the year per audited financial statements. Combine lines 3 and 9	10	

Part XII **Reconciliation of Revenue per Audited Financial Statements With Revenue per Return**

1	Total revenue, gains, and other support per audited financial statements			1	
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12:				
a	Net unrealized gains on investments	2a			
b	Donated services and use of facilities	2b			
c	Recoveries of prior year grants	2c			
d	Other (Describe in Part XIV.)	2d			
e	Add lines **2a** through **2d**			2e	
3	Subtract line **2e** from line **1**			3	
4	Amounts included on Form 990, Part VIII, line 12, but not on line **1**:				
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a			
b	Other (Describe in Part XIV.)	4b			
c	Add lines **4a** and **4b**			4c	
5	Total revenue. Add lines **3** and **4c.** *(This must equal Form 990, Part I, line 12.)*			5	

Part XIII **Reconciliation of Expenses per Audited Financial Statements With Expenses per Return**

1	Total expenses and losses per audited financial statements			1	
2	Amounts included on line 1 but not on Form 990, Part IX, line 25:				
a	Donated services and use of facilities	2a			
b	Prior year adjustments	2b			
c	Other losses	2c			
d	Other (Describe in Part XIV.)	2d			
e	Add lines **2a** through **2d**			2e	
3	Subtract line **2e** from line **1**			3	
4	Amounts included on Form 990, Part IX, line 25, but not on line **1:**				
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a			
b	Other (Describe in Part XIV.)	4b			
c	Add lines **4a** and **4b**			4c	
5	Total expenses. Add lines **3** and **4c.** *(This must equal Form 990, Part I, line 18.)*			5	

Part XIV **Supplemental Information**

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9; Part III, lines 1a and 4; Part IV, lines 1b and 2b; Part V, line 4; Part X, line 2; Part XI, line 8; Part XII, lines 2d and 4b; and Part XIII, lines 2d and 4b. Also complete this part to provide any additional information.

Schedule D (Form 990), Part IX, Other Assets

Column (a). Enter a description of assets reported on Form 990, Part X, line 15. The organization may use any reasonable basis to classify the other assets.

Column (b). Enter the total book value of these assets. The total of column (b) must equal the amount reported on Form 990, Part X, line 16, column (B).

Reporting Land, Buildings, and Equipment

Line 10a. Report all land, buildings, and equipment. Use the end-of-the-year cost or other basis.

Line 10b. Enter the total end-of-the-year amount of accumulated depreciation related to the assets reported on line 10a. The amount reported on line 10b must equal the total of Schedule D, Part VI, column (c).

Line 10c, Column (A). Enter the cost or other basis of land, buildings, and equipment, less accumulated depreciation, as of the beginning of the year.

Line 10c, Column (B). Report line 10a minus line 10b. The amount reported must equal the total of Schedule D, Part VI, column (d).

Schedule D (Form 990), Part VI

If there is an amount on Part X, line 10a, 10b, or 10c, column (B), complete Schedule D, Part VI.

Column (a). Report the cost or other basis of all land, buildings, leasehold improvements, equipment, and other fixed assets held for investment purposes, such as rental properties.

Column (b). Report the cost or other basis of all other land, buildings, leasehold improvements, equipment, and other fixed assets held for other than investment purposes, including any land, buildings, and equipment owned and used by the organization in conducting its exempt activities. The total amounts reported in columns (a) and (b) must equal the amount reported on Form 990, Part X, line 10a.

Column (c). Enter the accumulated depreciation recorded for the assets listed in columns (a) and (b). Do not enter an amount in column (c) for line 1a, Land. The total of column (c) must equal the amount reported on Form 990, Part X, line 10b.

Column (d). Enter the sum of column (a) and column (b) minus column (c). The total of column (d) must equal the amount reported on Form 990, Part X, line 10c, column (B).

SFAS No. 124—Reporting Investments

Statement of Financial Accounting Standards No. 124 (**SFAS No. 124**), *Accounting for Certain Investments Held by Not-for-Profit Organizations*, requires nonprofit organizations to report the following investments at FMV in their audited financial statements: (1) equity securities with readily determinable FMVs and (2) all debt securities. Other investments are not impacted by **SFAS No. 124**.

Publicly Traded Securities

Line 11. Enter the total value of publicly traded securities held by the organization as investments. **Use commonly accepted valuation methods** (see Reg. 20.2031-2) to value securities.

Publicly traded securities include:

- Common and preferred stocks other than stock holdings that represent 5% or more of the corporation's outstanding shares of stock of the same class, which should be reported on line 12;
- Publicly traded corporate bonds;
- Mutual fund shares that are listed and regularly traded in an over-the-counter market or an established exchange and for which market quotations are published or are otherwise readily available; and
- U.S., state, and municipal government obligations that mature in one year or more. (Government obligations held for investment and maturing in less than one year are reported on line 2.)

Report dividends and interest from these securities on Part VIII, line 3.

Other Securities

Line 12. Enter the total amount of all securities, partnerships, or funds that are not publicly traded. This includes:

- Stock in a closely held company whose stock is not available for sale to the general public or which is not widely traded, and
- Publicly traded stock when the organization holds 5% or more of the outstanding shares of the same class.

Do not include program-related investments. Report these on line 13.

Schedule D (Form 990), Part VII

Include stock in a closely held company whose stock is not available for sale to the general public or which is not widely traded. Also include publicly traded stock for which the organization holds 5% or more of the outstanding shares of the same class.

List and report for each separate class of publicly traded stock held by the organization that meets the 5% ownership test.

Column (a). Describe the type of investment. However, each class of publicly traded stock for which the organization holds 5% or more of the outstanding shares must be listed by name and class, including the number of shares held.

Column (b). Report the book value for each investment. If Schedule D, Part VII is required, the total of column (b) must equal the amount reported on Form 990, Part X, line 12, column (B).

Example 5-1 Reporting investments in securities.

Gimbel Art Museum has the following securities on its books at year end:

	Cost	FMV
(1) Nonpublicly traded stock:		
150 shares BIG Corp. common stock	$ 8,000	$ 8,000
200 shares TSP Corp. common stock	7,500	7,500
(2) Publicly traded securities:		
75 shares TNT Corp. common stock	3,000	7,000
TNT Corp. senior subordinated bonds, due 12/31/2010	20,000	21,000
(3) State government obligations:		
New York State general obligation bonds (maturing 6/30/2010)	10,000	11,000
California general revenue bonds (maturing 12/31/2010)	15,000	16,000
Total	$ 63,500	$ 70,500

Report the publicly traded securities ($28,000) and the state government obligations ($27,000) on Part X, line 11. It is not necessary to attach a detail schedule.

Report the rest of the investments (nonpublicly traded stock) on line 12 as well as Schedule D, Part VII.

The $7,000 increase in value of its publicly traded securities and debt securities is recorded in Gimbel's financial statement profit and loss to the extent that it occurred during the current year. (Assume that 100% of it occurred this year.) It is also entered in Schedule D, Part XII, on line 2(a) ("Net unrealized gains on investments") as a reduction of book income to determine total revenue on Part I, line 12, Form 990. The $7,000 increase in Gimbel's investment value during the year is entered on line 4, Schedule D, Part XI.

Program-related Investments

Line 13. Report the total book value of all investments made primarily to accomplish the organization's exempt purposes rather than to produce income. Examples of program-related investments include student loans and notes receivable from other exempt organizations that obtained the funds to pursue the reporting organization's exempt function.

Schedule D (Form 990), Part VIII

Schedule D, Part VIII should be completed if the amount reported in Form 990, Part X, line 13, is 5% or more of the total assets reported on Part X, line 16.

Example 5-2 Reporting program-related investments—Schedule D, Part VIII.

Gimbel Art Museum has paintings on display with a book value of $865,000, based on Gimbel's cost. Since these assets are used to further Gimbel's exempt function, they are reported on line 13 of Part X of Form 990.

Since line 13 is 5% or more of total assets reported on line 16, Gimbel should also complete Schedule D, Part VIII.

Accounts Payable and Accrued Expenses

Line 17. Enter the total of accounts payable to suppliers, service providers, property managers and other independent contractors, plus accrued expenses such as salaries payable, accrued payroll taxes, and interest payable.

Grants Payable

Line 18. Enter the unpaid portion of grants and awards that the organization has committed to pay other organizations or individuals, regardless of whether the commitments have been communicated to the grantees.

Deferred Revenue

Line 19. Report revenue that the organization has received but not yet earned as of the balance sheet date under its method of accounting.

Organizations Not Following SFAS 116 and SFAS 117. Proper completion of line 19 (deferred revenue) of Form 990, Part X depends on whether the organization follows Statement of Financial Accounting Standards Nos. 116 (**SFAS 116**) and/or 117 (**SFAS 117**) issued by the Financial Accounting Standards Board. **SFAS 116** provides guidance for reporting contributions (including promises to give). **SFAS 117** provides reporting standards for general-purpose external financial statements provided by nonprofit organizations. **The IRS does not require organizations to follow SFAS 116 or 117 when completing Form 990.**

Certain support an organization receives may be restricted by the donor for use in future years. (For example, a foundation might provide a $30,000 grant to underwrite a particular program for four years, at the rate of $7,500 each year.) For organizations not following **SFAS 116**, to the extent the use of the grant is restricted to future years, it is reported on line 19 of Part X of Form 990. However, this reporting rule applies only if the restriction arises because of the terms of the gift, contract, or other arrangement that produced the revenue.

Example 5-3 Reporting revenue restricted for use in future years.

In 2008, Gimbel Art Museum (Gimbel) received a contribution of $30,000 from Jack James. Jack stipulated the donation to be used to supplement Gimbel's acquisition budget at the rate of $10,000 per year, beginning with 2098. In 2009, the Walsh Foundation made a $15,000 grant to the museum, with the stipulation that it be used to fund the position of a part-time assistant curator for one year. (Gimbel had previously announced plans to create such a position, subject to obtaining the necessary funding, beginning in 2010.)

By the end of Gimbel's 2009 tax year, $10,000 of the donation from Jack had been spent, but none of the funds from the Walsh Foundation had been expended. Gimbel followed **SFAS 116** and **117** in 2008.

The unspent amount at year end ($35,000) is reported on line 28 of Part X as temporarily restricted net assets.

Organizations Following SFAS 116 and SFAS 117

For organizations following **SFAS 116** and **SFAS 117**, line 19 only includes unearned revenue received by the organization. An example of such revenue is subscription income for a monthly magazine that is prepaid for an entire year.

Unearned revenue does not include contributions that are donor restricted for a specific purpose or time frame. These types of contributions should have been recognized as contribution revenue and, accordingly, are reported as temporarily restricted net assets on line 28.

Tax-exempt Bond Liabilities

Line 20. Report tax-exempt bonds or other obligations issued by an organization on behalf of a state or local governmental unit (or by a state or local governmental unit on behalf of the organization if the organization has a direct or indirect liability to repay). An indirect liability does not include a contingent liability (e.g., as guarantor of tax-exempt bonds issued by a related entity).

Tax-exempt bonds include state or local bonds and any obligations, including direct borrowing from a lender, or certificates of participation, the interest on which is excluded from the gross income of the recipient for federal income tax purposes under IRC Sec. 103.

Tax-exempt bonds also include bonds issued by a qualified scholarship funding corporation described in IRC Sec. 150(d) and bonds issued by a qualified volunteer fire department described in IRC Sec. 150(e).

Reporting Escrow Accounts

Line 21. Enter the amount of funds or other assets held in escrow for other individuals or organizations. Enter these amounts only if the related assets (such as cash) are reported on lines 1 through 15 above.

Completing Schedule D (Form 990), Part IV

Complete Schedule D, Part IV, if there is an amount on Part X, line 21. The organization should also answer “Yes” to Form 990, Part IV, line 9.

Lines 1a and b. If the organization acts as an agent, trustee, custodian or other intermediary for funds payable to other organizations or individuals and has not reported those amounts on Form 990, Part X, as an asset or liability, check “Yes” and provide an explanation in Schedule D, Part XIV.

Organizations that maintain escrow or custodial accounts not reported on Form 990, Part X, must record increases or decreases in such accounts by completing lines 1c through 1f.

Line 2. Answer “Yes” if an amount is reported on Part X, line 21. If “Yes,” explain (in Schedule D, Part XIV) the arrangements under which the amounts reported in line 21 are held, including any obligations to other persons.

Example 5-4 Credit counselor reports collections from debtors on balance sheet.

Get Out of Debt (GOOD), a credit counseling organization, collects amounts from debtors to remit to creditors and reports the amounts temporarily in its possession as cash on line 1 of the balance sheet (i.e., Part X of Form 990). GOOD must also report the corresponding liability (the amounts to be paid to the creditors on the debtors' behalf) on line 21, as well as complete Schedule D, Part IV, line 2.

Example 5-5 Credit counselor does not report collections from debtors on its balance sheet.

Get Out of Debt (GOOD), a credit counseling organization, collects amounts from debtors to remit to creditors and holds the funds in a custodial account. GOOD does not report these funds as assets or liabilities on the balance sheet (i.e., Form 990, Part X).

GOOD must report the fund balances on Schedule D, Part IV on lines 1c through 1f.

Reporting Loans from Certain Related Parties

Line 22. Report the year-end unpaid balance of loans payable to current and former trustee, director, officer, key employees (TDOKEs), highest compensated employees (HCEs), and disqualified persons.

Secured Mortgages and Notes Payable to Unrelated Third Parties

Line 23. Enter the total amount of mortgages and other notes payable to financial institutions and other third parties that are secured by investment or other real property as of the end of the tax year. It is not necessary to attach a detail of line 23. However, organizations will need to maintain these details internally.

Example 5-6 Reporting mortgages and other notes payable.

Gimbel Art Museum's land and building are mortgaged to Golden State National Bank. The note bears interest at 8%, and the balance at year end is $125,000. Also, Gimbel purchased new office equipment for $6,500, plus a finance charge of $1,060, for a total of $7,560 on June 1, 2009. The seller, Melvin's Office Equipment (MOE), financed the transaction by accepting a note from Gimbel for $7,560 payable at $210 per month for 36 months beginning on January 1, 2010. No interest was charged. MOE retains a security interest in the equipment until the note is paid in full.

The balance of the mortgages and notes payable ($132,560) is reported on line 23 in Part X.

Unsecured Notes and Loans Payable

Line 24. Enter the total amount of notes and loans owed to financial institutions or other unrelated third parties that are not secured by the organization's assets. No detail of line 24 is necessary. However, organizations should maintain these details internally.

Reporting Other Liabilities

Line 25. Enter the total amount of all liabilities not properly reportable on lines 17 through 24. Items properly reported on this line include Federal income taxes payable and secured or unsecured payables to related organizations.

Preparation Pointer: If there is an amount on line 25, the organization must also answer “Yes” to Part IV, line 11, and complete Schedule D, Part X.

Schedule D (Form 990), Part X, Other Liabilities

Column (a). List each type of liability not reported on lines 17 through 24 of Form 990, Part X. The organization may use any reasonable basis to classify these liabilities.

Column (b). Enter the book value of each liability.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

28. Which of the following items is reported on the savings and temporary cash investments line of Form 990, Part X?

    a. Advances to officers.

    b. Commercial paper.

    c. Refundable deposits paid to suppliers.

    d. Refundable deposits paid to independent contractors.

29. A prepayment of expenses for a solicitation campaign that will occur in a future accounting period will be reported on which line of Part X of Form 990?

    a. Line 2—Savings and temporary cash investments.

    b. Line 4—Accounts receivable, net.

    c. Line 9—Prepaid expenses and deferred charges.

    d. Line 15—Other assets.

30. Martha made a contribution with the stipulation that the funds are to be used to purchase artwork for display in the museum. At the end of the year, the museum had not purchased any artwork with those funds. The museum follows SFAS 116 and SFAS 117. How are the funds reported on Form 990, Part X?

    a. Reported as temporarily restricted net assets.

    b. Unearned revenue.

    c. Deferred revenue.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

28. Which of the following items is reported on the savings and temporary cash investments line of Form 990, Part X? **(Page 127)**
    a. Advances to officers. [This answer is incorrect. Advances to officers are listed on line 5. Line 5 includes all receivables and secured and unsecured loans due from current and former trustees, directors, officers, key employees, and highest compensated employees.]
    b. Commercial paper. [This answer is correct. Commercial paper (short-term corporate I.O.U.s) are reported on line 2 of the Balance Sheet section of Form 990.]
    c. Refundable deposits paid to suppliers. [This answer is incorrect. Refundable deposits paid to suppliers are reported on line 4, Net Accounts Receivable, if not significant in amount. Otherwise, they are reported on line 15.]
    d. Refundable deposits paid to independent contractors. [This answer is incorrect. Refundable deposits paid to independent contractors are reported on line 4, Net Accounts Receivable, if not significant in amount. Otherwise, they are reported on line 15.]

29. A prepayment of expenses for a solicitation campaign that will occur in a future accounting period will be reported on which line of Part X of Form 990? **(Page 131)**
    a. Line 2—Savings and temporary cash investments. [This answer is incorrect. Line 2 includes the balances of interest bearing checking and savings accounts along with other temporary cash investments such as money market funds and certificates of deposits.]
    b. Line 4—Accounts receivable, net. [This answer is incorrect. Line 4 includes the organization's total accounts receivable from the sale of goods and the performance of services, insignificant claims against vendors, and insignificant refundable deposits.]
    c. Line 9—Prepaid expenses and deferred charges. [This answer is correct. Report the amount of short-term and long-term prepayments of expenses attributable to one or more future accounting periods are reported on line 9 per the Form 990 instructions. Examples include prepayments of rent, insurance, or pension costs, and expenses incurred for a solicitation campaign to be conducted in a future accounting period.]
    d. Line 15—Other assets. [This answer is incorrect. Report the total book value of any assets held and not reported on lines 1-14 on the other asset line.]

30. Martha made a contribution with the stipulation that the funds are to be used to purchase artwork for display in the museum. At the end of the year, the museum had not purchased any artwork with those funds. The museum follows SFAS 116 and SFAS 117. How are the funds reported on Form 990, Part X? **(Page 140)**
    a. Reported as temporarily restricted net assets. [This answer is correct. This contribution would have been recognized as contribution revenue and reported as temporarily restricted net assets on line 28.]
    b. Unearned revenue. [This answer is incorrect. Unearned revenue does not include contributions that are donor restricted for a specific purpose or time.]
    c. Deferred revenue. [This answer is incorrect. For organizations not following SFAS 116, to the extent the use of the grant is restricted to future years, it is reported as deferred revenue.]

EXAMINATION FOR CPE CREDIT

Chapter 5

Determine the best answer for each question below. Then log onto our Online Grading Center at **OnlineGrading.Thomson.com** to record your answers.

28. Which of the following is reportable on Schedule L, Part II?

    a. A loan by a credit union to an interested party on the same terms as to other members.

    b. Salary advances due to an interested party.

    c. A receivable due from an interested party created in the ordinary course of business on the same terms as offered to the public.

    d. Accrued compensation due to an employee who is an interested party.

29. Which of the following is reported on Line 12—Other securities?

    a. Corporate bonds which are publicly traded.

    b. Government obligations maturing in a year or more.

    c. Publicly traded mutual fund shares.

    d. Closely held stock not available for sale to the general public or not widely traded.

30. Credit Collection, collects money from debtors and distributes those amounts to creditors. The funds are held in a custodial account and therefore are not reported on the organization's balance sheet. How will the organization report the funds on its Form 990?

    a. Report the amount on line 1 and line 21 of Form 990, Part X. In addition, complete Schedule D, Part IV, line 2.

    b. Report the amount on Schedule D, Part IV on lines 1c through 1f.

    c. Do not select this answer choice.

    d. Do not select this answer choice.

Chapter 6: Other Schedules

Introduction

The redesigned Form 990 (and also the redesigned Form 990-EZ) requires more information about the filing organization than in prior years. In an effort to facilitate computer processing of the returns, the IRS has developed several supplemental schedules to capture the required information in a standardized format.

The requirement to complete one or more of these schedules generally arises as the result of an affirmative answer to certain questions in Form 990, Part IV, Checklist of Required Schedules.

This chapter discusses Schedules A, C, H and R.

Learning Objectives

Completion of this chapter will enable you to:

- Correctly complete various Form 990 schedules.

Schedule A—Public Charity Status and Public Support

SCHEDULE A (Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No. 1545-0047

2009

Open to Public Inspection

Name of the organization	Employer identification number

Part I Reason for Public Charity Status (All organizations must complete this part.) See instructions.

The organization is not a private foundation because it is: (For lines 1 through 11, check only one box.)

1 ☐ A church, convention of churches, or association of churches described in **section 170(b)(1)(A)(i).**

2 ☐ A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E.)

3 ☐ A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**

4 ☐ A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state: ____________

5 ☐ An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II.)

6 ☐ A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**

7 ☐ An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi).** (Complete Part II.)

8 ☐ A community trust described in **section 170(b)(1)(A)(vi).** (Complete Part II.)

9 ☐ An organization that normally receives: (1) more than 33⅓ % of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33⅓ % of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975. See **section 509(a)(2).** (Complete Part III.)

10 ☐ An organization organized and operated exclusively to test for public safety. See **section 509(a)(4).**

11 ☐ An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2). See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h.

a ☐ Type I **b** ☐ Type II **c** ☐ Type III–Functionally integrated **d** ☐ Type III–Other

e ☐ By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2).

f If the organization received a written determination from the IRS that it is a Type I, Type II, or Type III supporting organization, check this box . . . . ☐

g Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?

		Yes	No
(i) A person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the supported organization?	11g(i)		
(ii) A family member of a person described in (i) above?	11g(ii)		
(iii) A 35% controlled entity of a person described in (i) or (ii) above?	11g(iii)		

h Provide the following information about the supported organization(s).

(i) Name of supported organization	**(ii)** EIN	**(iii)** Type of organization (described on lines 1–9 above or IRC section **(see instructions)**)	**(iv)** Is the organization in col. **(i)** listed in your governing document?		**(v)** Did you notify the organization in col. **(i)** of your support?		**(vi)** Is the organization in col. **(i)** organized in the U.S.?		**(vii)** Amount of support
			Yes	**No**	**Yes**	**No**	**Yes**	**No**	
Total									

Part II **Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)**
(Complete only if you checked the box on line 5, 7, or 8 of Part I.)

Section A. Public Support

	Calendar year (or fiscal year beginning in) ▶	(a) 2005	(b) 2006	(c) 2007	(d) 2008	(e) 2009	(f) Total
1	Gifts, grants, contributions, and membership fees received. (Do not include any "unusual grants.") . . .						
2	Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3	The value of services or facilities furnished by a governmental unit to the organization without charge . . .						
4	**Total.** Add lines 1 through 3 . . .						
5	The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6	**Public support.** Subtract line 5 from line 4.						

Section B. Total Support

	Calendar year (or fiscal year beginning in) ▶	(a) 2005	(b) 2006	(c) 2007	(d) 2008	(e) 2009	(f) Total
7	Amounts from line 4						
8	Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9	Net income from unrelated business activities, whether or not the business is regularly carried on						
10	Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
11	**Total support.** Add lines 7 through 10 .						

12 Gross receipts from related activities, etc. (see instructions) . . . . | 12 |

13 **First five years.** If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and **stop here** . . . . ▶ ☐

Section C. Computation of Public Support Percentage

14 Public support percentage for 2009 (line 6, column (f) divided by line 11, column (f)) . . . . . | 14 | %

15 Public support percentage from 2008 Schedule A, Part II, line 14 . . . . | 15 | %

16a **33⅓ % support test—2009.** If the organization did not check the box on line 13, and line 14 is 33⅓ % or more, check this box and **stop here.** The organization qualifies as a publicly supported organization . . . .▶ ☐

b **33⅓ % support test—2008.** If the organization did not check a box on line 13 or 16a, and line 15 is 33⅓ % or more, check this box and **stop here.** The organization qualifies as a publicly supported organization . . . .▶ ☐

17a **10%-facts-and-circumstances test—2009.** If the organization did not check a box on line 13, 16a, or 16b, and line 14 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and **stop here.** Explain in Part IV how the organization meets the "facts-and-circumstances" test. The organization qualifies as a publicly supported organization . . .▶ ☐

b **10%-facts-and-circumstances test—2008.** If the organization did not check a box on line 13, 16a, 16b, or 17a, and line 15 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and **stop here**. Explain in Part IV how the organization meets the "facts-and-circumstances" test. The organization qualifies as a publicly supported organization . . . . . .▶ ☐

18 **Private foundation.** If the organization did not check a box on line 13, 16a, 16b, 17a, or 17b, check this box and see instructions ▶ ☐

Part III **Support Schedule for Organizations Described in Section 509(a)(2)**
(Complete only if you checked the box on line 9 of Part I.)

Section A. Public Support

Calendar year (or fiscal year beginning in) ▶	(a) 2005	(b) 2006	(c) 2007	(d) 2008	(e) 2009	(f) Total
1 Gifts, grants, contributions, and membership fees received. (Do not include any "unusual grants.")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 **Total.** Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of $5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 **Public support** (Subtract line 7c from line 6.)						

Section B. Total Support

Calendar year (or fiscal year beginning in) ▶	(a) 2005	(b) 2006	(c) 2007	(d) 2008	(e) 2009	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
13 **Total support.** (Add lines 9, 10c, 11, and 12.)						

14 **First five years.** If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and **stop here** . . . ▶ ☐

Section C. Computation of Public Support Percentage

15 Public support percentage for 2009 (line 8, column (f) divided by line 13, column (f))	15	%
16 Public support percentage from 2008 Schedule A, Part III, line 15	16	%

Section D. Computation of Investment Income Percentage

17 Investment income percentage for **2009** (line 10c, column (f) divided by line 13, column (f))	17	%
18 Investment income percentage from **2008** Schedule A, Part III, line 17	18	%

19a **33⅓ % support tests—2009.** If the organization did not check the box on line 14, and line 15 is more than 33⅓ %, and line 17 is not more than 33⅓ %, check this box and **stop here.** The organization qualifies as a publicly supported organization ▶ ☐

b **33⅓ % support tests—2008.** If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33⅓ %, and line 18 is not more than 33⅓ %, check this box and **stop here.** The organization qualifies as a publicly supported organization ▶ ☐

20 **Private foundation.** If the organization did not check a box on line 14, 19a, or 19b, check this box and see instructions ▶ ☐

Part IV **Supplemental Information.** Complete this part to provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Provide any other additional information. See instructions.

Filing Requirements

Schedule A (Form 990 or 990-EZ) is used to indicate an organization's reason for public charity status (i.e., why it is not a private foundation) and to provide the IRS with detailed information about its sources of financial support. Every organization that answers Form 990, Part IV, line 1, "Yes" because it is exempt under IRC Sec. 501(c)(3) or is a nonexempt charitable trust described in Section 4947(a)(1) must complete Schedule A.

Schedule A is required whether an entity files Form 990 or 990-EZ. Organizations exempt from filing an annual return are not required to complete Schedule A. Private foundations (also known as operating foundations) do not file Schedule A since their annual return is filed on Form 990-PF [Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation].

Public Charity Classification

Part I, Schedule A, requires an organization to indicate why it is not a private foundation by checking one of 11 boxes. IRC Sec. 501(c)(3) organizations that are not private foundations fit within at least one of the following categories of entities [IRC Sec. 509(a)]:

1. **Public Institutions.** These entities are not private foundations because of what they do, rather than because of how they are funded or the other charitable entities they support. In Schedule A, Part I, they include the organizations listed in lines 1, 2, 3, 4, and 6 (i.e., churches, schools, hospitals, governmental units, and certain related entities).

   Note: The definitions of hospital and medical research for purposes of Schedule A, Part I, are different from their definitions for Schedule H. Therefore, an organization that checks box 3 or box 4 may not necessarily have to complete Schedule H.

2. **Publicly Supported Organizations.** These entities avoid private foundation status because of the source of a substantial portion of their funds. In Schedule A, Part I, this includes entities listed in lines 5, 7, 8, and 9.

   - **Line 5** describes entities that normally receive a substantial part ($33\frac{1}{3}$% or more) of their support (excluding income from the performance of exempt purposes) from the general public and political subdivisions. In addition, they are operated for the benefit of a college or university owned or operated by a government unit.
   - **Line 7** describes entities that normally receive at least one-third of their support from public contributions or from governmental units (i.e., a unit of federal, state, or local government, including a U.S. possession and the District of Columbia) and include such entities as publicly or governmentally supported museums; libraries; opera, symphony orchestra, or ballet associations; and voluntary health and welfare organizations such as the American Red Cross and United Way.
   - **Line 8** pertains to community trusts that normally receive at least one-third of their support from the organizations previously described in reference to line 7.

- **Line 9** describes entities that normally receive more than one-third of their support from a combination of exempt function income (i.e., revenue produced by activities that form the basis for the organization's exemption) and donations or membership fees. In addition, these organizations normally receive no more than one-third of their support from (1) investment income and (2) the excess, if any, of their unrelated business income over the tax on that income. A special investment income attribution rule applies when amounts are received from certain entities. Gross investment income for this purpose includes interest, dividends, rents, royalties, annuities, payments with respect to securities loans, income from notational principal contracts, and other substantially similar income from ordinary and routine investments.

Supporting Organization. Although not publicly supported, a supporting organization is not a private foundation because of its financial involvement with a public charity described in item 1 or 2. An entity may also qualify as a supporting organization if it supports and is controlled by a social welfare organization; a labor, agricultural, or horticultural organization; or a business league [i.e., an entity described in IRC Sec. 501(c)(4), (5), or (6)] that satisfies the requirements listed in line 9 of Schedule A, Part I.

A supporting organization should check the box in line 11 of Part I, Schedule A, and enter the name of each supported organization (even if no monetary support was actually provided) in column (i) of the table below line 11h; its employer identification number in column (ii); a description of the type of organization supported by inserting the appropriate line number (from lines 1 through 9 in Part I) in column (iii). Indicate by checking the "Yes" or "No" box in columns (iv) and (v), respectively, whether the supported organization is specifically named as such in the supporting organization's governing document and whether the supported organization has been notified of the filing organization's support. Indicate by checking the "Yes" or "No" box in column (vi) whether the organization is organized in the U.S., and list in column (vii) the total amount of monetary support paid to or for the benefit of each supported organization. Enter "-0-" if no support was provided during the year.

In addition, a supporting organization must check the appropriate box in line 11 to indicate whether it is a **Type I** (operated, supervised, or controlled by one or more supported organizations), **Type II** (supervised or controlled in connection with the supported organization), **Type III—Functionally Integrated** (defined below) or **Type III—Other** supporting organization (operated in connection with one or more publicly supported organizations).

A functionally integrated supporting organization is one that engages in activities for, or on behalf of, the supported organization that normally would be conducted by the supported organization but for the involvement of the supporting organization. Check the Type III—Functionally Integrated box if the organization has provided a written representation along with the specified documents to a grantor to support such status (Notice 2006-109, Sec. 3). When this publication went to press, regulations defining functionally integrated had not been issued.

A Section 509(a)(3) supporting organization cannot be controlled by disqualified persons, other than foundation managers. Consequently, an organization claiming to be a supporting organization must be eligible to check the box on Schedule A, Part I, line 11e.

A supporting organization's exemption letter or subsequent determination letter may state the type of supporting organization it is. If so, check the box on line 11f; otherwise, leave it blank.

Preparation Pointer: If the supported organization is not described in lines 1–9 (because it is a Section 501(c)(4), (5), or (6) organization, rather than a public charity), enter the appropriate Code section in column (iii) instead of a line number.

Note: An organization that answers "Yes" to line 11g (i), (ii), or (iii) cannot qualify as either a Type I or Type III supporting organization.

Public Safety Organizations. Entities organized and operated exclusively for testing public safety are the fourth category of organizations exempt from classification as a private foundation. These organizations should check the box in line 10 of Schedule A, Part I.

A preparer completing Part I for the first time for a particular entity should refer to its exemption application (Form 1023). In this application, the organization must indicate why it is not a private foundation. (The IRS should have confirmed the reason for nonprivate foundation status when it issued the organization's original determination letter.) The reason for nonprivate foundation status provided in Schedule A, Part I, normally should agree with what was stated in the exemption application. However, an organization's reason for nonprivate foundation status may have changed. If the change is a result of a new direction for the entity or a significant shift in program service activities, the IRS normally should be notified of the change.

During its first five years, an organization must check the box that corresponds to its public charity status stated in the exemption letter from the IRS. Thereafter, it can check the box that most accurately describes its public charity status.

Schedule A—Public Support Test

Publicly supported organizations (i.e., those listed in lines 5, 7, 8, and 9 of Schedule A, Part I) must describe the sources of their revenue in Part II or III. Although these entities must satisfy different support tests, all are required to provide the same financial information in Part II or III. This information allows the IRS to determine whether an entity meets the applicable public support test.

Accounting Method

The organization must use the accounting method checked on Form 990, Part XI, Financial Statements and Reporting, line 1, or Form 990-EZ, line G to prepare its 2009 Schedule A.

Previously, the public support test was computed using the cash method of accounting. However, on September 8, 2008, temporary regulations were issued requiring that the public support test be determined using the organization's regular method of accounting. The temporary regulations are effective for tax years beginning after December 31, 2007 [Temp. Reg. 1.509(a)-3T(k)].

If the accounting method the organization used in completing Schedule A for 2007 (e.g., cash) is different from the accounting method checked on Form 990, Part XI, line 1, or Form 990-EZ, line G for 2008 (e.g., accrual), do not use the amounts reported in the applicable columns of Schedule A for 2007. Rather, restate these amounts to conform to the accounting method selected for 2008 (e.g., accrual).

Capital gains are excluded from the support calculation. Tax revenues levied on behalf of an organization and expended on its behalf are included in the calculation, even though not included as revenue in Part VIII of Form 990.

Five-year Lookback Period for Support Calculations

The support schedules in Parts II and III of Schedule A are completed using a five-year computation period. If the organization was not a Section 501(c)(3) organization for the entire five-year period (e.g., because it is a new organization) report amounts only for the years it has been a Section 501(c)(3) organization.

If the applicable support test is satisfied, the organization generally is deemed publicly supported for both the current year and the immediately following tax year. Thus, an organization that fails the test in the following year effectively has a one-year grace period because it can avoid private foundation status merely by relying on the prior year's test results. If the organization qualifies in this manner for public charity status, enter an explanation in Part IV of Schedule A.

If an organization has a short year in the lookback period because of a change in year end, the short year counts as a tax year for completing the support schedule. The organization does not have to restate the numbers because of the change in year end.

Support Schedule for Section 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi) Organizations (Schedule A, Part II)

Line 1. The total of gifts, grants, contributions, and membership fees entered here generally equals the total reported in Form 990, Part VIII, line 1h. For any given year, however, the actual donations included in Part II and Part VIII may not be the same for at least two reasons.

- Unusual Gifts and Grants. All grants received by an organization (other than those representing payment for services received) are reported on Part VIII, line 1 of Form 990. On Schedule A, however, gifts and grants that qualify as unusual are not reported on line 1 of Part II. Instead, these should be summarized in a workpaper for the files. Report unusual grants on Part IV, Schedule A, indicating the date, amount, and a description of the grant. Do not include donor-identifying information since this is a publicly disclosed document.
- Use of Property. The fair market or rental value of the use of property can be included in Part II.

Payments for Services. If a grant is a payment for services rather than a contribution (i.e., the grantor receives a direct benefit from the organization in return for making the grant), it is reported as program service revenue on line 2 in Form 990, Part VIII, and on line 12 in Schedule A, Part II.

Membership Fees. The nature of any membership fees received by the organization must be analyzed to determine the proper line of Part II on which to report them. Report fees that were made for the basic purpose of providing support to the organization on **line 1**. Report fees that were payments to purchase admissions, merchandise, services, or the use of facilities in a related activity on line 12, or on line 9 if such purchase related to an unrelated business activity.

Line 2. Report tax levies whether or not the organization includes this amount as revenue on its financial statements.

Line 3. Do not include the value of any services or facilities that are generally furnished free to the public. Otherwise, report the value of government-furnished services or facilities even though such value is not reflected elsewhere in Form 990.

Line 5. The 2% limitation does not apply to contributions from Section 170(b)(1)(A)(v) governmental units or from exempt organizations that are publicly supported under IRC Sec. 170(b)(1)(A)(vi), such as churches, educational institutions, hospitals, and certain organizations operated for the benefit of a college or university owned or operated by a governmental unit.

Example 6-1 Contributions in excess of 2% of total support (Schedule A, Part II, line 5).

Public Charities, Inc. (PCI), a Section 501(c)(3) organization described on line 7 of Part I, received support totaling $550,000 during the five-year period ending December 31, 2009. During this same period, total contributions from the following sources equaled more than $11,000 (2% × $550,000):

Donor	Total Amount Donated 2005-2009	Amount in Excess of 2% Limit
Dr. and Mrs. William Bordon	$ 14,000	$ 3,000
Harris County Food Relief Agency (a department within the Harris County government structure)	57,719	N/A
Continental Private Foundation	18,823	7,823
Joseph P. Werner, Jr.	5,000	—
Joseph P. Werner, III (son of Joseph P. Werner, Jr.)	7,731	1,731[b]
United Charities, Inc. (a public charity that normally receives a substantial part of its support from the general public)	23,103	N/A[a]
United Fund of Harris County (the $11,415 was received from the Dal-Mor Corporation with the understanding that it would be contributed to PCI)	11,415	415
	$ 137,791	$ 12,969

Notes:

[a] Not subject to the 2% limit because the donation is from a governmental unit or a public charity.

[b] ($5,000 + $7,731) – $11,000 = $1,731.

None of these contributions qualify as unusual grants. When completing its 2009 support schedule, PCI enters $12,969 in the box on line 5, column (f). This represents the portion of contributions during 2005 to 2009 that:

- Came from one source (including related parties);
- Exceeded 2% of PCI's total support for the five-year period [i.e., 2% of the amount in column (f), line 11]; and
- Were *not* received from a governmental unit or an entity described in line 7 or 8 of Schedule A, Part I (unless, as with the United Fund donation, the funds were originally contributed with the understanding they would be passed on to PCI).

To determine whether multiple contributions are from a single source, the following are related to the donor:

- A donor's spouse, ancestors, children, grandchildren, or great grandchildren.
- Spouses of the children, grandchildren, or great grandchildren.
- A corporation, partnership, or trust (or estate) in which the donor holds more than 35% of the voting power, profits interest, or beneficial interest, respectively.
- A corporation, partnership, or trust in which the donor holds more than 20% of the voting power, profits interest, or beneficial interest, respectively, if such entity is a substantial contributor to the organization.

In addition to entering the excess contributions in the box on line 5, PCI should prepare a workpaper list for its files showing the name and contributions from anyone whose total contributions exceeded the 2% limit. PCI must report the total contributions from the donors listed, not merely the portion of such contributions that exceed the 2% limit.

Line 8. Income that would otherwise be reportable on line 8 should be reported on line 12 if from an activity that furthers the organization's exempt purpose.

Line 9. Aggregate the net income and net losses from all the organization's unrelated business activities, whether or not regularly carried on as a trade or business. If there is an overall loss, enter "-0-".

Line 10. Report the organization's income not reported elsewhere in Part II. Explain in Part IV the nature and sources of each amount reported. However, do not include gain or loss from the sale of capital assets.

Line 12. Report the total amount of gross receipts received from related activities, as well as activities that are exempt from unrelated business classification under IRC Sec. 513, for all the years reported in Part II of Schedule A.

Although an organization otherwise meets the public support test, under IRC Secs. 509(a)(1) and 170(b)(1)(A)(vi) or the 10% facts and circumstances public support test, it will not be treated as meeting one of the tests if it received almost all of its support from related activities and an insignificant amount of support from governmental units and public contributions.

Line 13. An organization does not complete lines 14 through 18 until its sixth and subsequent years. An organization that applies for exemption under IRC Sec. 501(c)(3) and requests public charity status under IRC Sec. 170(b)(1)(A)(vi) or IRC Sec. 509(a)(2) will receive an exemption letter that it is a public charity if the IRS determines that the organization can reasonably expect to be publicly supported. The organization has five tax years to establish its public support. Beginning with its sixth tax year, if the organization files Form 990 or 990-EZ, it will have to establish on Schedule A that it is not a private foundation.

Lines 14 and 15. Enter percentages rounded to the nearest hundredth decimal point. For example, if the organization calculates its public support percentage as 63.3456%, the amount entered should be 63.35%.

Lines 16 and 17. The completion of these lines requires no further explanation beyond the directions on the form.

Line 18. Check this box if the organization does not qualify as publicly supported under IRC Sec. 170(b)(1)(A)(iv) or 170(b)(1)(A)(vi) as indicated by checking one of the boxes on line 13, 16a, 16b, 17a or 17b. In addition, if the organization does not qualify as a public charity under any of the boxes in Schedule A, Part I, lines 1 through 11, it is a private foundation and must file Form 990-PF rather than Form 990 or Form 990-EZ or Schedule A for 2009.

If a Section 501(c)(3) organization is in its sixth tax year and checked the box on line 18, compute the public support percentage for its first five tax years. If the organization meets the 33⅓% test or the 10% facts and circumstances test for the first five years, it will qualify as a public charity for the sixth year. If qualifying in this manner, explain in Schedule A, Part IV.

Support Schedule for Section 509(a)(2) Organizations (Schedule A, Part III)

An organization that checks the box on Part I, line 9, must complete Part III to determine the percentage of its public support under the rules of IRC Sec. 509(a)(2).

Certain sources of income are treated as public support for purposes of IRC Secs. 170(b)(1)(A)(iv), 170(b)(1)(A)(vi), and 509(a)(2). For example, lines 1, 2, and 3 in Section A of Schedule A, Part II correspond to lines 1, 4, and 5 in Section A of Schedule A, Part III. Consequently, the discussion above for the preparation of lines 1, 2, and 3 in Part II is equally applicable to lines 1, 4, and 5 in Part III.

However, lines 2 and 3 of Part III reflect two material differences between public support under IRC Secs. 509(a)(2), 170(b)(1)(A)(iv), and 170(b)(1)(A)(vi).

Line 2. Enter gross receipts from activities related to an organization's exempt purpose (i.e., exempt function income) net of any returns and allowances, but before deducting any cost of goods sold. Exempt function income is normally distinguished from gifts, contributions, or grants (i.e., amounts entered on line 1) by the fact that it is received by the organization for providing the payor with a specific service, facility, or product (e.g., admissions, merchandise, or services). Thus, the item provided meets the direct and immediate needs of the payor, rather than primarily conferring a benefit upon the general public.

Example 6-2 Gross receipts from an activity related to the organization's charitable purpose.

Management Institute, Inc. (MII), a Section 501(c)(3) educational organization, conducts seminars to help train employees of various industries in the principles of management and administration. During 2009, a local government bureau paid MII $50,000 for conducting a series of management seminars for the bureau's employees.

Conducting management seminars furthers MII's exempt purpose. In addition, the service rendered by MII in return for the $50,000 fee serves the direct and immediate needs of the government bureau by training its employees. Thus, the revenue should be reported in the 2009 column on line 2.

Variation: Suppose instead that the $50,000 payment from the government was for providing MII with the funds necessary to revise and improve the quality of all of its seminars. This would change where the payment is reported in the support schedule. If the general public, rather than the payor, receives the direct benefit from a payment to the organization, the payment normally should be reported on line 1.

Line 3. Report revenue from activities that are *unrelated* to the organization's exempt function, but which are *not* treated as unrelated business activities because of a statutory exclusion. These activities include those where substantially all (generally 85% or more) of the work in the activity is conducted by volunteers; the activity is carried on by the organization primarily for the convenience of its members, students, officers, or employees; or the activity involves selling merchandise, substantially all of which has been received by the organization as a donation.

Example 6-3 Gross receipts from a special fundraiser conducted by volunteers.

The Women's Shelter (Shelter) is a Section 501(c)(3) organization that assists women and children who are victims of family violence. Qualified applicants are provided temporary housing, food, child care and counseling. Assume that for each of the current and prior four years, Shelter received $200,000 from the local United Way, $100,000 from a government grant, $200,000 from individual donors, and $50,000 of interest and dividends. An annual fundraiser, conducted strictly with volunteers, raised another $200,000.

Since Shelter is a 501(c)(3) organization, it must complete and attach Schedule A to its 2009 Form 990. The box on line 9 of Part I, Schedule A is checked and the support schedule in Part III is completed as follows for the five-year period ended December 31, 2009.

Line	**Col. (f) Total:**
1—Gifts, grants, contributions, and membership fees ($200,000 + $100,000 + $200,000) × 5	$ 2,500,000
3—Gross receipts from the fundraising activity ($200,000 × 5)	1,000,000
10a—Gross income from interest and dividends ($50,000 × 5)	250,000
Total support	$ 3,750,000

In 2009 Shelter meets both the one-third tests of Section 509(a)(2) as shown in the following computations:

Public support percentage [$3,500,000 (lines 1 and 3)/$3,750,000]	93.33%
Investment income percentage [$250,000 (line 10a)/$3,750,000]	6.67%

Line 7a. Certain amounts received from disqualified persons cannot be included as public support.

The organization should prepare a list for its records showing the name of, and total amounts received in each year from each disqualified person that was included in line 1, 2, or 3 (lines 15, 16, and 17 of Schedule A, Part IV-A, for years prior to 2008). Enter the total of such amounts for each year on line 7a.

Caution: The list of disqualified persons should not be filed with Form 990 or 990-EZ. Donor information might be inadvertently disclosed to the public along with the rest of the return if it is included.

Line 7b. Gross receipts from activities that either further an entity's exempt purpose or are statutorily excluded from the definition of an unrelated trade or business (i.e., the revenues reported on line 3) are generally counted as public support for organizations described in line 9 of Part I. However, total receipts for a year from any one person or government bureau (or similar agency) that exceed the greater of (1) $5,000 or (2) 1% of the organization's total support for the year are not public support. Thus, line 7b of Part III requires the amount, by year, of gross receipts received during the year from any individual or entity (including other nonprofit organizations) to the extent the amount received was more than the greater of (1) $5,000 or (2) 1% of the organization's total support for the year (total of lines 9, 10c, 11, and 12). (See Example 6-6.) Amounts received from a disqualified person are not reported on line 7b or the related schedule because these amounts are already included on line 7a.

Example 6-4 Preparing the support schedule for an organization described in line 9 of Part I.

The Neighborhood Health Clinic, Inc. (NHC), a Section 501(c)(3) organization described in line 9 of Part I, was created several years ago by Drs. Martin and Rosen to provide affordable medical care to low-income families.

During 2009 and the four years preceding 2009, NHC received the following support:

Source of Support	**2005**	**2006**	**2007**	**2008**	**2009**
Dr. Martin[a]	$ 18,000	$ 30,000	$ 25,000	$ 46,000	$ 10,100
Dr. Rosen[a]	20,000	40,000	40,000	80,000	10,500
Medical Resources, Inc.[a] (Drs. Martin and Rosen each own 50% of the corporation)	10,000	15,000	25,000	20,000	17,000

Source of Support	2005	2006	2007	2008	2009
Relief Agency, Inc.[b] (payments to NHC for providing medical attention to residents of RAI's night shelters)	225,000	235,000	233,000	242,000	244,000
Gross receipts from patients (all less than $5,000 per person)	215,100	230,905	276,980	224,340	250,055
Bass Foundation (donation of a new clinic)					1,475,000
Contributions from the general public (all less than $5,000 each)	6,450	6,890	8,550	13,340	45,000
Total support	$ 494,550	$ 557,795	$ 608,530	$ 625,680	$ 2,051,655

Notes:

[a] Disqualified person.

[b] Publicly supported Section 501(c)(3) organization.

Similar to the recommendation for line 7a, the organization should prepare a list (which should *not* be attached to Form 990 or 990-EZ) to show for each year, the name of the person or government agency, the amount received during the applicable year, the larger of 1% of line 13 for the applicable year or $5,000, and the excess, if any. Enter such excess on line 7b.

Line 10a. Income that would otherwise be reported on line 10a should be reported on line 2 if from an activity that furthers the organization's exempt purpose.

Line 10b. Net income and losses from all unrelated trades or businesses should be aggregated. If there is a net loss, enter "-0-."

Only unrelated business taxable income (UBTI), net of the related tax, from businesses acquired or started by the organization after June 30, 1975, is included on line 10b. The balance of UBTI, if any, is reported on line 11. If an entity has multiple unrelated businesses, some of which were acquired before July 1, 1975, the organization's Section 511 tax for the year must be allocated between UBTI from pre-July 1, 1975, businesses and UBTI from post-June 30, 1975, businesses. The allocation is made based on the relative UBTI from each group of activities. For this purpose, UBTI is determined without deducting either allowable charitable contributions or the specific deduction (allowed on line 33 of Form 990-T) normally permitted in calculating an entity's UBTI.

Example 6-5 Determining unrelated business taxable income, net of Section 511 tax.

Amalgamated Charities, Inc. (ACI), a Section 501(c)(3) tax-exempt organization, conducts two unrelated business activities, a restaurant and a bakery. It opened the restaurant in 1974 and started the bakery in 1989. During 2009, the two activities generated a total of $60,000 in UBTI ($45,000 from the restaurant and $15,000 from the bakery), before deductions for $3,000 of charitable contributions and

\$1,000 for the specific deduction. Thus, ACI's UBTI for the year is \$56,000 [\$60,000 – (\$3,000 + \$1,000)], and its Section 511 tax (unrelated business income tax) is \$9,000 [(15% × \$50,000) + (25% × \$6,000)]. (The restaurant's UBTI is calculated in Example 6-6.)

The UBTI from the bakery (a post-June 30, 1975, business), net of the related Section 511 tax, is reported on line 10b. ACI determines the bakery's UBTI by subtracting a pro rata portion of the two deductions (charitable contributions and the specific deduction) allowed in determining an entity's UBTI but not specifically allocated to a particular source of unrelated business income from the bakery's UBTI before these two deductions. The calculation is as follows:

Step 1 Portion of UBTI (before charitable contributions and specific deduction) from post-June 30, 1975, businesses compared to organization's total UBTI (before charitable contributions and specific deduction):

$$\frac{\$15{,}000}{\$15{,}000 + \$45{,}000} = 25\%$$

Step 2 Amount of charitable contributions and the specific deduction allocated to UBTI from post-June 30, 1975, businesses [Reg. 1.509(a)-3(a)(3)(iii)]:

25% × (\$3,000 + \$1,000) = \$1,000

Step 3 UBTI from the bakery (the post-June 30, 1975, business):

\$15,000 – \$1,000 = \$14,000

The Section 511 tax related to such UBTI is determined as follows (using the percentage calculated in Step 1): \$9,000 × 25% = \$2,250.

Thus, ACI includes \$11,750 (\$14,000 – \$2,250) on Part III, line 10b for 2009.

Line 11. Report net income from unrelated business activities acquired or started before July 1, 1975, on line 11 (even if such activities are not regularly carried on). Unlike UBTI entered on line 10b, the tax related to any income reported on line 11 is *not* deducted before the income is entered on line 11.

Example 6-6 UBTI from activities acquired before July 1, 1975.

Assume the same facts as in Example 6-5. For 2009, UBTI from the restaurant (before any deduction for charitable contributions or the specific deduction) was \$45,000. This amount, net of an allocable portion of the charitable deduction and specific deduction, is reported on line 11 of Part III (without being further reduced by an allocable portion of the unrelated business income tax). Thus, the amount reported on line 11 is calculated as follows (using the numbers from Example 6-5):

Step 1 Portion of UBTI (before charitable contributions and the specific deduction) from pre-July 1, 1975, businesses compared to organization's total UBTI (prior to charitable contributions and the specific deduction):

$$\frac{\$45{,}000}{\$15{,}000 + \$45{,}000} = 75\%$$

Step 2 Amount of charitable contributions and the specific deduction allocated to UBTI from pre-July 1, 1975, businesses [Reg. 1.509(a)-3(a)(3)(iii)]:

75% × ($3,000 + $1,000) = $3,000

Step 3 UBTI from the restaurant (the pre-July 1, 1975, business):

$45,000 – $3,000 = $42,000

Thus, ACI includes $42,000 on Part III, line 11 for 2009.

Line 12. Report the organization's income not reported elsewhere in Part III. However, do not include gain or loss from the sale of capital assets.

Line 14. An organization does not complete lines 15 through 20 until its sixth and subsequent years.

Lines 15 and 16. Round the percentages entered to the nearest hundredth decimal point. For example, if the organization calculates its public support percentage as 63.3456%, the amount entered on line 15 or 16 should be 63.35%.

Although an organization that uses the accrual method for 2008 used the cash method in preparing its 2007 Form 990 or 990-EZ, Schedule A, it should still enter on line 16, the public support percentage from the 2007 Form 990 or 990-EZ, Schedule A, Part IV-A, line 27g.

Lines 17–18. Round the investment income percentage to the nearest whole percentage.

Line 20. If the organization does not qualify as a public charity, it should file Form 990-PF rather than Form 990, Form 990-EZ, or Schedule A.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

31. Which of the following entities is required to file Schedule A?

    a. An organization exempt from filing Form 990.

    b. A private foundation.

    c. A nonexempt charitable trust treated as a private foundation.

    d. A public charity.

32. Which of the following is a private foundation?

    a. An organization operated for the benefit of a college or university owned or operated by a governmental unit.

    b. An operating foundation.

    c. An organization that normally receives a substantial part of its support from a governmental unit or from the general public.

    d. An organization organized and operated exclusively to test for public safety.

33. Choose the appropriate accounting method below for calculating the public support test for Schedule A for tax years beginning in 2008.

    a. The organization's regular method of accounting.

    b. The cash method of accounting.

    c. The accrual method of accounting.

34. Choose the correct statement below concerning Schedule A, Part III.

    a. The list of disqualified persons used in the computation of public support is included in the Supplemental Information portion of Schedule A.

    b. Net income and losses from all unrelated trades of businesses should be determined individually. If an individual activity has a loss, that activity should be recorded as "-0-" on line 10b.

    c. The net income from unrelated business activities acquired or started before July 1, 1975, is reported on line 11 without deducting the related tax.

    d. All revenues from activities that are unrelated to the organization's exempt function are reported on Schedule A as unrelated business activities.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

31. Which of the following entities is required to file Schedule A? **(Page 152)**

    a. An organization exempt from filing Form 990. [This answer is incorrect. Organizations exempt from filing an annual return (Form 990) are not required to complete Schedule A.]

    b. A private foundation. [This answer is incorrect. Private foundations do not file Schedule A since their annual return is filed on Form 990-PF.]

    c. A nonexempt charitable trust treated as a private foundation. [This answer is incorrect. A nonexempt charitable trust treated as a private foundation does not file Schedule A since their annual return is filed on Form 990-PF.]

    d. A public charity. [This answer is correct. An organization with public charity status will provide the IRS with detailed information about its sources of financial support. Schedule A is used to indicate an organization's reason for public charity status.]

32. Which of the following is a private foundation? **(Pages 148 and 152)**

    a. An organization operated for the benefit of a college or university owned or operated by a governmental unit. [This answer is incorrect. An organization operated for the benefit of a college or university owned or operated by a governmental unit described in section 170(b)(1)(A)(iv) is not a private foundation.]

    b. An operating foundation. [This answer is correct. An operating foundation is classified as a private foundation. A private foundation is an organization described in section 501(c)(3) that is not a public charity.]

    c. An organization that normally receives a substantial part of its support from a governmental unit or from the general public. [This answer is incorrect. An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in section 170(b)(1)(A)(vi) is not a private foundation.]

    d. An organization organized and operated exclusively to test for public safety. [This answer is incorrect. This type of an organization is not a private foundation.]

33. Choose the appropriate accounting method below for calculating the public support test for Schedule A for tax years beginning in 2008. **(Page 154)**

    a. The organization's regular method of accounting. [This answer is correct. On September 8, 2008, temporary regulations were issued requiring that the public support test be determined using the organization's regular method of accounting. This is effective for tax years beginning after December 31, 2007.]

    b. The cash method of accounting. [This answer is incorrect. Prior to the temporary regulations being issued, the public support test was computed using the cash method of accounting. An organization may still use this method if it conforms to the temporary regulations.]

    c. The accrual method of accounting. [This answer is incorrect. The public support test might be computed using the accrual method of accounting if it conforms to the temporary regulations issued, but the accrual method is not the required method.]

34. Choose the correct statement below concerning Schedule A, Part III. **(Page 162)**

    a. The list of disqualified persons used in the computation of public support is included in the Supplemental Information portion of Schedule A. [This answer is incorrect. The organization should prepare a list showing the names of disqualified persons and the amounts received in each year from them, but the list should not be filed with Form 990.]

    b. Net income and losses from all unrelated trades of businesses should be determined individually. If an individual activity has a loss, that activity should be recorded as "-0-" on line 10b. [This answer is incorrect. Net income and losses from all unrelated trades or businesses should be aggregated. If there is a net loss, enter "-0-" on line 10b.]

    c. The net income from unrelated business activities acquired or started before July 1, 1975, is reported on line 11 without deducting the related tax. [This answer is correct. Report net income from unrelated business activities acquired or started before July 1, 1975, on line 11. The tax related to any income reported on line 11 is not deducted before the income is entered on line 11.]

    d. All revenues from activities that are unrelated to the organization's exempt function are reported on Schedule A as unrelated business activities. [This answer is incorrect. There are activities that are not treated as unrelated business activities for the public support test. These activities include those where substantially all of the work in the activity is conducted by volunteers; the activity is carried on by the organization primarily for the convenience of its members, students, officers, or employees; or the activity involves selling merchandise, substantially all of which has been received by the organization as a donation.]

Schedule C—Political Campaign and Lobbying Activities

Introduction

Schedule C (Form 990 or 990-EZ), provides the IRS with information concerning the political campaign activities and/or lobbying activities of Section 501(c)(3) organizations and Section 527 organizations. There are several potential reasons this information can be significant. **For example, Section 501(c)(3) organizations are prohibited from participating in a political campaign and are subject to limitations on their lobbying activities.** Moreover, certain types of membership organizations must either notify their members of any lobbying expenditures that impact the income tax deductibility of the member's dues to the organization or pay a proxy tax in lieu of notice.

SCHEDULE C
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Political Campaign and Lobbying Activities

For Organizations Exempt From Income Tax Under section 501(c) and section 527
▶ Complete if the organization is described below.
▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No. 1545-0047
2009
Open to Public Inspection

If the organization answered "Yes," to Form 990, Part IV, line 3, or Form 990-EZ, Part VI, line 46 (Political Campaign Activities), then
- Section 501(c)(3) organizations: Complete Parts I-A and B. Do not complete Part I-C.
- Section 501(c) (other than section 501(c)(3)) organizations: Complete Parts I-A and C below. Do not complete Part I-B.
- Section 527 organizations: Complete Part I-A only.

If the organization answered "Yes," to Form 990, Part IV, line 4, or Form 990-EZ, Part VI, line 47 (Lobbying Activities), then
- Section 501(c)(3) organizations that have filed Form 5768 (election under section 501(h)): Complete Part II-A. Do not complete Part II-B.
- Section 501(c)(3) organizations that have NOT filed Form 5768 (election under section 501(h)): Complete Part II-B. Do not complete Part II-A.

If the organization answered "Yes," to Form 990, Part IV, line 5 (Proxy Tax), then
- Section 501(c)(4), (5), or (6) organizations: Complete Part III.

Name of organization	**Employer identification number**

Part I-A Complete if the organization is exempt under section 501(c) or is a section 527 organization.

1 Provide a description of the organization's direct and indirect political campaign activities in Part IV.
2 Political expenditures . . . ▶ $________
3 Volunteer hours . . . ________

Part I-B Complete if the organization is exempt under section 501(c)(3).

1 Enter the amount of any excise tax incurred by the organization under section 4955 . . . ▶ $________
2 Enter the amount of any excise tax incurred by organization managers under section 4955 . ▶ $________
3 If the organization incurred a section 4955 tax, did it file Form 4720 for this year? . . . ☐ **Yes** ☐ **No**
4a Was a correction made? . . . ☐ **Yes** ☐ **No**
b If "Yes," describe in Part IV.

Part I-C Complete if the organization is exempt under section 501(c), except section 501(c)(3).

1 Enter the amount directly expended by the filing organization for section 527 exempt function activities . . . ▶ $________
2 Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt function activities . . . ▶ $________
3 Total exempt function expenditures. Add lines 1 and 2. Enter here and on Form 1120-POL, line 17b . . . ▶ $________
4 Did the filing organization file **Form 1120-POL** for this year? . . . ☐ **Yes** ☐ **No**
5 Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which payments were made. For each organization listed, enter the amount paid from the filing organization's funds. Also enter the amount of political contributions received that were promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC). If additional space is needed, provide information in Part IV.

(a) Name	**(b)** Address	**(c)** EIN	**(d)** Amount paid from filing organization's funds. If none, enter -0-.	**(e)** Amount of political contributions received and promptly and directly delivered to a separate political organization. If none, enter -0-.

Part II-A **Complete if the organization is exempt under section 501(c)(3) and filed Form 5768 (election under section 501(h)).**

A Check ► ☐ if the filing organization belongs to an affiliated group.
B Check ► ☐ if the filing organization checked box A and "limited control" provisions apply.

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)	**(a)** Filing organization's totals	**(b)** Affiliated group totals
1a Total lobbying expenditures to influence public opinion (grass roots lobbying)		
b Total lobbying expenditures to influence a legislative body (direct lobbying)		
c Total lobbying expenditures (add lines 1a and 1b)		
d Other exempt purpose expenditures		
e Total exempt purpose expenditures (add lines 1c and 1d)		
f Lobbying nontaxable amount. Enter the amount from the following table in both columns.		

If the amount on line 1e, column (a) or (b) is:	**The lobbying nontaxable amount is:**
Not over $500,000	20% of the amount on line 1e.
Over $500,000 but not over $1,000,000	$100,000 plus 15% of the excess over $500,000.
Over $1,000,000 but not over $1,500,000	$175,000 plus 10% of the excess over $1,000,000.
Over $1,500,000 but not over $17,000,000	$225,000 plus 5% of the excess over $1,500,000.
Over $17,000,000	$1,000,000.

	(a)	(b)
g Grassroots nontaxable amount (enter 25% of line 1f)		
h Subtract line 1g from line 1a. If zero or less, enter -0-		
i Subtract line 1f from line 1c. If zero or less, enter -0-		

j If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year? ☐ **Yes** ☐ **No**

4-Year Averaging Period Under Section 501(h)
(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 2a through 2f on page 4.)

Lobbying Expenditures During 4-Year Averaging Period

Calendar year (or fiscal year beginning in)	**(a)** 2006	**(b)** 2007	**(c)** 2008	**(d)** 2009	**(e)** Total
2a Lobbying nontaxable amount					
b Lobbying ceiling amount (150% of line 2a, column (e))					
c Total lobbying expenditures					
d Grassroots nontaxable amount					
e Grassroots ceiling amount (150% of line 2d, column (e))					
f Grassroots lobbying expenditures					

Part II-B **Complete if the organization is exempt under section 501(c)(3) and has NOT filed Form 5768 (election under section 501(h)).**

		(a) Yes	(a) No	(b) Amount
1	During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of:			
a	Volunteers?			
b	Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?			
c	Media advertisements?			
d	Mailings to members, legislators, or the public?			
e	Publications, or published or broadcast statements?			
f	Grants to other organizations for lobbying purposes?			
g	Direct contact with legislators, their staffs, government officials, or a legislative body?			
h	Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?			
i	Other activities? If "Yes," describe in Part IV			
j	Total. Add lines 1c through 1i			
2a	Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?			
b	If "Yes," enter the amount of any tax incurred under section 4912			
c	If "Yes," enter the amount of any tax incurred by organization managers under section 4912			
d	If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?			

Part III-A **Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6).**

			Yes	No
1	Were substantially all (90% or more) dues received nondeductible by members?	1		
2	Did the organization make only in-house lobbying expenditures of $2,000 or less?	2		
3	Did the organization agree to carryover lobbying and political expenditures from the prior year?	3		

Part III-B **Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6) if BOTH Part III-A, lines 1 and 2 are answered "No" OR if Part III-A, line 3 is answered "Yes."**

1	Dues, assessments and similar amounts from members	1	
2	Section 162(e) nondeductible lobbying and political expenditures **(do not include amounts of political expenses for which the section 527(f) tax was paid).**		
a	Current year	2a	
b	Carryover from last year	2b	
c	Total	2c	
3	Aggregate amount reported in section 6033(e)(1)(A) notices of nondeductible section 162(e) dues	3	
4	If notices were sent and the amount on line 2c exceeds the amount on line 3, what portion of the excess does the organization agree to carryover to the reasonable estimate of nondeductible lobbying and political expenditure next year?	4	
5	Taxable amount of lobbying and political expenditures (see instructions)	5	

Part IV **Supplemental Information**

Complete this part to provide the descriptions required for Part I-A, line 1; Part I-B, line 4; Part I-C, line 5; and Part II-B, line 1i. Also, complete this part for any additional information.

Reporting an Organization's Political Activities

File Schedule C (Form 990 or 990-EZ) if any of the following applies:

- A Section 501(c)(3) or Section 527 organization that engaged in direct or indirect political campaign activities on behalf of, or in opposition to, a candidate for public office must complete Part I of Schedule C (also answer "Yes" to Form 990, Part IV, line 3 or Form 990-EZ, line 46);
- A Section 501(c)(3) organization that engaged in lobbying activities must complete Part II of Schedule C (also answer "Yes" to Form 990, Part IV, line 4 or Form 990-EZ, line 47); or
- A Section 501(c)(4), (c)(5), or (c)(6) organization that must either notify members of lobbying expenditures or pay a proxy tax must complete Part III of Schedule C (also answer "Yes" to Form 990, Part IV, line 5 or Form 990-EZ, line 35a).

Preparation Pointer: Organizations not required to file either Form 990 or 990-EZ are not required to file Schedule C. However, an organization that voluntarily chooses to file Form 990 or 990-EZ must file a complete return and provide all of the information requested, including the required schedules.

Completing Schedule C (Form 990 or 990-EZ), Part I

Part I of Schedule C must be completed by all Section 501(c) organizations and Section 527 organizations that engage in political campaign activities (direct or indirect) on behalf of, or in opposition to, a candidate for public office. Part I-A must be completed by all Section 501(c) and Section 527 organizations. Part I-B must be completed only by Section 501(c)(3) organizations. Finally, Part I-C must be completed by all Section 501(c) organizations other than Section 501(c)(3) entities.

Definitions

Political Campaign Activity. Any activity that supports or opposes a candidate for elective federal, state, or local public office is a political campaign activity. Whether the candidate is elected or defeated is immaterial. Political campaign activity does not include any activity to encourage participation in the electoral process, such as voter registration or voter education, as long as the activity does not directly or indirectly support or oppose a candidate.

Candidate. A candidate is one who offers himself or herself for public office, or is proposed by others for public office.

Section 527 Exempt Function Activity. Any activity that influences or attempts to influence the selection, nomination, election, or appointment of any individual to any federal, state, or local public office in a political organization, or the election of presidential or vice-presidential electors, whether or not such individual or electors are selected, nominated, elected, or appointed.

Political Expenditure. Any expenditure for a political campaign activity. An expenditure includes a payment, distribution, loan, advance, deposit, or gift of money, or anything of value. It also includes a contract, promise, or agreement to make an expenditure, whether or not legally enforceable.

Lobbying Activity. Activities intended to influence foreign, national, state, or local legislation. Activities include direct lobbying (attempting to influence legislators) and grassroots lobbying (attempting to influence legislation by influencing the general public).

Describing an Organization's Political Campaign Activities

Schedule C (Form 990 or 990-EZ), Part I-A, is completed by all organizations exempt under Section 501(c) and Section 527 organizations.

Line 1. Section 501(c) organizations should describe their direct and indirect political campaign activities in Schedule C, Part IV.

If a Section 501(c) organization [other than Section 501 (c)(3)] collects political contributions or member dues earmarked for a separate segregated fund, and promptly and directly transfers them to that fund in accordance with Reg. 1.527-6(e), report this activity in Part I-C, line 5, column (e), rather than as an activity for purposes of line 1.

Although line 1 does not refer to exempt function activities, Section 527 organizations must describe these activities on Part IV.

Note: Section 501(c) organizations other than those exempt under IRC Sec. 501(c)(3) may establish Section 527(f)(3) separate segregated funds (SSFs) to engage in political activity. SSFs are subject to their own filing requirements. A Section 501(c) organization that utilizes an SSF to conduct political activity should report transfers to it in Parts I-A and I-C. The SSF should report specific activities on its own Form 990 if it is required to file.

Line 2. Enter the amount the filing organization spent conducting the activities described on line 1.

Line 3. Report the number of volunteer hours, if any, the organization used to conduct political campaign activities or Section 527 exempt function activities. Any reasonable method can be used to estimate volunteer hours.

Reporting the Excise Tax for Political Expenditures

Schedule C (Form 990 or 990-EZ), Part I-B, is completed by all organizations exempt under IRC Sec. 501(c)(3).

Lines 1 and 2. IRC Sec. 4955(a)(1) imposes an initial tax on a Section 501(c)(3) organization equal to 10% of the amount of any political expenditure and an initial tax equal to 2 1/2% of such amount on any organization manager who agreed to an expenditure knowing that it was a political expenditure (except where such manager's agreement was due to reasonable cause).

Enter the amount of Section 4955 tax incurred by the organization on line 1 and incurred by an organization's manager on line 2. Note that if tax was abated under the provisions of IRC Sec. 4962(a), it need not be disclosed.

Line 3. Any Section 4955 tax for which the organization or a manager is liable must be reported on Form 4720 (Return of Certain Excise Taxes on Charities and Other Persons Under Chapters 41 and 42 of the Internal Revenue Code). Indicate on this line whether Form 4720, if required, was filed.

Line 4. An activity that resulted in Section 4955 tax must be corrected. Correction of a political expenditure means recovering the expenditure and establishing safeguards to prevent future political expenditures. Recovery of the expenditure means recovering part or all of the expenditure to the extent possible, and where full recovery cannot be accomplished, by any additional corrective action that is necessary.

Organizations that collect political contributions (or member dues) that are designated for a separate segregated fund (or political action committee) and promptly transfers the contributions to such fund should report these amounts on line 5e instead of lines 1 and 2.

Indicate on line 4 whether a correction of a political expenditure (with respect to which excise tax was incurred) has been corrected, and if so, describe the correction in Schedule C, Part IV.

Reporting Section 527 Exempt Function Activity

Schedule C (Form 990 or 990-EZ), Part I-C, is used to report Section 527 exempt function activity for Section 501(c) organizations other than those exempt under IRC Sec. 501(c)(3).

Line 1. Enter the amount of its funds expended by the organization directly for Section 527 exempt function activities.

Line 2. Enter on line 2 the amount of funds the organization transferred to other organizations [including an SSF created by the organization under IRC Sec. 527(f)(3)] for Section 527 exempt function activity.

An organization must file Form 1120-POL (U.S. Income Tax Return for Certain Political Organizations) if it has taxable income in excess of the $100 specific deduction allowed under IRC Sec. 527 [IRC Sec. 6012(a)(6)]. Generally, taxable income is gross income [excluding exempt function income as defined in IRC Sec. 527(c)(3)], less the deductions directly connected with the production of taxable gross income.

Line 4. Check “Yes” if the organization filed Form 1120-POL for the year, or “No” if it did not.

Line 5. Provide the name, address, and employer identification number of each Section 527 political organization to which payments were made. Enter the amount paid and indicate if the amount was paid from the filing organization’s own funds or were political contributions received and promptly and directly delivered to a separate political organization, such as an SSF or political action committee. If additional space is needed, use Part IV of Schedule C.

Schedule H—Hospitals

Schedule H (Form 990) has two basic purposes:

- To report data that indicates whether the hospital is providing sufficient care to needy individuals and/or other community benefits to justify its tax-exempt status; and
- To provide information about management companies and joint ventures in which the organization is a participant.

Any organization that answered “Yes” on Form 990, Part IV, Checklist of Required Schedules, line 20, must complete and attach Schedule H (Form 990) to Form 990. Schedule H (Form 990) is not required if the organization is not required to file Form 990.

SCHEDULE H
(Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, question 20.**
▶ **Attach to Form 990.**
▶ **See separate instructions.**

OMB No. 1545-0047

2009

Open to Public Inspection

Name of the organization | **Employer identification number**

Part I Charity Care and Certain Other Community Benefits at Cost

			Yes	No
1a	Does the organization have a charity care policy? If "No," skip to question 6a	**1a**		
b	If "Yes," is it a written policy?	**1b**		
2	If the organization has multiple hospitals, indicate which of the following best describes application of the charity care policy to the various hospitals. ☐ Applied uniformly to all hospitals ☐ Applied uniformly to most hospitals ☐ Generally tailored to individual hospitals			
3	Answer the following based on the charity care eligibility criteria that applies to the largest number of the organization's patients.			
a	Does the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing *free* care to low income individuals? If "Yes," indicate which of the following is the family income limit for eligibility for free care: . . . . . ☐ 100% ☐ 150% ☐ 200% ☐ Other ______ %	**3a**		
b	Does the organization use FPG to determine eligibility for providing *discounted* care to low income individuals? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care: . . . . ☐ 200% ☐ 250% ☐ 300% ☐ 350% ☐ 400% ☐ Other ______ %	**3b**		
c	If the organization does not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care. Include in the description whether the organization uses an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care.			
4	Does the organization's policy provide free or discounted care to the "medically indigent"?	**4**		
5a	Does the organization budget amounts for free or discounted care provided under its charity care policy?	**5a**		
b	If "Yes," did the organization's charity care expenses exceed the budgeted amount?	**5b**		
c	If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care?	**5c**		
6a	Does the organization prepare an annual community benefit report?	**6a**		
b	If "Yes," does the organization make it available to the public?	**6b**		
	Complete the following table using the worksheets provided in the Schedule H instructions. Do not submit these worksheets with the Schedule H.			

7 Charity Care and Certain Other Community Benefits at Cost

Charity Care and Means-Tested Government Programs	**(a)** Number of activities or programs (optional)	**(b)** Persons served (optional)	**(c)** Total community benefit expense	**(d)** Direct offsetting revenue	**(e)** Net community benefit expense	**(f)** Percent of total expense
a Charity care at cost (from Worksheets 1 and 2)						
b Unreimbursed Medicaid (from Worksheet 3, column a) . . .						
c Unreimbursed costs—other means-tested government programs (from Worksheet 3, column b)						
d **Total** Charity Care and Means-Tested Government Programs						
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4) .						
f Health professions education (from Worksheet 5)						
g Subsidized health services (from Worksheet 6)						
h Research (from Worksheet 7) . .						
i Cash and in-kind contributions to community groups (from Worksheet 8)						
j **Total.** Other Benefits						
k **Total.** Add lines 7d and 7j . . .						

Part II **Community Building Activities** Complete this table if the organization conducted any community building activities.

		(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1	Physical improvements and housing						
2	Economic development						
3	Community support						
4	Environmental improvements						
5	Leadership development and training for community members						
6	Coalition building						
7	Community health improvement advocacy						
8	Workforce development						
9	Other						
10	**Total**						

Part III **Bad Debt, Medicare, & Collection Practices**

Section A. Bad Debt Expense

			Yes	No
1	Does the organization report bad debt expense in accordance with Healthcare Financial Management Association Statement No. 15?	1		
2	Enter the amount of the organization's bad debt expense (at cost) 2			
3	Enter the estimated amount of the organization's bad debt expense (at cost) attributable to patients eligible under the organization's charity care policy. 3			
4	Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense. In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including other bad debt amounts in community benefit.			

Section B. Medicare

			Yes	No
5	Enter total revenue received from Medicare (including DSH and IME) 5			
6	Enter Medicare allowable costs of care relating to payments on line 5 6			
7	Subtract line 6 from line 5. This is the surplus or (shortfall) 7			
8	Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used: ☐ Cost accounting system ☐ Cost to charge ratio ☐ Other			

Section C. Collection Practices

			Yes	No
9a	Does the organization have a written debt collection policy?	9a		
b	If "Yes," does the organization's collection policy contain provisions on the collection practices to be followed for patients who are known to qualify for charity care or financial assistance? Describe in Part VI . . .	9b		

Part IV **Management Companies and Joint Ventures**

	(a) Name of entity	(b) Description of primary activity of entity	(c) Organization's profit % or stock ownership %	(d) Officers, directors, trustees, or key employees' profit % or stock ownership %	(e) Physicians' profit % or stock ownership %
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					

Part V Facility Information

Name and address	Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER–24 hours	ER–other	Other (Describe)

Part VI Supplemental Information

Complete this part to provide the following information.

1 Provide the description required for Part I, line 3c; Part I, line 6a; Part I, line 7g; Part I, line 7, column (f); Part I, line 7; Part III, line 4; Part III, line 8; Part III, line 9b, and Part V. See Instructions.

2 **Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves.

3 **Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's charity care policy.

4 **Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves.

5 **Community building activities.** Describe how the organization's community building activities, as reported in Part II, promote the health of the communities the organization serves.

6 Provide any other information important to describing how the organization's hospitals or other health care facilities further its exempt purpose by promoting the health of the community (e.g., open medical staff, community board, use of surplus funds, etc.).

7 If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served.

8 If applicable, identify all states with which the organization, or a related organization, files a community benefit report.

For purposes of Schedule H (Form 990), a hospital is a facility that is required to be licensed or certified as a hospital under state law. Schedule H (Form 990) is required when, for example, a hospital is operated through a disregarded entity or a joint venture treated as a partnership for tax purposes. However, do not file Schedule H for a hospital located outside the U.S. operated by a separate tax-exempt entity or an organization treated as an association taxable as a corporation for federal tax purposes.

Note: The definition of hospital for Schedule A (Form 990 or 990-EZ), Public Charity Status and Public Support, Part I, line 3, and the definition of hospital for Schedule H (Form 990) are not the same.

General Preparation Guidelines for Schedule H

If an organization operates multiple hospitals, or files a group return for a group that operates one or more hospitals, complete only one Schedule H (Form 990) by aggregating the information from all the hospitals. Aggregate information from the following:

- Hospitals directly operated by the filing organization.
- Hospitals operated by disregarded entities for which the filing organization is the sole member.
- Other facilities or programs of the organization (or any of the entities described in items 1 or 2), even if provided by a facility that is not a hospital or if provided separately from the hospital's license.
- Hospitals operated by any joint venture taxed as a partnership, to the extent of the organization's proportionate share of the joint venture.
- Certain hospitals included in a group return filed by the organization.

Proportionate Share. The organization's ending capital account percentage (per the Form 1065 Schedule K-1, Part II, line J) for the partnership tax year ending in the organization's tax year that is being reported. If no current Schedule K-1 is available, the organization may use other business records to make a reasonable estimate (e.g., the most recently available Schedule K-1, adjusted as necessary to reflect updated information).

Note: Although information from all the above sources should be aggregated for Schedule H (Form 990) reporting, each facility to which any component of the information reported is attributable must be separately listed in Part V, Facility Information.

2009 Reporting Requirements

Schedule H consists of six parts. For 2008, only Part V, Facility Information, was mandatory (completing Parts I–IV and VI is optional). For 2009, all parts are required. Organizations that voluntarily choose to complete Parts I through IV and VI for 2008 should refer to the Schedule H instructions for those parts.

Provide in Part V the name and address of each facility operated directly by the organization (or indirectly through a disregarded entity or joint venture taxed as a partnership) that, at any time during the tax year, was required to be licensed, registered, or similarly recognized as a health care facility. In the row for each facility, check all boxes that are applicable to that facility (more than one box may be checked for each facility).

Schedule R—Related Organizations and Unrelated Partnerships

Schedule R (Form 990) is used to provide information on related organizations, certain transactions with related organizations, and certain unrelated partnerships through which the organization conducts significant activities.

Organizations That Must Complete Schedule R

The following organizations must complete all or part of Schedule R (Form 990):

Type of Filer	If Answering "Yes" to:	Parts of Schedule R That Must Be Filed
All organizations	Form 990, Part IV, line 33 (disregarded entities)	Part I
All organizations	Form 990, Part IV, line 34 (related organizations)	Parts II–IV and V, line 1 as applicable
All organizations	Form 990, Part IV, line 35 [controlled entities under IRC Sec. 512(b)(13)]	Part V, line 2
Section 501(c)(3) organization or 4947(a)(1) trust	Form 990, Part IV, line 36 (transfers to exempt noncharitable related organizations)	Part V, line 2
All organizations	Form 990, Part IV, line 37 (conducting activity through unrelated partnership)	Part VI

SCHEDULE R
(Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.**
▶ **Attach to Form 990.** ▶ **See separate instructions.**

OMB No. 1545-0047
2009
Open to Public Inspection

Name of the organization | **Employer identification number**

Part I Identification of Disregarded Entities (Complete if the organization answered "Yes" to Form 990, Part IV, line 33.)

(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity

Part II Identification of Related Tax–Exempt Organizations (Complete if the organization answered "Yes" to Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity

For Privacy Act and Paperwork Reduction Act Notice, see the Instructions for Form 990. Cat. No. 50135Y **Schedule R (Form 990) 2009**

Part III Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" to Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512-514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Disproportionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?	
							Yes	No		Yes	No

Part IV Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" to Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership

Part V Transactions With Related Organizations (Complete if the organization answered "Yes" to Form 990, Part IV, line 34, 35, or 36.)

Note. Complete line 1 if any entity is listed in Parts II, III, or IV of this schedule.

		Line	Yes	No
1	During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II–IV?			
a	Receipt of **(i)** interest **(ii)** annuities **(iii)** royalties or **(iv)** rent from a controlled entity	1a		
b	Gift, grant, or capital contribution to other organization(s)	1b		
c	Gift, grant, or capital contribution from other organization(s)	1c		
d	Loans or loan guarantees to or for other organization(s)	1d		
e	Loans or loan guarantees by other organization(s)	1e		
f	Sale of assets to other organization(s)	1f		
g	Purchase of assets from other organization(s)	1g		
h	Exchange of assets	1h		
i	Lease of facilities, equipment, or other assets to other organization(s)	1i		
j	Lease of facilities, equipment, or other assets from other organization(s)	1j		
k	Performance of services or membership or fundraising solicitations for other organization(s)	1k		
l	Performance of services or membership or fundraising solicitations by other organization(s)	1l		
m	Sharing of facilities, equipment, mailing lists, or other assets	1m		
n	Sharing of paid employees	1n		
o	Reimbursement paid to other organization for expenses	1o		
p	Reimbursement paid by other organization for expenses	1p		
q	Other transfer of cash or property to other organization(s)	1q		
r	Other transfer of cash or property from other organization(s)	1r		

2 If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds.

	(a) Name of other organization	**(b)** Transaction type (a–r)	**(c)** Amount involved
(1)			
(2)			
(3)			
(4)			
(5)			
(6)			

Part VI Unrelated Organizations Taxable as a Partnership (Complete if the organization answered "Yes" to Form 990, Part IV, line 37.)

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization. See instructions regarding exclusion for certain investment partnerships.

(a) Name, address, and EIN of entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Are all partners section 501(c)(3) organizations?		(e) Share of end-of-year assets	(f) Disproportionate allocations?		(g) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(h) General or managing partner?	
			Yes	No		Yes	No		Yes	No

Group Exemption. Central organizations and subordinate organizations of a group exemption are not required to be listed as related organizations in Schedule R, Part II. All other related organizations of the central organization or of a subordinate organization are required to be listed in Schedule R.

Part I—Identification of Disregarded Entities

Part I of Schedule R (Form 990) requires identifying information on any organization that is treated for federal income tax purposes as a disregarded entity (DE).

The following information is required in Part I for each identified DE: (A) name, address, and EIN, (B) primary activity, (C) legal domicile, (D) total income, (E) end of year assets, and (F) direct controlling entity. Report in column (D) the exempt organization's total income from Part VIII, line 12, that is attributable to the DE. Report in column (E) the exempt organization's total assets from Part X, line 16, that is attributable to the DE. If the organization controls the DE indirectly through one or more other disregarded entities, provide in column (F) the name of the entity that directly controls the DE in issue. Otherwise state "N/A."

Employer Identification Number (EIN) of the DE. Generally, a DE must use the EIN of its sole member. However, a DE that pays wages to employees after 2008 must file its own employment tax returns and must use its own EIN on those returns.

Example 6-7 Identifying and disclosing disregarded entities on Schedule R.

Alpha, LP is a wholly owned limited partnership that is treated for tax purposes as a disregarded entity (DE) of Charity, a Section 501(c)(3) organization. Alpha, LP owns a building that it leased in 2009 to other tax-exempt organizations on terms more favorable than readily available lease terms in the area. Alpha was formed in Arizona and had total income of $120,000 and total assets of $1,500,000. Alpha, LP has one employee and has its own EIN. Charity must complete Schedule R, Part I, identifying Alpha as a DE using Alpha's EIN in column (A), entering "real estate leasing" in column (B) Arizona in column (C), $120,000 in column (D), $1,500,000 in column (E), and indicating that the relationship is direct by entering "N/A" in column (F).

Variation: If Alpha, LP did not have its own EIN, Charity would complete Part I, Schedule R, identifying Alpha as a DE using Charity's EIN.

Example 6-8 Identifying and disclosing disregarded entities in a multi-tiered structure on Schedule R.

Assume the same facts as in Example 6-7 except that Charity owns 100% of Beta, LLC (a disregarded entity for federal tax purposes with no separate EIN), which is a holding company for Alpha, LP. Under this structure, there are two required disclosures on Charity's Schedule R, Part I. Since Beta has no EIN, activity, or assets of its own but is merely a holding company for Alpha, Beta is reported using Charity's EIN in column (A), and $0 in columns (D) and (E). "N/A" is entered in column (F) for Beta indicating the direct relationship with Charity. Alpha is reported using its own EIN and $120,000 in column (D) and $1,500,000 in column (E). Beta is listed as the direct controlling entity of Alpha in column (F).

Note: Disregarded entities of controlled entities of the filing organization are not disclosed in Part I.

Example 6-9 Disregarded entity of controlled entity not disclosed on Schedule R.

Tax Exempt (TE) is a Section 501(c)(3) organization that owns all the stock of C Corporation (C). C owns 100% of the interest in an LLC that is treated as a DE for federal tax purposes. TE is treated as owning 100% of the interest in the LLC (a DE wholly owned by C). However, for the purposes of Schedule R, Part I, LLC is not disclosed on Part I of TE's Schedule R because it is treated as a division of C.

Part II—Identification of Related Tax-exempt Organizations

Part II requires identifying information on directly or indirectly related tax-exempt organizations. An organization is related to the filing organization if it is a parent, subsidiary, brother/sister entity [i.e., is controlled by the same person(s) who control the filing organization], or is a supporting or supported organization of the filing organization. The following information is required in Part II in the columns indicated for each related tax-exempt organization: (A) name, address, and EIN, (B) primary activity, (C) legal domicile, (D) exempt code section, (E) public charity status, and (F) direct controlling entity.

Column (C). The legal domicile of a related organization is a corporation's state of incorporation (or country of incorporation for a corporation formed outside the U.S.). A trust or other entity should enter the state whose law governs the organization's internal affairs (or the foreign country whose law governs its affairs).

Column (D). An organization that claims exemption is treated as exempt for purposes of Schedule R.

Column (E). Report the public charity status of a related Section 501(c)(3) organization by using the appropriate line number (line 1 through 11d) corresponding to the public charity status checked in Schedule A (Form 990 or 990-EZ), Part I. If the related organization is a private foundation, use the designation "PF." If the related organization is a Section 509(a)(3) supporting organization, also indicate its type: I, II, III-FI, or III-O (for Type I, Type II, Type III—functionally integrated, or Type III—other, respectively).

Column (F). If the filing organization indirectly controls the related organization through one or more other organizations, state the name of the entity that directly controls the related organization in this column. Otherwise state "N/A."

Example 6-10 Identifying and disclosing related tax exempt organizations on Schedule R.

Social Welfare [a Section 501(c)(4) organization] has the power to appoint all of the governing body of Charity [a Section 501(c)(3) organization]. The majority of Charity's board governs Supporting, a Type I supporting organization to Charity, the supported organization. By virtue of the overlap of board members, the organizations are related as follows: Social Welfare is directly related (100%) to Charity and indirectly related to Supporting (more than 50%). Consequently, both relationships are reportable in Social Welfare's Schedule R, Part II.

Part III—Identification of Related Organizations Taxable as a Partnership

Part III requires identifying information on any related organization that is treated as a partnership for federal tax purposes. The following information is required in Part III for each related partnership: (A) name, address, and EIN, (B) primary activity, (C) legal domicile, (D) direct controlling entity, (E) predominant income, (F) share of total income, (G) share of end of year assets, (H) disproportionate allocations, (I) Code V—UBI amount from Schedule K-1, and (J) general or managing partner.

Column (D). If the filing organization indirectly controls the related partnership through one or more other organizations, report the name of the entity that directly controls the related partnership for purposes of this column. Otherwise state "N/A."

Column (E). Use the definition of columns (B), (C), and (D) in Form 990, Part VIII to classify the predominant type of partnership income as related or unrelated to the organization's exempt purposes or as investment income excluded from unrelated business income under IRC Sec. 512, 513, or 514.

Column (F). State the dollar amount of the filing organization's distributable share of the related partnership's total income (as specified by the partnership or LLC agreement). Use the total amount reported by the related partnership on Schedule K-1 of Form 1065 for the partnership's tax year ending with or within the filing organization's tax year (total of Schedule K-1, Part III, lines 1–11, plus line 18, tax-exempt income).

Column (G). State the dollar amount of the filing organization's distributable share of the related partnership's end-of-year total assets (as specified by the partnership or LLC agreement). Use Schedule K-1 of Form 1065 for the partnership's year ending with or within the organization's tax year to determine this amount by adding the organization's ending capital account to the organization's share of the partnership's liabilities at year end reported on the Schedule K-1.

Column (H). Answer "Yes" if the filing organization's allocation as a partner of the partnership (or as a member of the LLC) in any item of income, gain, loss, deduction, or credit, or any right to distributions was disproportionate to the filing organization's investment in such partnership or LLC at any time during the filing organization's tax year. Otherwise, check "No."

Column (I). Show the dollar amount, if any, listed as the Code V amount (unrelated business taxable income) in Box 20 of Schedule K-1 to Form 1065 received from the related partnership for the partnership's tax year ending with or within the filing organization's tax year. If no Code V amount is listed in box 20, enter "N/A."

Example 6-11 Related partnership due to board overlap.

Charity, a Section 501(c)(3) organization, has seven governing board members. Partnership, a general partnership for tax purposes, has four partners all of which are members of Charity's governing board. However, Charity is not a partner in Partnership. Although Charity does not own an interest in Partnership, by virtue of the overlap of a majority of governing board members this is a deemed brother/sister reporting relationship for Schedule R, Part III purposes. Therefore, columns (A), (B), and (C) of Part III should be completed and "N/A" reported for columns (D)–(J).

Part IV—Identification of Related Organizations Taxable as a Corporation or Trust

Part IV requires identifying information on any related organization that is treated for federal tax purpose as a C or S corporation or a trust. Some of the requested information comes from the Schedule K-1 of Form 1041 or 1120S. If the Schedule K-1 is not available, use reasonable estimates to complete this part.

Columns (C) and (D) should be completed in accordance with the guidelines for those columns in Parts II and I, respectively, described earlier.

Column (F). If a related organization is a C corporation, report the dollar amount of the organization's hypothetical share of the C corporation's total income. To calculate this share, multiply the total income by the following fraction: the value of the filing organization's shares of all classes of stock in the C corporation, divided by the value of all outstanding shares of all classes of stock in the C corporation. The total income is for the related organization's tax year ending with or within the filing organization's tax year. For a related organization that is an S corporation, report the filing organization's allocable share of the S corporation's total income. Use the amount reported in Schedule K-1 of Form 1120S for the S corporation's tax year ending with or within the filing organization's tax year (Schedule K-1, Part III, lines 1–10). For a related organization that is a trust, state the total income and gains reported on Part III, lines 1–8 of Schedule K-1 of Form 1041 issued to the filing organization for the trust's tax year ending with or within the filing organization's tax year.

Column (G). Report the dollar amount of the filing organization's allocable share of the related organization's total assets as of the end of the related organization's tax year ending with or within the filing organization's tax year. For related C and S corporations, this amount is determined by multiplying the corporation's end-of-year total assets by the fraction described for column (F) above. For related trusts, this amount is the filing organization's percentage ownership in the trust.

Column (H). Use the following guidelines to calculate the percentage ownership. If a related organization is taxable as a corporation, report the filing organization's percentage of stock ownership in the corporation (the greater of total combined voting power or total value of all outstanding shares). For a related S corporation, use the percentage reported on Schedule K-1 of Form 1120S for the year ending with or within the filing organization's tax year, if such K-1 is available. For a related organization taxable as a trust, state the filing organization's percentage of beneficial interest. In each case, the percentage interest is as of the end of the related organization's tax year ending with or within the filing organization's tax year.

Determining which Relationships between Charity, Inc. (C), a Section 501(c)(3) Organization, and Other Entities Are Reported on C's Schedule R	
Description of Relationship	**What Entities Report on Schedule R**
C owns a 60% interest in Partnership (P). P owns a 100% interest in Enterprise, Inc. (E), a taxable C corporation.	Since P owns 100% of E and C's interest in P is 60%, C is attributed a 60% ownership in E. C's relationship with P is reported in Part III and with E in Part IV.
C owns a 25% capital and profits interest in a general partnership (GP), with three other exempt organizations who each own a 25% general partner interest. The management responsibilities are shared proportionally.	C is not related to GP, so this relationship is not reported.
C owns a 25% capital and profits general interest in a limited partnership (LP). LP has two other 25% general partners and one 25% limited partner.	C's interest in LP is reported in Part III because it is a general partner in a limited partnership having three or fewer general partners.
C owns 100% of the stock in Enterprise, Inc. (E), a taxable C corporation. E is a 1% sole managing member of an LLC (P). The other 99% interests in P are owned by non-managing members.	C's interest in E is reported in Part IV. Since P has three or fewer managing members, C's interest in P is reported in Part III.

Part V—Transactions with Related Organizations

Part V requires information on transactions between the organization and the related organizations listed in Parts II through IV, other than disregarded entities.

Do not report transfers to or from a disregarded entity.

Line 1. For purposes of lines 1q and 1r, a transfer includes any conveyance of funds or property, whether or not for consideration (such as a merger with a related organization), not described in lines 1a through 1p.

Line 2. All organizations filing Schedule R (Form 990) must report the following transactions with a controlled entity as defined in IRC Sec. 512(b)(13):

- The receipt of interest, annuities, royalties, or rent from a controlled entity (line 1a),
- A loan made to a controlled entity (line 1d), or
- Any other transfer of funds between the organization and the controlled entity.

In addition, Section 501(c)(3) organizations and Section 4947(a)(1) trusts must report transactions with related exempt organizations not described in IRC Sec. 501(c)(3) (including, but not limited to, Section 527 political organizations).

Enter a separate line for each type of transaction with a particular organization. Aggregate transactions of the same type with a particular organization. For example, report all interest payments from the same controlled entity during the year as a single amount rather than each individual interest payment. Report the receipt of interest, annuities, royalties, or rent regardless of amount. However, disregard any other transactions of a particular type between two organizations when the aggregate amounts involved during the tax year do not exceed $50,000.

Column (C). The amount involved in a transaction is the fair market value of the services, cash, and other assets provided by the filing organization during the tax year, or the fair market value received, whichever is higher. Any reasonable method for determining such amount is acceptable.

Example 6-12 Reporting transactions with related organizations.

Charity, Inc. (C), a Section 501(c)(3) organization, discloses the following related entities in Parts I–IV of Schedule R: (1) a wholly owned disregarded entity (DE), (2) a 30% interest in an LLC (taxed as a partnership) in which C is the sole managing member, and (3) a 100% interest in Enterprise, Inc. (E), a C corporation.

C incurred the following transactions during the year with these related organizations:

- C transferred $51,000 to DE.
- LLC paid C $45,000 of rent for the use of office space in C's office building.
- LLC paid C $10,000 of rent for the use of office space in C's building located across town.
- E paid $50,000 to reimburse C for shared expenses.

Report these transactions on Part V, line 1, by checking "Yes" for lines 1i (rent) and 1p (reimbursement). Line 1q (transfers of funds) is checked "No" because the transfer is with DE and, therefore, not reportable in Part V. The remaining line 1 items are checked "No."

For line 2, since only transactions with Section 512(b)(13) controlled entities are reported, the transactions with DE and LLC are not reported. While the $50,000 shared expense reimbursement paid by C does not exceed the $50,000 reporting threshold, the threshold does not apply to this transaction because it is a transfer of funds between the organization (C) and a controlled organization (E). The $50,000 reimbursement is reported on line 2, Part V, Schedule R.

Part VI—Unrelated Organizations Taxable as a Partnership

Part VI requires information on an unrelated organization treated as a partnership for tax purposes through which the filing organization conducted more than 5% of its activities (measured by the greater of total assets as of the end of its tax year or gross revenue for its tax year).

To determine the percentage of activities based on total assets, use the Form 990, Part X, line 16 amount as the denominator and the filing organization's ending capital account balance reported on Schedule K-1 for the tax year ending with or within the filing organization's tax year as the numerator.

To determine the percentage of activities based on gross revenue, use the Form 990, Part VIII, line 12 amount as the denominator and the filing organization's proportionate share of the partnership's gross revenue for the partnership tax year ending with or within the filing organization's tax year as the numerator.

Example 6-13 Who must complete Part VI?

Community Resource (CR), a Section 501(c)(3) organization, is a partner of Unrelated, a partnership, which conducts an activity that is an unrelated trade or business with respect to CR. CR's distributable share of Unrelated's income is $20,000, as reported on Schedule K-1 of Form 1065 for Unrelated's tax year ending with or within CR's tax year. CR has an ending capital account balance in Unrelated of $200,000 as reported on Schedule K-1. CR's total revenue and assets for its tax year are $500,000 and $2,000,000, respectively. CR conducts 4% of its activities through Unrelated as measured by CR's revenues ($20,000/$500,000), and 10% as measured by CR's assets ($200,000/$2,000,000). Because at least one of these percentages exceeds 5%, CR conducted more than 5% of its activities through Unrelated for CR's tax year. Therefore, CR must identify Unrelated in Schedule R, Part VI, and provide the required information.

Disregard unrelated partnerships that meet both of the following conditions:

1. 95% or more of the filing organization's gross income from the partnership for the partnership's tax year ending with or within the organization's tax year is interest, dividends, royalties, rents, and capital gains (including unrelated debt-financed income) described in IRC Secs. 512(b)(1)–(3) and (5).

2. The primary purpose of the filing organization's investment in the partnership is the production of income or appreciation of property and not the conduct of a charitable activity, such as program-related investing.

Some of the information requested in Part VI is derived from Schedule K-1 of Form 1065 issued to the organization. If the Schedule K-1 is unavailable, provide a reasonable estimate of the required information.

Column (E). State the dollar amount of the filing organization's distributable share of the unrelated partnership's total assets (as specified by the partnership or LLC agreement). Use the ending capital account reported on Schedule K-1 of Form 1065 for the year ending with or within the filing organization's tax year.

Column (F). Answer "Yes" if the interest of the filing organization as a partner of the partnership (or as a member of the LLC) in any item of income, gain, loss, deduction, or credit, or any right to distributions was disproportionate to the organization's investment in such partnership or LLC at any time during the year. Otherwise, check "No."

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

35. Choose the correct statement below concerning Schedule C or the related definitions.

    a. Political expenditures include promises to make an expenditure whether or not legally enforceable.

    b. Political campaign activity includes any activity to encourage participation in the electoral process.

    c. Section 527 exempt function activity applies only if the individual or electors are elected or appointed.

    d. A political campaign activity does not include any activity that opposes a candidate for public office.

36. An organization classified as a hospital for Schedule A of Form 990 is the same as an organization classified as a hospital for Schedule H.

    a. True.

    b. False.

37. Which of the following relationships is not reported on the filing entity's Schedule R?

    a. Charity S, a Section 501(c)(3) organization, is governed by the partners of a general partnership. Charity S discloses the relationship on Part III of Schedule R.

    b. "A," a charity, is filing Form 990. "A" directly owns all of "B," a C corporation. "B" owns 100% of a disregarded entity "C." "A" discloses "C" on Part I of Schedule R.

    c. Apple Charity's board governs Banana organization. Banana (a tax-exempt organization) is a Type I supporting organization of Apple. Apple files Form 990 and discloses the relationship with Banana on Part II of Schedule R.

    d. Red, LP is a wholly owned limited partnership that is a disregarded entity of Blue, a Section 501(c)(3) for federal tax purposes. Red files Form 990 and discloses the relationship with Blue on Part I of Schedule R.

38. An organization filing Schedule R reports which of the following transactions with a controlled entity on Part V of Schedule R?

    a. The only transaction for the year was a $20,000 loan to a controlled entity.

    b. A total of $40,000 in loans was made to one entity.

    c. A $20,000 reimbursement for shared expenses.

    d. A payment of $18,000 for rent.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

35. Choose the correct statement below concerning Schedule C or the related definitions. **(Page 172)**

    a. Political expenditures include promises to make an expenditure whether or not legally enforceable. [This answer is correct. A political expenditure is any expenditure for a political campaign activity including a payment, distribution, loan advance, deposit, gift of money, or anything of value. It also includes a contract, promise, or agreement to make an expenditure whether or not legally enforceable.]

    b. Political campaign activity includes any activity to encourage participation in the electoral process. [This answer is incorrect. Political campaign activity does not include any activity to encourage participation in the electoral process, such as voter registration or voter education, as long as the activity does not directly or indirectly support or oppose a candidate.]

    c. Section 527 exempt function activity applies only if the individual or electors are elected or appointed. [This answer is incorrect. Section 527 exempt function activity includes any activity that influences or attempts to influence the selection, nomination, election, or appointment of any individual to any federal, state, or local public office in a political organization, or the election of electors, whether or not such individual or electors are selected, nominated, elected, or appointed.]

    d. A political campaign activity does not include any activity that opposes a candidate for public office. [This answer is incorrect. Political campaign activity includes any activity that supports or opposes a candidate for elective federal, state, or local public office.]

36. An organization classified as a hospital for Schedule A of Form 990 is the same as an organization classified as a hospital for Schedule H. **(Page 180)**

    a. True. [This answer is incorrect. For purposes of Schedule H (Form 990), a hospital is a facility that is required to be licensed or certified as a hospital under state law. For Schedule A, a hospital is an organization whose main purpose is to provide hospital or medical care. A rehabilitation institution or an outpatient clinic may qualify as a *hospital* if its principal purposes or functions are the providing of hospital or medical care, but the term does not include medical schools, medical research organizations, convalescent homes, homes for children or the aged, or vocational training institutions for handicapped individuals.]

    b. False. [This answer is correct. The definition of hospital for Schedule A (Form 990 or 990-EZ), Public Charity Status and Public Support, Part I, line 3, and the definition of hospital for Schedule H (Form 990) are not the same.]

37. Which of the following relationships is **not** reported on the filing entity's Schedule R? **(Page 187)**

    a. Charity S, a Section 501(c)(3) organization, is governed by the partners of a general partnership. Charity S discloses the relationship on Part III of Schedule R. [This answer is incorrect. Part III requires identifying information on any related organization that is treated as a partnership for federal tax purposes. Therefore, Charity S reports the relationship on Part III of Schedule R.]

    b. "A," a charity, is filing Form 990. "A" directly owns all of "B," a C corporation. "B" owns 100% of a disregarded entity "C." "A" discloses "C" on Part I of Schedule R. [This answer is correct. "A" does not disclose "C" on Part I of Schedule R because "C" is treated as a division of "B." Disregarded entities of controlled entities of the filing organization are not disclosed in Part I.]

    c. Apple Charity's board governs Banana organization. Banana (a tax-exempt organization) is a Type I supporting organization of Apple. Apple files Form 990 and discloses the relationship with Banana on Part II of Schedule R. [This answer is incorrect. Since Banana is a supporting organization of Apple, Apple will report Banana on Part II of Schedule R. Part II requires identifying information on directly or indirectly related tax-exempt organizations.]

    d. Red, LP is a wholly owned limited partnership that is a disregarded entity of Blue, a Section 501(c)(3) for federal tax purposes. Red files Form 990 and discloses the relationship with Blue on Part I of Schedule R. [This answer is incorrect. Part I of Schedule R (Form 990) requires identifying information on any organization that is treated for federal income tax purposes as a disregarded entity.]

38. An organization filing Schedule R reports which of the following transactions with a controlled entity on Part V of Schedule R? **(Page 191)**

    a. The only transaction for the year was a $20,000 loan to a controlled entity. [This answer is incorrect. A $20,000 loan to a controlled entity is not reported unless other loans were made to this entity, and the aggregate of those loans exceeded $50,000.]

    b. A total of $40,000 in loans was made to one entity. [This answer is incorrect. A $40,000 aggregate loan to a controlled entity is not reported on Part V.]

    c. A $20,000 reimbursement for shared expenses. [This answer is incorrect. A $20,000 reimbursement to a controlled entity is not reported unless additional reimbursements were made to this entity, and the aggregate of those transactions exceeded $50,000.]

    d. A payment of $18,000 for rent. [This answer is correct. All organizations filing Schedule R must report the following transactions with a controlled entity regardless of the amount: the receipt of interest, annuities, royalties, or rent from a controlled entity.]

EXAMINATION FOR CPE CREDIT

Chapter 6

Determine the best answer for each question below. Then log onto our Online Grading Center at **OnlineGrading.Thomson.com** to record your answers.

31. Which of the following is an example of a private foundation?

    a. A family organization created to establish a donor advised fund for family philanthropy.

    b. A convention of churches or association of churches.

    c. A local government or governmental unit.

    d. A hospital or cooperative hospital service organization.

32. Which of the following is **not** a private foundation because of its financial involvement with a public charity?

    a. A public institution.

    b. A publicly supported organization.

    c. A supporting organization.

    d. Do not select this answer choice.

33. An organization must select the reason it is not a private foundation. For the first ______ years, public charity status on Form 990, Schedule A, Part I, must be the same as listed on the IRS exemption letter.

    a. Two.

    b. Three.

    c. Four.

    d. Five.

34. In determining if multiple contributions are from a single source, which of the following are considered related to the donor?

    a. A brother of the donor.

    b. A partnership in which the donor owns more than 30% of the voting power.

    c. A partnership that is a substantial contributor in which the donor owns 15% of the voting power.

    d. A son-in-law of the donor.

35. Choose the correct statement below concerning Schedule C of the Form 990.

    a. If an organization not required to file Form 990 chooses to voluntarily file, the organization is not required to file Schedule C.

    b. Section 501(c) organizations, other than Sec. 501(c)(3) exempt organizations, may establish Section 527(f)(3) separate segregated funds to engage in political activity.

    c. Section 501(c)(3) organizations cannot participate in lobbying activities.

    d. Disclose on Schedule C any excise tax abated under the provisions of IRC Sec. 4962(a).

36. For 2009, all parts of Schedule H are required.

    a. True.

    b. False.

    c. Do not select this answer choice.

    d. Do not select this answer choice.

37. Which of the following related organizations is reported on Part III of Schedule R?

    a. Trust.

    b. C corporation.

    c. Partnership.

    d. S corporation.

38. An unrelated organization treated as a partnership for tax purposes is reported on Part VI of Schedule R if more than ___ of the filing organizations activities are conducted through the partnership.

    a. 5%.

    b. 10%.

    c. 25%.

    d. 50%.

Chapter 7: Unrelated Business Income

Introduction

Most tax-exempt organizations [including those described in IRC Sec. 501(c)(3)] must be organized and operated exclusively for an exempt purpose. But, within certain limitations, an organization may engage in trade or business activities that are unrelated to its tax-exempt purpose. These activities are reported on Form 990, Part VIII, or Form 990-PF, Part XVI-A. In addition, some organizations with unrelated business income must file Form 990-T (Exempt Organization Business Income Tax Return).

Learning Objectives

Completion of this chapter will enable you to:

- Distinguish between unrelated business income and excluded activities, and determine when Form 990-T must be filed.

Organizations Required to File Form 990-T

The following organizations must file Form 990-T (Exempt Organization Business Income Tax Return) if they have gross unrelated business income (UBI) of $1,000 or more or owe taxes other than the unrelated business income tax:

- An organization exempt from tax under IRC Sec. 501(a) [and described in IRC Sec. 501(c) or (d) or IRC Sec. 401(a)].
- An organization liable for the proxy tax on lobbying and political expenditures.
- A college or university (but not an elementary or secondary school) owned and operated by a state or political subdivision.
- A corporation owned by a college or university.
- A tax-exempt trust forming part of a stock bonus, pension, or profit-sharing plan.
- An individual retirement account (IRA).
- An Archer Medical Savings Account described in IRC Sec. 220(d).
- A Roth IRA described in IRC Sec. 408A(b).
- A Simplified Employee Pension plan described in IRC Sec. 408(k).
- A Simple Retirement Account described in IRC Sec. 408(p).
- A Coverdell educational savings account [IRC Sec. 530(b)].
- A qualified state tuition program [IRC Sec. 529(a)].
- An organization that is liable for other taxes, such as the tax in connection with an excess distribution from a passive foreign investment company or recapture taxes (such as investment credit or low-income housing credit).

Note: An entity that is disregarded under Regs. 301.7701-1 through 301.7701-3 is treated as a division of its parent organization for federal tax purposes. Therefore, financial information applicable to a disregarded entity must be reported as the parent organization's financial information.

Corporations that are instrumentalities of the United States and are both organized and tax-exempt as a result of an Act of Congress (e.g., the Federal Deposit Insurance Corporation and Federal National Mortgage Association) are not required to file Form 990-T.

Include income in unrelated business taxable income (UBTI) only if it is produced in an unrelated trade or business that is regularly carried on.

Form 990-T is filed with the Department of the Treasury, Internal Revenue Service Center, Ogden, UT 84201-0027, regardless of the organization's domicile.

Filing Form 990-T does not relieve an organization of the need to file any other required returns, such as Form 990 (or Form 990-EZ) or Form 5500. In addition, an organization exempt from filling Form 990 (e.g., because its annual revenue is below the filing threshold, or is a church or a governmental unit) may still be required to file Form 990-T if it has unrelated business income.

Form **990-T**

Department of the Treasury
Internal Revenue Service

Exempt Organization Business Income Tax Return
(and proxy tax under section 6033(e))

For calendar year 2009 or other tax year beginning ...., 2009, and ending , 20 . ▶ See separate instructions.

OMB No. 1545-0687

2009

Open to Public Inspection for 501(c)(3) Organizations Only

A ☐ Check box if address changed

B Exempt under section
☐ 501( ) ( )
☐ 408(e) ☐ 220(e)
☐ 408A ☐ 530(a)
☐ 529(a)

C Book value of all assets at end of year

Print or Type

Name of organization (☐ Check box if name changed and see instructions.)

Number, street, and room or suite no. If a P.O. box, see page 8 of instructions.

City or town, state, and ZIP code

D Employer identification number (Employees' trust, see instructions for Block D on page 9.)

E Unrelated business activity codes (See instructions for Block E on page 9.)

F Group exemption number (See instructions for Block F on page 9.) ▶

G Check organization type ▶ ☐ 501(c) corporation ☐ 501(c) trust ☐ 401(a) trust ☐ Other trust

H Describe the organization's primary unrelated business activity. ▶

I During the tax year, was the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? . ▶ ☐ Yes ☐ No
If "Yes," enter the name and identifying number of the parent corporation. ▶

J The books are in care of ▶ Telephone number ▶ ( )

Part I Unrelated Trade or Business Income

			(A) Income	(B) Expenses	(C) Net
1a	Gross receipts or sales				
b	Less returns and allowances	c Balance ▶ 1c			
2	Cost of goods sold (Schedule A, line 7)	2			
3	Gross profit. Subtract line 2 from line 1c	3			
4a	Capital gain net income (attach Schedule D)	4a			
b	Net gain (loss) (Form 4797, Part II, line 17) (attach Form 4797)	4b			
c	Capital loss deduction for trusts	4c			
5	Income (loss) from partnerships and S corporations (attach statement)	5			
6	Rent income (Schedule C)	6			
7	Unrelated debt-financed income (Schedule E)	7			
8	Interest, annuities, royalties, and rents from controlled organizations (Schedule F)	8			
9	Investment income of a section 501(c)(7), (9), or (17) organization (Schedule G)	9			
10	Exploited exempt activity income (Schedule I)	10			
11	Advertising income (Schedule J)	11			
12	Other income (See page 10 of the instructions; attach schedule.)	12			
13	**Total.** Combine lines 3 through 12	13			

Part II Deductions Not Taken Elsewhere (See page 11 of the instructions for limitations on deductions.) (Except for contributions, deductions must be directly connected with the unrelated business income.)

14	Compensation of officers, directors, and trustees (Schedule K)	14	
15	Salaries and wages	15	
16	Repairs and maintenance	16	
17	Bad debts	17	
18	Interest (attach schedule)	18	
19	Taxes and licenses	19	
20	Charitable contributions (See page 13 of the instructions for limitation rules.)	20	
21	Depreciation (attach Form 4562) 21		
22	Less depreciation claimed on Schedule A and elsewhere on return 22a	22b	
23	Depletion	23	
24	Contributions to deferred compensation plans	24	
25	Employee benefit programs	25	
26	Excess exempt expenses (Schedule I)	26	
27	Excess readership costs (Schedule J)	27	
28	Other deductions (attach schedule)	28	
29	**Total deductions.** Add lines 14 through 28	29	
30	Unrelated business taxable income before net operating loss deduction. Subtract line 29 from line 13	30	
31	Net operating loss deduction (limited to the amount on line 30)	31	
32	Unrelated business taxable income before specific deduction. Subtract line 31 from line 30	32	
33	Specific deduction (Generally $1,000, but see line 33 instructions for exceptions.)	33	
34	**Unrelated business taxable income.** Subtract line 33 from line 32. If line 33 is greater than line 32, enter the smaller of zero or line 32	34	

For Privacy Act and Paperwork Reduction Act Notice, see instructions. Cat. No. 11291J Form **990-T** (2009)

Part III Tax Computation

35	**Organizations Taxable as Corporations.** See instructions for tax computation on page 15. Controlled group members (sections 1561 and 1563) check here ▶ ☐ **See instructions** and:		
a	Enter your share of the $50,000, $25,000, and $9,925,000 taxable income brackets (in that order): **(1)** $ **(2)** $ **(3)** $		
b	Enter organization's share of: **(1)** Additional 5% tax (not more than $11,750) $ **(2)** Additional 3% tax (not more than $100,000) $		
c	Income tax on the amount on line 34 ▶	35c	
36	**Trusts Taxable at Trust Rates.** See instructions for tax computation on page 16. Income tax on the amount on line 34 from: ☐ Tax rate schedule or ☐ Schedule D (Form 1041) ▶	36	
37	**Proxy tax.** See page 16 of the instructions ▶	37	
38	Alternative minimum tax	38	
39	**Total.** Add lines 37 and 38 to line 35c or 36, whichever applies	39	

Part IV Tax and Payments

40a	Foreign tax credit (corporations attach Form 1118; trusts attach Form 1116)	40a			
b	Other credits (see page 16 of the instructions)	40b			
c	General business credit. Attach Form 3800	40c			
d	Credit for prior year minimum tax (attach Form 8801 or 8827)	40d			
e	**Total credits.** Add lines 40a through 40d			40e	
41	Subtract line 40e from line 39			41	
42	Other taxes. Check if from: ☐ Form 4255 ☐ Form 8611 ☐ Form 8697 ☐ Form 8866 ☐ Other (attach schedule)			42	
43	**Total tax.** Add lines 41 and 42			43	
44a	Payments: A 2008 overpayment credited to 2009	44a			
b	2009 estimated tax payments	44b			
c	Tax deposited with Form 8868	44c			
d	Foreign organizations: Tax paid or withheld at source (see instructions)	44d			
e	Backup withholding (see instructions)	44e			
f	Other credits and payments: ☐ Form 2439 ______ ☐ Form 4136 ______ ☐ Other ______ Total ▶	44f			
45	**Total payments.** Add lines 44a through 44f			45	
46	Estimated tax penalty (see page 4 of the instructions). Check if Form 2220 is attached ▶ ☐			46	
47	**Tax due.** If line 45 is less than the total of lines 43 and 46, enter amount owed ▶			47	
48	**Overpayment.** If line 45 is larger than the total of lines 43 and 46, enter amount overpaid ▶			48	
49	Enter the amount of line 48 you want: **Credited to 2010 estimated tax ▶** **Refunded ▶**			49	

Part V Statements Regarding Certain Activities and Other Information (see instructions on page 17)

		Yes	No
1	At any time during the 2009 calendar year, did the organization have an interest in or a signature or other authority over a financial account (bank, securities, or other) in a foreign country? If YES, the organization may have to file Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts. If YES, enter the name of the foreign country here ▶		
2	During the tax year, did the organization receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If YES, see page 5 of the instructions for other forms the organization may have to file.		
3	Enter the amount of tax-exempt interest received or accrued during the tax year ▶ $		

Schedule A—Cost of Goods Sold. Enter method of inventory valuation ▶

1	Inventory at beginning of year	1		6	Inventory at end of year	6			
2	Purchases	2		7	**Cost of goods sold.** Subtract line 6 from line 5. Enter here and in Part I, line 2	7			
3	Cost of labor	3						**Yes**	**No**
4a	Additional section 263A costs (attach schedule)	4a		8	Do the rules of section 263A (with respect to property produced or acquired for resale) apply to the organization?				
b	Other costs (attach schedule)	4b							
5	**Total.** Add lines 1 through 4b	5							

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Signature of officer Date ▶ Title

May the IRS discuss this return with the preparer shown below (see instructions)? ☐ Yes ☐ No

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code ▶		EIN	
		Phone no. ( )	

Form **990-T** (2009)

Schedule C—Rent Income (From Real Property and Personal Property Leased With Real Property)
(see instructions on page 18)

1. Description of property
(1)
(2)
(3)
(4)

2. Rent received or accrued		
(a) From personal property (if the percentage of rent for personal property is more than 10% but not more than 50%)	**(b)** From real and personal property (if the percentage of rent for personal property exceeds 50% or if the rent is based on profit or income)	**3(a)** Deductions directly connected with the income in columns 2(a) and 2(b) (attach schedule)
(1)		
(2)		
(3)		
(4)		
Total	Total	**(b) Total deductions.** Enter here and on page 1, Part I, line 6, column (B) ▶
(c) Total income. Add totals of columns 2(a) and 2(b). Enter here and on page 1, Part I, line 6, column (A) . . . ▶		

Schedule E—Unrelated Debt-Financed Income (see instructions on page 19)

1. Description of debt-financed property	**2.** Gross income from or allocable to debt-financed property	**3.** Deductions directly connected with or allocable to debt-financed property	
		(a) Straight line depreciation (attach schedule)	**(b)** Other deductions (attach schedule)
(1)			
(2)			
(3)			
(4)			

4. Amount of average acquisition debt on or allocable to debt-financed property (attach schedule)	**5.** Average adjusted basis of or allocable to debt-financed property (attach schedule)	**6.** Column 4 divided by column 5	**7.** Gross income reportable (column 2 × column 6)	**8.** Allocable deductions (column 6 × total of columns 3(a) and 3(b))
(1)		%		
(2)		%		
(3)		%		
(4)		%		
Totals . . . . ▶			Enter here and on page 1, Part I, line 7, column (A).	Enter here and on page 1, Part I, line 7, column (B).
Total dividends-received deductions included in column 8 . . . . ▶				

Schedule F—Interest, Annuities, Royalties, and Rents From Controlled Organizations (see instructions on page 20)

1. Name of controlled organization	**2.** Employer identification number	Exempt Controlled Organizations			
		3. Net unrelated income (loss) (see instructions)	**4.** Total of specified payments made	**5.** Part of column 4 that is included in the controlling organization's gross income	**6.** Deductions directly connected with income in column 5
(1)					
(2)					
(3)					
(4)					

Nonexempt Controlled Organizations

7. Taxable Income	**8.** Net unrelated income (loss) (see instructions)	**9.** Total of specified payments made	**10.** Part of column 9 that is included in the controlling organization's gross income	**11.** Deductions directly connected with income in column 10
(1)				
(2)				
(3)				
(4)				
Totals . . . . ▶			Add columns 5 and 10. Enter here and on page 1, Part I, line 8, column (A).	Add columns 6 and 11. Enter here and on page 1, Part I, line 8, column (B).

Schedule G—Investment Income of a Section 501(c)(7), (9), or (17) Organization (see instructions on page 20)

1. Description of income	2. Amount of income	3. Deductions directly connected (attach schedule)	4. Set-asides (attach schedule)	5. Total deductions and set-asides (col. 3 plus col. 4)
(1)				
(2)				
(3)				
(4)				
Totals . . . . ▶	Enter here and on page 1, Part I, line 9, column (A).			Enter here and on page 1, Part I, line 9, column (B).

Schedule I—Exploited Exempt Activity Income, Other Than Advertising Income (see instructions on page 21)

1. Description of exploited activity	2. Gross unrelated business income from trade or business	3. Expenses directly connected with production of unrelated business income	4. Net income (loss) from unrelated trade or business (column 2 minus column 3). If a gain, compute cols. 5 through 7.	5. Gross income from activity that is not unrelated business income	6. Expenses attributable to column 5	7. Excess exempt expenses (column 6 minus column 5, but not more than column 4).
(1)						
(2)						
(3)						
(4)						
Totals . . . . ▶	Enter here and on page 1, Part I, line 10, col. (A).	Enter here and on page 1, Part I, line 10, col. (B).				Enter here and on page 1, Part II, line 26.

Schedule J—Advertising Income (see instructions on page 21)

Part I Income From Periodicals Reported on a Consolidated Basis

1. Name of periodical	2. Gross advertising income	3. Direct advertising costs	4. Advertising gain or (loss) (col. 2 minus col. 3). If a gain, compute cols. 5 through 7.	5. Circulation income	6. Readership costs	7. Excess readership costs (column 6 minus column 5, but not more than column 4).
(1)						
(2)						
(3)						
(4)						
Totals (carry to Part II, line (5)) . ▶						

Part II Income From Periodicals Reported on a Separate Basis (For each periodical listed in Part II, fill in columns 2 through 7 on a line-by-line basis.)

1. Name of periodical	2. Gross advertising income	3. Direct advertising costs	4. Advertising gain or (loss) (col. 2 minus col. 3). If a gain, compute cols. 5 through 7.	5. Circulation income	6. Readership costs	7. Excess readership costs (column 6 minus column 5, but not more than column 4).
(1)						
(2)						
(3)						
(4)						
Totals from Part I						
Totals, Part II (lines 1-5) . . . ▶	Enter here and on page 1, Part I, line 11, col. (A).	Enter here and on page 1, Part I, line 11, col. (B).				Enter here and on page 1, Part II, line 27.

Schedule K—Compensation of Officers, Directors, and Trustees (see instructions on page 21)

1. Name	2. Title	3. Percent of time devoted to business	4. Compensation attributable to unrelated business
(1)		%	
(2)		%	
(3)		%	
(4)		%	
Total. Enter here and on page 1, Part II, line 14 . . . . ▶			

Form 990-T (2009)

Gross Income Defined

To determine whether unrelated business income (UBI) meets the $1,000 filing threshold, gross income is defined as gross receipts or sales (net of any returns and allowances) less cost of goods sold. Gross income also includes any income the organization receives from investments and from incidental or outside operations or sources. Cost of goods sold for this purpose is determined in accordance with the method of accounting consistently used by the organization.

An organization's gross income normally equals the amount entered on line 13, column (A) of Part I, Form 990-T. This amount may need to be reduced by part or all of the amount classified as other income on line 12, column (A) of Form 990-T (e.g., when line 12 includes recoveries of bad debts deducted in earlier years under the specific charge-off method). (A supporting schedule is required for line 12.)

Do not reduce gross income for selling expenses, losses, or other items not ordinarily used in computing cost of goods sold. Amounts that a "for-profit" organization cannot claim as business expenses under IRC Sec. 162(c) (bribes, kickbacks, and similar payments), IRC Sec. 162(f) (fines and penalties), or IRC Sec. 162(g) (treble damage payments under antitrust laws) are not deductible [Reg. 1.61-3(a)].

Example 7-1 Gross income of at least $1,000 included in unrelated business taxable income.

The Movement for a Drug Free Environment, Inc. (MDFE), purchased baked goods for $1,500 and sold them during the year for $2,250. The sales were an unrelated business activity. MDFE does not have to file Form 990-T. Gross income is $750 ($2,250 – $1,500). This is less than the $1,000 gross income threshold for which a Form 990-T is required.

In the following year, MDFE received $4,000 from the sale of the baked goods, its cost of goods sold was $2,500, and it incurred selling expenses of $600. MDFE must file Form 990-T for this year because its gross income for determining if it meets the filing requirements is $1,500 ($4,000 – $2,500). The selling expenses are not considered in this determination.

Net Loss from Unrelated Business Activities

The requirement to file Form 990-T is determined solely by the gross income test. An organization with a net loss from one or more unrelated business activities must file a Form 990-T if its gross income from such activities is $1,000 or more.

Example 7-2 Net loss from an unrelated business activity.

Friends for a Drug Free Society (FDFS), a Section 501(c)(3) organization, has $8,500 of gross income from an unrelated business. Expenses of $9,000 were incurred in generating this income, resulting in a $500 net operating loss (NOL) for the year. FDFS must file Form 990-T because it has gross income included in computing UBTI of $1,000 or more. In addition, by filing the return, the organization establishes the NOL and starts the running of the statute of limitations.

Activity's Income Supports an Organization's Exempt Purpose

Using the net income from an unrelated business to further an organization's exempt purpose has no effect on the requirement to file Form 990-T [IRC Sec. 513(a)].

Example 7-3 **Net profit from an unrelated business that funds an exempt function activity.**

Neighborhood Health Clinic (NHC), a Section 501(c)(3) organization, received $15,500 from unrelated business activities. It incurred expenses of $8,500 related to this income, resulting in $7,000 of net income. All of the income was used by NHC to further its tax-exempt purpose. NHC must file Form 990-T because it satisfies the gross income test since it has $1,000 or more of gross income included in UBTI.

Planning Tip: If NHC uses the income from the unrelated business activities for something other than support of its tax-exempt purpose, or if the unrelated activities become the primary purpose for its operations, NHC could jeopardize its tax-exempt status.

Requirement for Churches to File Form 990-T

Although exempt from filing Form 990, churches are subject to the same Form 990-T filing requirements that apply to other tax-exempt organizations.

Proxy Tax on Lobbying Expenditures

Lobbying expenses are not deductible as a business expense. As a result, certain Section 501(c)(4), 501(c)(5), and 501(c)(6) organizations that engage in lobbying activities must either:

1. Notify members regarding the amount of their dues used in lobbying activities (and thus nondeductible), or
2. Compute a "proxy" tax on Form 990-T.

Organizations that file Form 990-T solely to pay the proxy tax must only complete the following parts of the return:

- **Heading.** Complete the area above Part I, except items E, H and I.
- **Part III.** Enter the proxy tax on lines 37 and 39.
- **Part IV.** Complete this section by following the instructions for each line.
- **Page 2.** Complete the signature area at the bottom of the page (including the paid preparer's box, if applicable).
- **Schedule.** Attach a schedule showing the proxy tax computation.

Statute of Limitations

Normally, the IRS must assess any UBI tax due within three years of the date Form 990-T is filed or, if later, within three years of when the return is due (when the return is filed before the actual due date). However, there is no time limit on the assessment of tax if a Form 990-T is false or fraudulent, there is a willful attempt to evade tax, or no return is filed. If a Form 990-T is filed that is neither fraudulent nor a willful attempt to evade tax, but underreports an organization's gross UBI by more than 25% (when compared to the income reported), the assessment period is six years.

Thus, an organization's failure to file Form 990-T when required generally leaves it exposed to an IRS assessment at any time. However, if the following conditions are satisfied, filing the Form 990 should begin the three-year assessment period for a particular year:

- An organization determines in good faith it is an exempt organization and files Form 990 for the year [IRC Sec. 6501(g)(2)].
- The Form 990 states the nature of each income-producing activity in sufficient detail to determine whether the activity is related to the organization's exempt purpose. In addition, the gross receipts of each activity must be shown.

Example 7-4 Effect of the statute of limitations on the requirement to file Form 990-T.

Assume NHC (see Example 7-3) determines in good faith that all of its activities are related activities; thus, for 2009 it does not file Form 990-T. However, in its calendar-year 2009 Form 990 (filed on May 15, 2010), NHC properly discloses all of its income-producing activities by type and amount of gross income. This information is sufficiently detailed to allow the IRS to determine that, in fact, not all of NHC's activities are related to its exempt purpose. Based on this determination, on July 21, 2013, the IRS issues an assessment related to NHC's 2009 unrelated business income.

NHC should not be liable for the back taxes (plus interest and penalties) related to its 2009 UBI. The filing of NHC's 2009 Form 990 arguably triggered the three-year statute of limitations against assessment of tax on its unrelated business income. This three-year period expired on May 15, 2013; thus, NHC should not be liable for the 2009 taxes since they were not assessed until after this date.

Part V—Reporting Other Activities

Line 1 in Part V of Form 990-T is similar to Form 990, Part V, lines 4a and 4b, which also requests information about financial accounts in foreign countries.

Line 3 of Part V asks for the amount of any tax-exempt interest received or accrued during the tax year. The reference to tax-exempt interest does not include interest that is exempt solely under the UBTI rules. Rather, it refers to what is generally understood to be tax-exempt interest (e.g., municipal bond interest, etc.).

Examples of Possible Unrelated Business Income Activities

From Part 4, Chapter 76 of the IRS *Internal Revenue Manual* entitled, "Exempt Organizations Examination Guidelines," here are some possible sources of unrelated business income examiners are directed to analyze where appropriate:

- Sale of mailing lists.
- Sale of pharmaceutical items by a hospital to non-patients.
- Sale of scientific books and city souvenirs by a museum.
- Commercial sponsored scientific research if the results are not made available to the general public.
- Operation of a medical illustration department by a medical research foundation.
- Publication and sale of a book on a topic not related to the organization's exempt purpose.
- The income derived by an exempt organization, organized and operated for the prevention of cruelty to animals, from providing pet boarding and grooming services for the general public.
- Sale of art objects at exhibits.
- Sale of advertising space in and exempt organization journal (or website).
- Rental by a university of sports facilities such as stadiums, swimming pools, ski slopes, skating rinks.
- Sales of heavy duty appliances to senior citizens by an exempt senior citizens center.
- Rental by a university of its stadium to a professional football team for several months of the year.
- Operation of a health club facility.
- Operation of a miniature golf course.
- A travel tour program operated by a university alumni association.

Other common unrelated business income activities carried on by nonprofit organizations include:

- Rental income from debt-financed property.
- Sales of books and products not written or published by the exempt organization, including churches, in a bookstore or tables at conferences or conventions.
- Sale of health products, or operation of medical clinics, in a church facility.
- Operation of cafes or coffee shops by churches and other nonprofit organizations when staffed by paid employees.
- Publishing books, videos, CDs, etc. that do not relate to the exempt purpose of an organization.
- Sale of crafts or products made by outsiders by a school with the exempt purpose of training disadvantaged persons to produce and sell similar items.

Activities Excluded from UBTI

There are some activities that are specifically excluded from being an unrelated trade or business. While not all-inclusive, a few of these excluded activities are:

- Activities that are performed substantially by volunteers (generally, substantially by volunteers is considered 85%).
- A trade or business carried on primarily for the convenience of the members of a nonprofit organization.
- Activities related to selling donated merchandise.
- Bingo games. Several recent court cases related to gaming and gambling activities have resulted in findings against the IRS position that the particular activities are subject to Federal Wagering taxes.
- In addition, certain passive activities are also excluded from the definition of an unrelated trade or business, even though they might otherwise appear to qualify. Generally, some examples of these are:
  - Interest and dividends.
  - Royalties.
  - Rental income from real property not financed by debt.
  - Gain on the sale of property.
  - Income from research.

Calculating UBIT

An organization's unrelated business income is its gross income from unrelated business activities less the deductions directly connected with earning the income. When determining the deductions directly connected with earning the unrelated business income, the organization should be careful to make sure that any allocation of expenses to unrelated business activities is reasonable. **The first $1,000 of unrelated business income is not subject to tax. A Form 990-T is required for all nonprofit organizations with unrelated business income from all sources in excess of $1,000, including churches.**

With the exception of exempt trusts, an entity's unrelated business income tax is computed as if the organization were a taxable corporate entity. Therefore, the tax rates on unrelated business income are the same as the corporate tax rates. Similar to corporate taxes, organizations must pay either regular tax or alternative minimum tax, whichever is higher. In addition, organizations liable for unrelated business income tax are normally required to make estimated tax payments. If the organization is required to deposit payroll taxes electronically, it is also required to deposit unrelated business income taxes electronically.

Statute of Limitations

Generally, a tax exempt organization is required to file a Form 990 if its average gross receipts for the current and two prior years are more than $25,000. For the first three years of existence of an exempt organization, the maximum gross receipts are $37,500 for year one, an average of $30,000 for the first two years and $25,000 for the first three years.

Unlike other returns, there is no statute of limitations if a required Form 990 or 990-T is not filed. The statute begins to run only when the return is filed. Penalties and interest, therefore, can be assessed at any time, for any period.

Failure to file a required Form 990 can result in a penalty of $20 per day from the due date for filing (or a maximum of $5,000) if the revenue of the nonprofit organization is less than $1,000,000 per year. For organizations with revenues of $1,000,000 or greater, the failure to file penalty is $100 per day (a maximum of $50,000). For annual periods after 2006, the Pension Protection Act states a tax exempt organization can lose its exemption for failure to file a required return for three consecutive years

A tax exempt organization is liable for interest and penalties if it is late in filing a Form 990-T. Similar to for-profit corporate returns, late filing of a Form 990-T is subject to the 5% failure to file and the 0.5% per month late payment penalties. Failure to file a Form 990-T also generally leaves it exposed to an IRS assessment at any time, for any period.

SELF-STUDY QUIZ

Determine the best answer for each question below. Then check your answers against the correct answers in the following section.

39. Which of the following is **not** required to file Form 990-T?

    a. A college or university owned and operated by a state or political subdivision.

    b. An organization that owes taxes other than the unrelated business income tax.

    c. A tax-exempt trust forming a part of a stock bonus, pension, or profit-sharing plan.

    d. A corporation that is organized and tax-exempt as a result of an Act of Congress and is an instrumentality of the United States.

40. In which of the following instances would an entity be required to file Form 990-T?

    a. Museum A sells books and souvenirs. The items were purchased for $800 and sold for $1,400.

    b. Rental of a university sports facility netting $50,000 per year.

    c. Church C operates a coffee shop staffed by volunteers.

    d. Operation of a health club facility netting less than $1,000 per year.

SELF-STUDY ANSWERS

This section provides the correct answers to the self-study quiz. If you answered a question incorrectly, reread the appropriate material. **(References are in parentheses.)**

39. Which of the following is **not** required to file Form 990-T? **(Page 200)**

    a. A college or university owned and operated by a state or political subdivision. [This answer is incorrect. A college or university owned and operated by a state or political subdivision must file Form 990-T if it has gross unrelated business income of $1,000 or more or owe taxes other than the unrelated business income tax.]

    b. An organization that owes taxes other than the unrelated business income tax. [This answer is incorrect. An organization that is liable for other taxes, such as the tax in connection with an excess distribution form a passive foreign investment company or recapture taxes, must file Form 990-T.]

    c. A tax-exempt trust forming a part of a stock bonus, pension, or profit-sharing plan. [This answer is incorrect. A tax-exempt trust forming a part of a stock bonus, pension, or profit-sharing plan must file Form 990-T if it has gross unrelated business income of $1,000 or more or owe taxes other than the unrelated business income tax.]

    d. A corporation that is organized and tax-exempt as a result of an Act of Congress and is an instrumentality of the United States. [This answer is correct. These types of entities are not required to file Form 990-T. Examples include the Federal Deposit Insurance Corporation and Federal National Mortgage Association.]

40. In which of the following instances would an entity be required to file Form 990-T? **(Page 208)**

    a. Museum A sells books and souvenirs. The items were purchased for $800 and sold for $1,400. [This answer is incorrect. Sale of scientific books and city souvenirs by a museum is an unrelated business income activity. However, UBI does not meet the $1,000 filing threshold.]

    b. Rental of a university sports facility netting $50,000 per year. [This answer is correct. The rental by a university of sports facilities such as stadiums, swimming pools, ski slopes, and skating rinks are unrelated business income activities. The UBI threshold is met in this instance.]

    c. Church C operates a coffee shop staffed by volunteers. [This answer is incorrect. The coffee shop activity would be classified as unrelated business income activities if the shop was staffed by paid employees.]

    d. Operation of a health club facility netting less than $1,000 per year. [This answer is incorrect. The operation of a health club facility is an unrelated business income activity. However, UBI does not meet the $1,000 filing threshold.]

EXAMINATION FOR CPE CREDIT

Chapter 7

Determine the best answer for each question below. Then log onto our Online Grading Center at **OnlineGrading.Thomson.com** to record your answers.

39. Income is included in UBTI if it is produced in an unrelated trade or business that is:

    a. Occasionally carried on.

    b. Regularly carried on.

    c. Do not select this answer choice.

    d. Do not select this answer choice.

40. Which of the following activities are included in UBIT?

    a. Rental income from debt-financed property.

    b. Gain on the sale of property.

    c. Interest and dividends.

    d. Income from research.

Glossary

NOTES:

- Words in bold within a definition are defined elsewhere within the Glossary.
- All section references are to the Internal Revenue Code (Title 26 of U.S. Code) or regulations under Title 26, unless otherwise specified.
- Definitions are for purposes of filing Form 990 (and Schedules) only.

35% controlled entity
An entity that is owned, directly or indirectly (e.g., under constructive ownership rules of section 267(c)), by a given person, such as the organization's current or former **officers, directors, trustee,** or **key employees** listed in Form 990, Part VII, Section 1, or the family **members** thereof (listed persons) as follows:

1. A corporation in which listed persons own more than 35% of the total combined voting power;
2. A partnership in which listed persons own more than 35% of the profits interest; or
3. A trust or estate in which listed persons own more than 35% of the beneficial interest.

Accountable plan
A reimbursement or other expense allowance arrangement that satisfies the requirements of section 62(c) by meeting the requirements of business connection, substantiation, and returning amounts in excess of substantiated expenses. See Regulations section 1.62-2(c)(2).

Activities conducted outside the United States
For purposes of Schedule F (Form 990), Statement of Activities Outside the United States, include grantmaking, **fundraising, unrelated trade or business**, program services, or **maintaining offices, employees, or agents** in particular regions outside the **United States**.

Applicable tax-exempt organization
A section 501(c)(3) or a 501(c)(4) organization that is tax-exempt under section 501(a), or that was such an organization at any time during the 5-year period ending on the day of the **excess benefit transaction**.

Art
See **works of art.**

Audit
A formal examination of an organization's financial records and practices by an independent, certified public accountant with the objective of issuing a report on the organization's financial statements as to whether those statements are fairly stated in accordance with generally accepted accounting principles (or other recognized comprehensive basis of accounting).

Audited financial statements
Financial statements accompanied by a formal opinion or report prepared by an independent, certified public accountant with the objective of assessing the accuracy and reliability of the organization's **financial statements.**

Audit committee
A committee, generally established by the **governing body** of an organization, with the responsibilities to oversee the organization's financial reporting process, monitor choice of accounting policies and principles, monitor internal control processes, or oversee hiring and performance of any external auditors.

Bingo
A game of chance played with cards that are generally printed with five rows of five squares each. Participants place markers over randomly called numbers on the cards in an attempt to form a pre-selected pattern such as a horizontal, vertical, or diagonal line, or all four corners. The first participant to form the pre-selected pattern wins the game. To be a bingo game, the game must be of the type described in which wagers are placed, winners are determined, and prizes or other property are distributed in the presence of all persons placing wagers in that game. Satellite, internet, and progressive bingo are not bingo, because they are conducted in many different places simultaneously, and the winners are not all present when the wagers are placed, the winners are determined, and the prizes are distributed. Thus, revenue and expenses associated with satellite, internet, and progressive bingo should be included under **pull tabs**. Certain consolation bingo games within a progressive bingo game can also qualify as bingo.

Board-designated endowment
See **quasi-endowment**.

Bond issue
An issue of two or more bonds that are:

1. Sold at substantially the same time;
2. Sold pursuant to the same plan of financing; and
3. Payable from the same source of funds.

See Regulations section 1.150-1(c).

Business relationship	For purposes of Part VI, line 2, business relationships between two persons include the following. 1. One person is employed by the other in a sole proprietorship or by an organization with which the other is associated as a **trustee, director, officer, key employee**, or greater-than-35% owner. 2. One person is transacting business with the other (other than in the ordinary course of either party's business on the same terms as are generally offered to the public), directly or indirectly, in one or more contracts of sale, lease, license, loan, performance of services, or other transaction involving transfers of cash or property valued in excess of $10,000 in the aggregate during the organization's tax year. Indirect transactions are transactions with an organization with which the one person is associated as a trustee, director, officer, key employee, or greater-than-35% owner. 3. The two persons are each a director, trustee, officer, or greater than 10% owner in the same business or investment entity. Ownership is measured by stock ownership (either voting power or value) of a corporation, profits or capital interest in a partnership or limited liability company, membership interest in a nonprofit organization, or beneficial interest in a trust. Ownership includes indirect ownership (e.g., ownership in an entity that has ownership in the entity in question); there can be ownership through multiple tiers of entities.
Cash contributions	**Contributions** received in the form of cash, checks, money orders, credit card charges, wire transfers, and other transfers and deposits to a cash account of the organization.
Central organization	The parent organization in a **group exemption**, which exercises general supervision and control over the **subordinate organizations** in the **group exemption**.
CEO, executive director, or top management official	See **top management official**. "CEO" stands for chief executive officer.
Certified historic structure	Any building or structure listed in the National Register of Historic Places as well as any building certified as being of historic significance to a registered historic district. See section 170(h)(4)(B) for special rules that apply to **contributions** made after August 17, 2006.
Church	Certain characteristics are generally attributed to churches. These attributes of a church have been developed by the IRS and by court decisions. They include: distinct legal existence; recognized creed and form of worship; definite and distinct ecclesiastical government; formal code of doctrine and discipline; distinct religious history; membership not associated with any other church or denomination; organization of ordained ministers; ordained ministers selected after completing prescribed courses of study; literature of its own; established places of worship; regular congregations; regular religious services; Sunday schools for the religious instruction of the young; schools for the preparation of its ministers. The IRS generally uses a combination of these characteristics, together with other facts and circumstances, to determine whether an organization is considered a church for federal tax purposes. A convention or association of churches is generally treated like a church for federal tax purposes. See Pub. 1828, Tax Guide for Churches and Religious Organizations.
Closely held stock	Generally, shares of stock in a closely held company that is not available for sale to the general public or which is not widely traded (see further explanation in the instructions for Part IX, line 12 and Schedule M (Form 990), Noncash Contributions, line 10).
Collections of works of art, historical treasures, and other similar assets	Include collections, as described in **SFAS 116**, of **works of art**, **historical treasures**, and other similar assets held for public exhibition, education, or research in furtherance of public service.
Collectibles	Include autographs, sports memorabilia, dolls, stamps, coins, books (other than books and publications reported on line 4 of Schedule M), gems, and jewelry (other than costume jewelry reportable on line 5 of Schedule M).

Compensation	Unless otherwise provided, all forms of cash and noncash payments or benefits provided in exchange for services, including salary and wages, bonuses, severance payments, deferred payments, retirement benefits, fringe benefits, and other financial arrangements or transactions such as personal vehicles, meals, housing, personal and family educational benefits, below-market loans, payment of personal or family travel, entertainment, and personal use of the organization's property. Compensation includes payments and other benefits provided to both **employees** and **independent contractors** in exchange for services. See also **deferred compensation**, **nonqualified deferred compensation**, and **reportable compensation**.
Compilation (compiled financial statements)	A compilation is a presentation of **financial statements** and other information that is the representation of the management or ownership of an organization and which has not been reviewed or audited by an independent accountant.
Conflict of interest policy	A policy that defines conflict of interest, identifies the classes of individuals within the organization covered by the policy, facilitates disclosure of information that can help identify conflicts of interest, and specifies procedures to be followed in managing conflicts of interest. A conflict of interest arises when a person in a position of authority over an organization, such as an **officer**, **director**, or manager, can benefit financially from a decision he or she could make in such capacity, including indirect benefits such as to **family members** or businesses with which the person is closely associated. For this purpose, a conflict of interest does not include questions involving a person's competing or respective duties to the organization and to another organization, such as by serving on the boards of both organizations, that do not involve a material financial interest of, or benefit to, such person. For a description of "conflict of interest" for purposes of determining whether **governing body** members who are reviewing a potential **excess benefit transaction** have a conflict of interest, pursuant to Regulations section 53.4958-6(c)(1)(iii), see instructions for Part VI, line 15.
Conservation easement	A restriction on the use that may be made of, or changes made to, real property that is granted in perpetuity to a qualified organization exclusively for conservation purposes. Conservation purposes include protection of natural habitat, the preservation of open space; or the preservation of property for historic, educational, or recreational purposes. Qualified organizations include **governmental units** and certain tax-exempt organizations described in section 501(c)(3) that have a commitment to protect the conservation purposes of the easement and the resources to enforce the restrictions. For more information see Notice 2004-41, 2004-28 I.R.B. 31 and section 170(h). See also **qualified conservation contribution**.
Contributions	Unless otherwise provided, includes donations, gifts, bequests, grants, and other transfers of money or property to the extent that adequate consideration is not provided in exchange and that the contributor intends to make a gift, whether or not made for charitable purposes. A transaction can be partly a sale and partly a contribution. See also **cash contributions** and **noncash contributions.**

Control

For purposes of determining **related organizations**:

Control of a nonprofit organization (or other organization without owners or persons having beneficial interests, whether the organization is taxable or tax-exempt)
One or more persons (whether individuals or organizations) control a nonprofit organization if they have the power to remove and replace (or to appoint or elect, if such power includes a continuing power to appoint or elect periodically or in the event of vacancies) a majority of the nonprofit organization's directors or trustees, or a majority of the members who elect the nonprofit organization's directors or trustees. Such power can be exercised directly by a (parent) organization through one or more of the (parent) organization's officers, directors, trustees, or agents, acting in their capacity as officers, directors, trustees, or agents of the (parent) organization. Also, a (parent) organization controls a (subsidiary) nonprofit organization if a majority of the subsidiary's directors or trustees are trustees, directors, officers, employees, or agents of the parent.

Control of a stock corporation
One or more persons (whether individuals or organizations) control a stock corporation if they own more than 50% of the stock (by voting power or value) of the corporation.

Control of a partnership or limited liability company
One or more persons control a partnership if they own more than 50% of the profits or capital interests in the partnership (including a limited liability company treated as a partnership or disregarded entity for federal tax purposes, regardless of the designation under state law of the ownership interests as stock, membership interests, or otherwise). A person also controls a partnership if the person is a managing partner or managing member of a partnership or limited liability company which has three or fewer managing partners or managing members (regardless of which partner or member has the most actual control), or if the person is a general partner in a limited partnership which has three or fewer general partners (regardless of which partner has the most actual control).

Control of a trust with beneficial interests
One or more persons control a trust if they own more than 50% of the beneficial interests in the trust.

See Regulations sections 301.7701-2, 3, and 4 for more information on classification of corporations, partnerships, disregarded entities, and trusts.

Control can be indirect. See the Schedule R (Form 990) instructions for a description of indirect control.

Controlled entity

An organization controlled by a **controlling organization under section 512(b)(13)**. For the definition of control in this context, see section 512(b)(13)(D).

Controlling organization under section 512(b)(13)

An exempt organization that controls a **controlled entity**. Section 512(b)(13) treats payments of interest, annuity, royalties, and rent from a controlled entity to a controlling organization as unrelated business taxable income under certain circumstances. For the definition of control in this context, see section 512(b)(13)(D).

Credit counseling services

Include the providing of information to the general public on budgeting, personal finance, and saving and spending practices, or assisting individuals and families with financial problems by providing them with counseling. See section 501(q)(4)(A).

Current year

The **tax year** for which the Form 990 is being filed; see also **fiscal year**.

Defeasance escrow

An irrevocable escrow established to redeem the bonds on their earliest call date in an amount that, together with investment earnings, is sufficient to pay all the principal of, and interest and call premiums on, bonds from the date the escrow is established to the earliest call date. See Regulations section 1.141-12(d)(5).

Debt management plan services

Services related to the repayment, consolidation, or restructuring of a consumer's debt, including the negotiation with creditors of lower interest rates, the waiver or reduction of fees, and the marketing and processing of debt management plans. See section 501(q)(4)(B).

Deferred compensation

Compensation that is earned or accrued in, or is attributable to, one year and deferred to a future year for any reason, whether or not funded, vested, or subject to a substantial risk of forfeiture. Deferred compensation may or may not be included in **reportable compensation** for the **current year**.

Director

See **director or trustee**.

Director or trustee

A member of the organization's **governing body**, but only if the member has any voting rights. A member of an advisory board that does not exercise any governance authority over the organization is not considered a director or trustee.

Disqualified person

A. For purposes of section 4958; Form 990, Parts IX and X; and Schedule L (Form 990 or 990-EZ), Transactions With Interested Persons, Parts I and II, any person (including an individual, corporation, or other entity) who was in a position to exercise substantial influence over the affairs of the **applicable tax-exempt organization** at any time during a 5-year period ending on the date of the transaction. Persons who hold certain powers, responsibilities, or interests are among those who are in a position to exercise substantial influence over the affairs of the organization.

A disqualified person includes:

- A disqualified person's **family member**,
- A **35% controlled entity** of a (1) disqualified person and/or (2) family members of the disqualified person,
- A donor or **donor advisor** to a **donor advised fund**, or
- An investment advisor of a **sponsoring organization**.

The **disqualified persons** of a **supported organization** include the disqualified persons of a section 509(a)(3) **supporting organization** that supports the supported organization.

See *Appendix G* for more information on **disqualified persons** and section 4958 **excess benefit transactions**.

B. Under section 4946, a disqualified person includes:

1. A substantial contributor, which is any person who gave an aggregate amount of more than $5,000, if that amount is more than 2% of the total **contributions** the foundation or organization received from its inception through the end of the year in which that person's contributions were received. If the organization is a trust, a substantial contributor includes the creator of the trust (without regard to the amount of contributions the trust received from the creator and related persons). Any person who is a substantial contributor at any time generally remains a substantial contributor for all future periods even if later contributions by others push that person's contributions below the 2% figure discussed above. Gifts from the contributor's spouse are treated as gifts from the contributor. Gifts are generally valued at fair market value as of the date the organization received them.

2. A foundation manager, defined as an **officer**, **director**, or **trustee** of the organization or any individual having powers or responsibilities similar to those of officers, directors, or trustees.

3. An owner of more than 20% of the voting power of a corporation, profits interest of a partnership, or beneficial interest of a trust or an unincorporated enterprise that is a substantial contributor to the organization.

4. A family member of an individual in the first three categories. For this purpose, "family member" includes only the individual's spouse, ancestors, children, grandchildren, great grandchildren, and the spouses of children, grandchildren, and great-grandchildren.

5. A corporation, partnership, trust, or estate in which persons described in (1) through (4) above own more than 35% of the voting power, profits interest, or beneficial interest.

For purposes of section 509(a)(2), as referenced in Schedule A (Form 990 or 990-EZ), Public Charity Status and Public Support, a disqualified person is defined in section 4946, except that it does not include an organization described in section 509(a)(1).

For purposes of section 509(a)(3), as referenced in Schedule A (Form 990 or 990-EZ), a disqualified person is defined in section 4946, except that it does not include a foundation manager or an organization described in section 509(a)(1) or 509(a)(2).

Disregarded entity or entities

An entity wholly owned by the organization that is generally not treated as a separate entity for Federal tax purposes. (e.g., single-member limited liability company of which the organization is the sole member.) See Regulations sections 301.7701-2 and 3.

Domestic organization

A corporation or partnership is domestic if created or organized in the United States or under the law of the United States or of any state or possession. A trust is domestic if a court within the United States or a **U.S. possession** is able to exercise primary supervision over the administration of the trust, and one or more U.S. persons (or persons in possessions of the United States) have the authority to control all substantial decisions of the trust.

Donor advised fund

A fund or account:

1. That is separately identified by reference to **contributions** of a donor or donors;
2. That is owned and controlled by a **sponsoring organization**; and
3. For which the donor or **donor advisor** has or reasonably expects to have advisory privileges in the distribution or investment of amounts held in the donor advised funds or accounts because of the donor's status as a donor.

A donor advised fund does not include any fund or account:

1. That makes distributions only to a single identified organization or governmental entity, or
2. In which a donor or donor advisor gives advice about which individuals receive grants for travel, study, or other similar purposes, if:

   a. The donor or donor advisor's advisory privileges are performed exclusively by such person in his or her capacity as a committee member in which all of the committee members are appointed by the sponsoring organization;

   b. No combination of donors or donor advisors (and related persons as defined below) directly or indirectly control the committee; and

   c. All grants from the fund or account are awarded on an objective and nondiscriminatory basis following a procedure approved in advance by the board of directors of the sponsoring organization. The procedure must be designed to ensure that all grants meet the requirements of section 4945(g)(1), (2), or (3); or
3. That the Secretary exempts from being treated as a donor advised fund because either such fund or account is advised by a committee not directly or indirectly controlled by the donor or donor advisor or such fund benefits a single identified charitable purpose. For example, see Notice 2006-109, 2006-51 I.R.B. 1121, and any future related guidance.

Donor advisor

Any person appointed or designated by a donor to advise a **sponsoring organization** on the distribution or investment of amounts held in the donor's **donor advised fund** or similar account.

EIN

Employer identification number, a nine-digit number. Use Form SS-4 to apply for an EIN.

Employee

Any individual who, under the usual common law rules applicable in determining the employer-employee relationship, has the status of an employee, and any other individual who is treated as an employee for federal employment tax purposes under section 3121(d). See Pub. 1779 for more information.

Endowment

See **term endowment**, **permanent endowment**, and **quasi-endowment**. See also **SFAS 117**.

Escrow or custodial account

Refers to an account (whether a segregated account at a financial institution or a set-aside on the organization's books and records) over which the organization has signature authority, in which the funds are held for the benefit of other organizations or individuals, regardless of whether the funds are reported on Part X, line 21, and regardless of whether the account is labeled as "escrow account," "custodial account," "trust account," or some similar term. An escrow or custodial account does not include a split-interest trust (or the beneficial interest in such trust) described in section 4947(a)(2) for which the filing organization is a trustee, other than a trust in the trade or business of lending money, repairing credit, or providing debt management plan services, payment processing, or similar services.

Excess benefit transaction

In the case of an **applicable tax-exempt organization**, any transaction in which an excess benefit is provided by the organization, directly or indirectly to, or for the use of, any **disqualified person**, as defined in section 4958. Excess benefit generally means the excess of the economic benefit received from the applicable organization over the consideration given (including services) by a disqualified person, but see the special rules on page 49 regarding donor advised funds and supporting organizations. See *Appendix G* for more information.

Donor advised fund. For a **donor advised fund**, an excess benefit transaction also includes a grant, loan, **compensation**, or similar payment from the fund to a:

- Donor or **donor advisor**;
- **Family member** of a donor or donor advisor;
- **35% controlled entity** of a donor or donor advisor; or
- 35% controlled entity of a family member of a donor or donor advisor.

The excess benefit in this transaction is the amount of the grant, loan, **compensation**, or similar payments.
For additional information see the Instructions for Form 4720.

Supporting organization. For any **supporting organization**, defined in section 509(a)(3), an excess benefit transaction also includes grants, loans, **compensation**, or similar payments provided by the supporting organization to a:

- Substantial contributor,
- Family member of a substantial contributor,
- 35% controlled entity of a substantial contributor, or
- 35% controlled entity of a family member of a substantial contributor.

For this purpose, the excess benefit is defined as the amount of the grant, loan, **compensation**, or similar payments. Additionally, an excess benefit transaction includes any loans provided by the supporting organization to a disqualified person (other than an organization described in section 509(a)(1), (2), or (4)).

Exempt bond — See **tax-exempt bond**.

Fair market value — The price at which property, or the right to use property, would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy, sell, or transfer property or the right to use property, and both having reasonable knowledge of relevant facts.

Family member, family relationship — Unless specified otherwise, the family of an individual includes only his or her spouse, ancestors, brothers and sisters (whether whole or half blood), children (whether natural or adopted), grandchildren, great-grandchildren, and spouses of brothers, sisters, children, grandchildren, and great-grandchildren.

FIN 48 — Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes -an interpretation of FASB Statement No. 109*. The organization can be required to provide in Schedule D (Form 990), Supplemental Financial Statements, the text of the footnote to its **financial statements** regarding the organization's liability for uncertain tax positions under FIN 48.

Financial statements — An organization's statements of revenue and expenses and balance sheet, or similar statements prepared regarding the financial operations of the organization.

Fiscal year — An annual accounting period ending on the last day of a month other than December. See also **tax year** and **current year**.

Foreign government — A governmental agency or entity, or a political subdivision thereof, that is not classified as a **United States** agency or **governmental unit**, regardless of where it is located or operated.

Foreign individual — A person, including a U.S. citizen or resident, who lives or resides outside the **United States**. For purposes of Form 990, Part IX, and Schedule F (Form 990), Statement of Activities Outside the United States, a person who lives or resides outside the United States at the time the grant is paid or distributed to the individual is a **foreign individual**.

Foreign organization — A foreign estate or trust, nonprofit or other nongovernmental organization, partnership, corporation, or other entity that is not created or organized in the **United States** or under the laws of the United States. A foreign organization includes an affiliate that is organized as a legal entity separate from the filing organization, but does not include any branch office, account, or **employee** of the organization located outside the United States.

Fundraising — See **fundraising activities**.

Fundraising activities
For purposes of Schedule G (Form 990 or 990-EZ), Part I, activities undertaken to induce potential donors to contribute money, securities, services, materials, facilities, other assets, or time. They include publicizing and conducting **fundraising** campaigns; maintaining donor mailing lists; conducting **fundraising events**, preparing and distributing fundraising manuals, instructions, and other materials; **professional fundraising services**; and conducting other activities involved with soliciting **contributions** from individuals, foundations, governments, and others. Fundraising activities do not include **gaming**, the conduct of any trade or business that is regularly carried on, or activities substantially related to the accomplishment of the organization's exempt purpose (other than by raising funds).

Fundraising events
Include dinners and dances, door-to-door sales of merchandise, concerts, carnivals, sports events, auctions, casino nights (in which participants can play casino-style games but the only prizes or auction items provided to participants are noncash items that were donated to the organization), and similar events not regularly carried on that are conducted for the primary purpose of raising funds. Fundraising events do not include the following:

1. The conduct of a trade or business that is regularly carried on;
2. Activities substantially related to the accomplishment of the organization's exempt purposes (other than by raising funds);
3. Solicitation campaigns that generate only **contributions**, which may involve gifts of goods or services from the organization of only nominal value, or sweepstakes, lotteries, or raffles in which the names of contributors or other respondents are entered in a drawing for prizes of only nominal value; and
4. Gaming.

GAAP
See **generally accepted accounting principles**.

Gaming
Includes (but is not limited to): **bingo**, **pull tabs/instant bingo** (including satellite and progressive bingo), Texas Hold-Em Poker and other card games, raffles, scratch-offs, charitable gaming tickets, break-opens, hard cards, banded tickets, jar tickets, pickle cards, Lucky Seven cards, Nevada Club tickets, casino nights/ Las Vegas nights (other than events not regularly carried on in which participants can play casino-style games but the only prizes or auction items provided to participants are noncash items that were donated to the organization, which events are **fundraising events**), and coin-operated gambling devices. Coin-operated gambling devices include slot machines, electronic video slot or line games, video poker, video blackjack, video keno, video bingo, video pull tab games, etc.

Generally accepted accounting principles/ GAAP
The accounting principles set forth by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA) that guide the work of accountants in reporting financial information and preparing **audited financial statements** for organizations.

Governing body
The group of persons authorized under state law to make governance decisions on behalf of the organization and its shareholders or members, if applicable. The governing body is, generally speaking, the board of **directors** (sometimes referred to as board of **trustees**) of a corporation or association, or the board of trustees of a trust (sometimes referred to simply as the trustees, or trustee if only one trustee).

Government official
A federal, state or local official described within section 4946(c).

Governmental issuer
A State or local governmental unit that issues a **tax-exempt bond**.

Governmental unit
A State, a **possession of the United States**, or a **political subdivision** of a State or U.S. possession, the United States, or the District of Columbia. See section 170(c)(1).

Grants and other assistance
Include awards, prizes, contributions, noncash assistance, **program-related investments**, cash allocations, stipends, scholarships, fellowships, research grants, and similar payments and distributions made by the organization during the tax year. It does not include salaries or other **compensation** to **employees** or payments to **independent contractors** if the primary purpose is to serve the direct and immediate needs of the organization (such as legal, accounting, or fundraising services).

Gross proceeds
For purposes of Schedule K (Form 990), Supplemental Information on Tax-Exempt Bonds, generally any sale **proceeds**, investment proceeds, transferred proceeds, and replacement proceeds of an issue. See Regulations sections 1.148-1(b) and 1(c).

Gross receipts
See *Appendix B, How to Determine Whether an Organization's Gross Receipts Are Normally $25,000 (or $5,000) or Less* and *Appendix C, Special Gross Receipts Tests for Determining Exempt Status of section 501(c)(7) and 501(c)(15) Organizations*.

Group exemption
Tax exemption of a group of organizations all exempt under the same Code section, applied for and obtained by a **central organization** on behalf of **subordinate organizations** under the central organization's general supervision or control. See Rev. Proc. 80-27, 1980-1 C.B. 677, and *Appendix E. Group Returns—Reporting Information on Behalf of the Group,* for more information.

Group return
A Form 990 filed by the **central organization** of a **group exemption** for two or more of the **subordinate organizations**. See General Instructions and *Appendix E. Group Returns—Reporting Information on Behalf of the Group*, for more information.

Highest compensated employee
One of the five highest compensated **employees** of the organization (including employees of a **disregarded entity** of the organization) other than current **officers, directors, trustees,** or **key employees**. The five highest compensated employees are determined by the amounts of **reportable compensation** for the calendar year ending with or within the organization's **tax year**.

Historical treasure
A building, structure, area, or property (real or personal) with recognized cultural, aesthetic, or historical value that is significant in the history, architecture, archeology, or culture of a country, state, or city.

Hospital
For purposes of Schedule H (Form 990), Hospitals, a hospital is a facility that is, or is required to be, licensed, registered, or similarly recognized by a state as a hospital. This includes a hospital that is operated through a **disregarded entity** or a **joint venture** treated as a partnership for federal income tax purposes. It does not include hospitals that are located outside the **United States**. It also does not include hospitals that are operated by entities organized as separate legal entities from the organization that are taxable as a corporation for federal tax purposes (except for members of a **group exemption** included in a **group return** filed by an organization). For purposes of Schedule H (Form 990), an animal hospital is not a hospital.

Hospital (or cooperative hospital service organization)
For purposes of Schedule A (Form 990 or 990-EZ), Public Charity Status and Public Support, a hospital (or cooperative hospital service organization) is an organization whose main purpose is to provide hospital or medical care. For purposes of Schedule A, a rehabilitation institution or an outpatient clinic can qualify as a hospital if its principal purposes or functions are the providing of hospital or medical care, but the term does not include medical schools, medical research organizations, convalescent homes, homes for children or the aged, animal hospitals, or vocational training institutions for handicapped individuals.

Household goods
Include furniture, furnishings, electronics, appliances, linens, and other similar items. They do not include food, paintings, antiques and other objects of art, jewelry and gems (other than costume jewelry), and other collectibles.

Independent contractor
A person who provides services to the organization but who is not treated as an **employee**. See Pub. 1779 for more information.

Independent voting member of governing body
A **voting member of the governing body**, if all three of the following circumstances applied at all times during the organization's tax year:

1. The member was not compensated as an **officer** or other **employee** of the organization or of a **related organization** (see the instructions for Schedule R, Related Organizations and Unrelated Partnerships), except as provided in the religious exception discussed in the instructions for Form 990, Part VI.

2. The member did not receive total **compensation** or other payments exceeding $10,000 during the organization's tax year from the organization or from related organizations as an **independent contractor**, other than **reasonable compensation** for services provided in the capacity as a **member of the governing body**. For example, a person who receives reasonable expense reimbursements and reasonable compensation as a **director** of the organization does not cease to be independent merely because he or she also received payments of $7,500 from the organization for other arrangements.

3. Neither the member, nor any **family member** of the member, was involved in a transaction with the organization (whether directly or indirectly through affiliation with another organization) required to be reported on Schedule L (Form 990 or 990-EZ), Transactions With Interested Persons, for the organization's tax year, or in a transaction with a related organization of a type and amount that would be reportable on Schedule L (Form 990 or 990-EZ) if required to be filed by the related organization.

A member of the governing body is not considered to lack independence merely because of any of the following circumstances.

1. The member is a donor to the organization, regardless of the amount of the contribution.

2. The member has taken a *bona fide* vow of poverty and either:

a. Receives **compensation** as an agent of a **religious order** or a section 501(d) religious or apostolic organization, but only under circumstances in which the member does not receive taxable income (for example, Rev. Rul. 77-290, 1977-2 C.B. 26; Rev. Rul. 80-332); or

b. Belongs to a religious order that receives sponsorship or payments from the organization that do not constitute taxable income to the member.

3. The member receives financial benefits from the organization solely in the capacity of being a member of the charitable or other class served by the organization in the exercise of its exempt function, such as being a member of a section 501(c)(6) organization, so long as the financial benefits comply with the organization's terms of membership.

Initial contract — A binding written contract between an **applicable tax-exempt organization** and a person who was not a **disqualified person** immediately prior to entering into the contract.

Instant bingo — See **pull tabs**.

Institutional trustee — A **trustee** that is not an individual or natural person but an organization. For instance, a bank or trust company serving as the trustee of a trust is an institutional trustee.

Joint venture — Unless otherwise provided, a partnership, limited liability company, or other entity treated as a partnership for federal tax purposes, as described in Regulations sections 301.7701-1 through 301.7701-3.

Key employee — For purposes of Form 990, an **employee** of an organization (other than an **officer**, **director**, or **trustee**) who meets all three of the following tests applied in the following order:

1. $150,000 Test. Receives **reportable compensation** from the organization and all **related organizations** in excess of $150,000 for the **calendar year** ending with or within the organization's **tax year**.

2. Responsibility Test. The employee:
a. has responsibilities, powers or influence over the organization as a whole similar to those of officers, directors, or trustees;
b. manages a discrete segment or activity of the organization that represents 10% or more of the activities, assets, income, or expenses of the organization, as compared to the organization as a whole;
c. or has or shares authority to control or determine 10% or more of the organization's capital expenditures, operating budget, or compensation for employees.

3. Top 20 Test. Is one of the 20 employees (that satisfy the $150,000 Test and Responsibility Test) with the highest reportable compensation from the organization and related organizations for the calendar year ending with or within the organization's tax year.
See instructions for Part VII for examples of **key employees.**

Legislation — Includes action by Congress, any state legislature, any local council, or similar governing body with respect to acts, bills, resolutions, or similar items or by the public in referenda, ballot initiatives, constitutional amendments or similar procedures. It does not include actions by executive, judicial or administrative bodies.

Lobbying — See **lobbying activities**.

Lobbying activities — All activities intended to influence foreign, national, state or local **legislation**. Such activities include direct lobbying (attempting to influence the legislators) and grassroots lobbying (attempting to influence legislation by influencing the general public).

Maintaining offices, employees or agents — For purposes of Schedule F (Form 990), Statement of Activities Outside the United States, includes principal, regional, district, or branch offices, such offices maintained by agents, and persons situated at those offices paid wages for services performed. "Agent" is defined under traditional agency principles (but does not include **volunteers**).

Management company

An organization that performs management duties for another organization customarily performed by or under the direct supervision of the other organization's **officers**, **directors**, **trustees**, or **key employees**. These management duties include, but are not limited to, hiring, firing, and supervising personnel; planning or executing budgets or financial operations; and supervising exempt operations or **unrelated trades or businesses**.

Medical research

For purposes of a medical research organization operated in conjunction with a hospital (see Schedule A (Form 990 or 990-EZ), Public Charity Status and Public Support), medical research means investigations, studies and experiments performed to discover, develop, or verify knowledge relating to physical or mental diseases and impairments and their causes, diagnosis, prevention, treatment, or control.

Member of the governing body

A person who serves on an organization's **governing body**, including a **director** or **trustee**, but not if the person lacks voting power.

Noncash contributions

Contributions of property, tangible or intangible, other than money. Noncash contributions include, but are not limited to, stocks, bonds, and other **securities**; real estate; **works of art**; stamps, coins, and other **collectibles**; clothing and **household goods**; vehicles, boats, and airplanes; inventories of food, medical equipment or supplies, books, or seeds; intellectual property, including patents, trademarks, copyrights, and trade secrets; donated items that are sold immediately after donation, such as publicly traded stock or used cars; and items donated for sale at a charity auction. Noncash contributions do not include **volunteer** services performed for the reporting organization or use of facilities.

Nonexempt charitable trust

A trust that meets the following conditions:

- Is not exempt from tax under section 501(a),
- All of its unexpired interests are devoted to charitable purposes, and
- A charitable deduction was allowed for **contributions** to the trust under section 170, section 545(b)(2), section 642(c), section 2055, section 2106(a)(2), or section 2522, or for amounts paid by or permanently set aside by the trust under section 642(c).

Nonqualified deferred compensation

Deferred compensation that is earned pursuant to a nonqualified plan or nongovernmental section 457 plan. Different rules can apply for purposes of identifying arrangements subject to sections 83, 409A, 457(f), and 3121(v). Earned but unpaid incentive compensation can be deferred pursuant to a nonqualified deferred compensation plan.

Officer

Unless otherwise provided, (e.g., Signature Block, principal officer in Heading) a person elected or appointed to manage the organization's daily operations, such as a president, vice-president, secretary, treasurer, and, in some cases, Board Chair. The officers of an organization are determined by reference to its organizing document, bylaws, or resolutions of its governing body, or as otherwise designated consistent with state law, but at a minimum include those officers required by applicable state law. For purposes of Form 990, treat the organization's **top management official** and **top financial official** as officers.

"On behalf of" issuer

A corporation organized under the general nonprofit corporation law of a state whose obligations are considered obligations of a state or local **governmental unit**. See Rev. Proc. 82-26 for a description of the circumstances under which the Service will ordinarily issue an advance ruling that the obligations of a nonprofit corporation were issued on behalf of a state or local governmental unit. See also Rev. Rul. 63-20, 1963-1 C.B. 24; Rev. Rul. 59-41, 1959-1 C.B. 13; and Rev. Rul. 54-296, 1954-2 C.B. 59. An "on behalf of" issuer also includes any corporation organized by a state or local governmental unit specifically to issue **tax-exempt bonds** to further public purposes. See Rev. Rul. 57-187.

Organization manager

For purposes of section 4958, any **officer**, **director**, or **trustee** of an **applicable tax-exempt organization**, or any individual having powers or responsibilities similar to officers, directors, or trustees of the organization, regardless of title.

Permanent (true) endowment

An **endowment** fund established by donor-restricted gifts that is maintained to provide a permanent source of income, with the stipulation that principal must be invested and kept intact in perpetuity, while only the income generated can be used by the organization. See **SFAS 117**.

Political campaign activities

All activities that support or oppose candidates for elective federal, state or local public office. It does not matter whether the candidate is elected. A candidate is one who offers himself or is proposed by others for public office. Political campaign activity does not include any activity to encourage participation in the electoral process, such as voter registration or voter education, provided that the activity does not directly or indirectly support or oppose any candidate.

Political subdivision	A division of any state or local **governmental unit** which is a municipal corporation or which has been delegated the right to exercise part of the sovereign power of the unit. Sovereign power includes the power to make and enforce laws.
Possession of the United States	Includes the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, Guam, American Samoa, and the U.S. Virgin Islands.
Principal officer	For purposes of Part II, Signature Block, an **officer** of the organization who, regardless of title, has ultimate responsibility for implementing the decisions of the organization's **governing body**, or for supervising the management, administration, or operation of the organization.
Private business use	For purposes of Schedule K (Form 990), Supplemental Information on Tax-Exempt Bonds, use by the organization or another 501(c)(3) organization in an **unrelated trade or business**. Private business use also generally includes any use by a nongovernmental person other than a section 501(c)(3) organization unless otherwise permitted through an exception or safe harbor provided under the regulations or a revenue procedure.
Private foundation	An organization described in section 501(c)(3) that is not a **public charity**. Some private foundations are classified as operating foundations (also known as private operating foundations) under section 4942(j)(3) or exempt operating foundations under section 4940(d)(2). A private foundation retains its private foundation status until such status is terminated under section 507. Thus, a tax-exempt private foundation becomes a taxable private foundation if its section 501(c)(3) status is revoked.
Proceeds	For purposes of Schedule K (Form 990), Supplemental Information on Tax-Exempt Bonds, generally the sale proceeds of an issue (other than those sale proceeds used to retire bonds of the issue that are not deposited in a reasonably required reserve or replacement fund). Proceeds also include any investment proceeds from investments that accrue during the project period (net of rebate amounts attributable to the project period). See Regulations section 1.141-1(b).
Professional fundraising services	Services performed for the organization requiring the exercise of professional judgment or discretion consisting of planning, management, preparation of materials (such as direct mail solicitation packages), provision of advice and consulting regarding solicitation of **contributions**, and direct solicitation of **contributions**. However, **professional fundraising** does not include purely ministerial tasks, such as printing, mailing services, or receiving and depositing contributions to a charity, such as services provided by a bank or caging service.
Program-related investment	Investments made primarily to accomplish the organization's exempt purposes rather than to produce income. Examples of program-related investments include student loans and notes receivable from other exempt organizations that obtained the funds to pursue the filing organization's exempt function.
Public charity	An organization described in section 501(c)(3) and that is excepted from private foundation status because it is described in section 509(a)(1) (which cross-references sections 170(b)(1)(A)(i) through (vi)), 509(a)(2), 509(a)(3), or 509(a)(4).
Publicly traded securities	Generally, include common and preferred stocks, bonds (including governmental obligations such as bonds and Treasury bills), and mutual fund shares listed and regularly traded in an over-the-counter market or an established exchange and for which market quotations are published or are otherwise readily available. (See further explanation in the instructions for Part IX, line 11, and Schedule M (Form 990), Noncash Contributions, line 9).
Pull tabs	Includes games in which an individual places a wager by purchasing preprinted cards that are covered with pull tabs. Winners are revealed when the individual pulls back the sealed tabs on the front of the card and compares the patterns under the tabs with the winning patterns preprinted on the back of the card. Included in the definition of pull tabs are "instant bingo," "mini bingo," and other similar scratch-off cards. Satellite, internet, and progressive bingo are games conducted in many different places simultaneously and the winners are not all present when the wagers are placed, the winners are determined, and the prizes are distributed. Revenue and expenses associated with satellite, internet, and progressive bingo should be included under this category.

Qualified 501(c)(3) bond

A **tax-exempt bond**, the proceeds of which are used by a section 501(c)(3) organization in furtherance of its charitable purpose. Requirements generally applicable to a qualified section 501(c)(3) bond under section 145 include the following.

1. All property financed by the bond issue is to be owned by a section 501(c)(3) organization or a **governmental unit**.
2. At least 95% of net proceeds of the **bond issue** are used either by a **governmental unit** or a section 501(c)(3) organization in activities that do not constitute **unrelated trades or businesses** (determined by applying section 513).

Qualified conservation contribution

Any **contribution** of a qualified real property interest to a qualified organization exclusively for conservation purposes. A "qualified real property interest" means any of the following interests in real property:

1. The entire interest of the donor,
2. A remainder interest, or
3. A restriction (such as an easement), granted in perpetuity, on the use which may be made of the real property.

A "conservation purpose" means:

1. The preservation of land areas for outdoor recreation by, or the education of, the general public;
2. The protection of a relatively natural habitat of fish, wildlife, plants, or similar ecosystems;
3. The preservation of open space (including farm and forest land) where such preservation is for the scenic enjoyment of the general public or is in accordance with governmental conservation policy; or
4. The preservation of an historically important land area or a certified historic structure.

See section 170(h) for additional information, including special rules with respect to the conservation purpose requirement for buildings in registered historic districts. See also **conservation easement**.

Qualified state or local political organization

A type of political organization that meets the following requirements:

- It limits its exempt function to the selection process relating solely to any state or local public office or office in a state or local political organization;
- It is required under a state law to report to a state agency (and does report) information that otherwise would be required to be reported on Form 8872 or it is required to report under state law (and does report) at least the following information:

1. The name and address of every person who contributes a total of $500 or more during the calendar year and the amount of each contribution;
2. The name and address of every person to whom the organization makes expenditures aggregating $800 or more during the calendar year, and the amount of each expenditure; and
3. Any additional information specified in section 527(j)(3), if state law requires the reporting of that information to the state agency.

- The state agency makes the reports filed by the organization publicly available;
- The organization makes the reports filed with the state agency publicly available in the manner described in section 6104(d); and
- No federal candidate or office holder controls or materially participates in the direction of the organization, solicits **contributions** to the organization, or directs any of the organization's disbursements.

Quasi-endowment

An **endowment** fund established by the organization itself, either from unrestricted donor or organizational funds, over which the organization itself imposes restrictions on their use, and which restrictions can be temporary or permanent in nature. These funds are sometimes referred to as board-designated endowments. See **SFAS 117**.

Reasonable compensation

The value that would ordinarily be paid for like services by like enterprises under like circumstances.

Reasonable effort

For purposes of Part VI, lines 1b and 2; Part VII, Section A (compensation from related organizations); and Schedule L (Form 990 or 990-EZ), Parts III and IV, a reasonable effort refers to a reasonable amount of effort in information gathering that the organization is expected to undertake in order to answer the question. See the specific instructions for Part VI, lines 1b and 2; Part VII, Section A (compensation from related organizations); and Schedule L (Form 990 or 990-EZ), Parts III and IV, for examples of reasonable efforts.

Refunding escrow

One or more funds established as part of a single transaction or a series of related transactions, containing **proceeds** of a **refunding issue** and any other amounts to provide for payment of principal or interest on one or more prior issues. See Regulations section 1.148-1(b).

Refunding issue

An issue of obligations, the **proceeds** of which are used to pay principal, interest, or redemption price on another issue (a prior issue), including the issuance costs, accrued interest, capitalized interest on the refunding issue, a reserve or replacement fund, or similar costs, if any, properly allocable to that refunding issue. A current refunding issue is a refunding issue that is issued not more than 90 days before the last expenditure of any proceeds of the refunding issue for the payment of principal or interest on the prior issue. An advance refunding issue is a refunding issue that is not a current refunding issue. See Regulations sections 1.150-1(d)(1), 1.150-1(d)(3), and 1.150-1(d)(4).

Related organization

An organization, including a nonprofit organization, a stock corporation, a partnership or limited liability company, a trust, and a **governmental unit** or other government entity, that stands in one or more of the following relationships to the filing organization at any time during the **tax year**.

- Parent: an organization that **controls** the filing organization.
- Subsidiary: an organization **controlled** by the filing organization.
- Brother/Sister: an organization **controlled** by the same person or persons that control the filing organization.
- Supporting/Supported: an organization that is (or claims to be) at any time during the organization's tax year (i) a **supporting organization** of the filing organization within the meaning of section 509(a)(3), if the filing organization is a **supported organization** within the meaning of section 509(f)(3); (ii) or a supported organization, if the filing organization is a supporting organization.

The organization must determine its related organizations for purposes of completing Form 990, Parts VI (Governance), VII (Compensation), VIII (Statement or Revenue) and X (Balance Sheet), Schedule D (Form 990), Part V, Schedule J (Form 990), and Schedule R (Form 990). See instructions for those parts and schedules for related organization reporting requirements.

Religious order

An organization described in Rev. Proc. 91-20.

Reportable compensation

In general, the aggregate **compensation** that is reported (or required to be reported, if greater) on Form W-2, box 5 and/or Form 1099-MISC, box 7, for the calendar year ending with or within the organization's **tax year**. If the amount reported on Form W-2, box 5 is zero, such as for certain clergy and religious workers not subject to social security and Medicare taxes as employees, reportable compensation includes the box 1 amount rather than the box 5 amount. For foreign persons who receive U.S. source income, reportable compensation includes the amount reportable on Form 1042-S, box 2. For persons for whom compensation reporting on Form W-2, 1099-MISC, or 1042-S is not required (such as certain foreign persons, institutional trustees, and persons whose compensation was below the $600 reporting threshold for Form 1099-MISC), reportable compensation includes the total value of the compensation paid in the form of cash or property during the calendar year ending with or within the organization's tax year.

Review of financial statement

An examination of an organization's financial records and practices by an independent accountant with the objective of assessing whether the **financial statements** are plausible, without the extensive testing and external validation procedures of an audit.

School

An organization, the primary function of which is the presentation of formal instruction, and which has a regular faculty, curriculum, an enrolled body of students, and a place where educational activities are regularly conducted.

Security/securities

Any bond, debenture, note, or certificate or other evidence of indebtedness issued by a corporation, government or **political subdivision**, share of stock, voting trust certificate, or any certificate of interest or participation in, certificate of deposit or receipt for, temporary or interim certificate for, or warrant or right to subscribe to or purchase, any of the foregoing.

SFAS 116

Statement of Financial Accounting Standards No. 116, Accounting for Contributions Received and Contributions Made.

SFAS 117

Statement of Financial Accounting Standards No. 117, Financial Statements of Not-for-Profit Organizations.

Short accounting period

An accounting period of less than 12 months, which exists when an organization changes its annual accounting period, and which can exist in its initial or final year of existence (see **tax year**).

Short period See **short accounting period**.

Significant disposition of net assets A disposition of net assets, consisting of a sale, exchange, disposition or other transfer of more than 25% of the fair market value of the organization's net assets during the year, regardless of whether the organization received full or adequate consideration. A significant disposition of net assets involves:

1. One or more dispositions during the organization's **tax year**, amounting to more than 25% of the fair market value of the organization's net assets as of the beginning of its **tax year**; or

2. One of a series of related dispositions or events commenced in a prior year that, when combined, comprise more than 25% of the fair market value of the organization's net assets as of the beginning of the **tax year** when the first disposition in the series was made. Whether a significant disposition of net assets occurred through a series of related dispositions depends on the facts and circumstances in each case.

Examples of the types of transactions that are "a significant disposition of net assets" required to be reported on Schedule N (Form 990 or 990-EZ), Liquidation, Termination, Dissolution or Significant Disposition of Assets, Part II include:

- Taxable or tax-free sales or exchanges of exempt assets for cash or other consideration (such as a social club described in section 501(c)(7) selling land or an exempt organization selling assets it had used to further its exempt purposes);
- Sales, **contributions** or other transfers of assets to establish or maintain a partnership, **joint venture**, or a corporation (for-profit or nonprofit) regardless of whether such sales or transfers are governed by section 721 or section 351, whether or not the transferor receives an ownership interest in exchange for the transfer;
- Sales of assets by a partnership or joint venture in which the exempt partner has an ownership interest;
- Transfers of assets pursuant to a reorganization in which the organization is a surviving entity; and
- A contraction of net assets resulting from a grant or charitable contribution of assets to another organization described in section 501(c)(3).

Sponsoring organization Any organization which is all of the following:

- Described in section 170(c), other than governmental units described in section 170(c)(1) and without regard to section 170(c)(2)(A);
- Not a **private foundation** as defined in section 509(a); and
- Maintains one or more **donor advised funds**.

State of legal domicile For a corporation, the state of incorporation (country of incorporation for a foreign corporation formed outside the United States). For a trust or other entity, the state whose law governs the organization's internal affairs (the foreign country whose law governs for a foreign organization other than a corporation).

Subordinate organization One of the organizations, typically local in nature, that is recognized as exempt in a **group exemption** letter and subject to the general supervision and control of a **central organization**.

Supported organization A **public charity** described in section 509(a)(1) or 509(a)(2) supported by a **supporting organization** described in section 509(a)(3).

Supporting organization A public charity described in section 509(a)(3). A supporting organization is organized and operated exclusively to support one or more **supported organizations**. A supporting organization that is operated, supervised, or controlled by one or more supported organizations is a Type I supporting organization. The relationship of a Type I supporting organization with its supported organization(s) is comparable to that of a parent-subsidiary relationship. A supporting organization supervised or controlled in connection with one or more supported organizations is a Type II supporting organization. The relationship of a Type II supporting organization with its supported organization(s) is comparable to a brother-sister corporate relationship. A supporting organization that is operated in connection with one or more supported organizations is a Type III supporting organization. A type III supporting organization is further considered either functionally integrated with its supported organization(s) or not functionally integrated with its supported organization(s) (Type III other). Finally, a supporting organization cannot be controlled directly or indirectly by one or more **disqualified persons** (as defined in section 4946), other than foundation managers and other than one or more public charities described in sections 509(a)(1) or (2).

Tax-exempt bond An obligation issued by or on behalf of a **governmental issuer** on which the interest paid is excluded from the holder's gross income under section 103. For this purpose, a bond can be any form of indebtedness under federal tax law, including a bond, note, loan, or lease-purchase agreement.

Tax year	The annual accounting period for which the Form 990 is being filed, whether the calendar year ending December 31st or a fiscal year ending on the last day of any other month. The organization may have a short tax year in its first year of existence, in any year when it changes its annual accounting period (for example, from a December 31 year-end to a June 30 year-end), and in its last year of existence (for example, when it merges into another organization or dissolves). See also **current year**, **fiscal year**, and **short period**.
Term endowment	An **endowment** fund established by donor-restricted gifts and maintained to provide a source of income for either a specified period of time or until a specific event occurs. See **SFAS 117**.
Top management official	A person who has ultimate responsibility for implementing the decisions of the organization's **governing body** or for supervising the management, administration, or operation of the organization (for example, the organization's CEO or executive director).
Top financial official	The person who has ultimate responsibility for managing the organization's finances.
Total assets	The amount reported on Form 990, Part X, line 16, column (B).
Trustee	See **director or trustee**.
United States	Unless otherwise provided, 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.
Unrelated business	See **unrelated trade or business**.
Unrelated business income	Income from an **unrelated trade or business** as defined in section 513.
Unrelated business gross income	Gross income from an **unrelated trade or business** as defined in section 513.
Unrelated organization	An organization that is not a **related organization** with respect to the filing organization.
Unrelated trade or business	Any trade or business, the conduct of which is not substantially related to the exercise or performance by the organization of its charitable, educational, or other purpose or function constituting the basis for its exemption. See Pub. 598 and the instructions for Form 990-T for a discussion of what is an unrelated trade or business.
U.S. possession	See **possession of the United States**.
Volunteer	A person who serves the organization without compensation. "Compensation" for this purpose includes tips and noncash benefits, except for: • Reimbursement of expenses under a reimbursement or other expense allowance arrangement in which there is adequate accounting to the organization, • Working condition fringe benefits described in section 132, • Liability insurance coverage for acts performed on behalf of the exempt organization, and • *De minimis* fringe benefits.
Voting member of the governing body	A member of the organization's **governing body** with power to vote on all matters that may come before the governing body (other than a conflict of interest that disqualifies the member from voting).
Works of art	Include paintings, sculptures, prints, drawings, ceramics, antiques, decorative arts, textiles, carpets, silver, photography, film, video, installation and multimedia arts, rare books and manuscripts, historical memorabilia, and other similar objects. Art does not include **collectibles**.
Year of formation	The year in which the organization was created or formed under applicable state law (if a corporation, the year of incorporation).

Index

L

M

N

P

Q

R

S

T

U

V

W

Testing Instructions for Examination for CPE Credit

Navigating the Redesigned 990 (N90TG10)

1. Following these instructions is information regarding the location of the **CPE Credit Examination Questions**.

2. Log on to our Online Grading Center at **Online Grading.Thomson.com** to receive instant CPE credit. Click the purchase link and a list of exams will appear. Search for the exam by selecting Gear Up/Quickfinder in the drop-down box under Brand. Payment of $79 for the exam is accepted over a secure site using your credit card. Once you purchase an exam, you may take the exam three times. On the third unsuccessful attempt, the system will request another payment. Once you successfully score 70% on an exam, you may print your completion certificate from the site. The site will retain your exam completion history. If you lose your certificate, you may return to the site and reprint your certificate.

3. To receive CPE credit, the online exam must be completed by **June 30, 2011**. CPE credit will be given for examination scores of 70% or higher.

4. Please direct any questions or comments to our Customer Service department at (800) 323-8724.

Examination for CPE Credit

To enhance your learning experience, examination questions are located immediately following each chapter. Each set of examination questions can be located on the page numbers listed below. The course is designed so the participant reads the course materials, answers a series of self-study questions, and evaluates progress by comparing answers to both the correct and incorrect answers and the reasons for each. At the end of each chapter, the participant then answers the examination questions and records answers to the examination questions by logging on to the **Online Grading System**. For more information on completing the Examination for CPE Credit, see the Testing Instructions on the previous page.

CPE Examination Questions **Page**