2008 Instructions for Form 990

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

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General Instructions

Overview of Form 990. The Form 990 is an annual information return required to be filed with the IRS by most organizations exempt from income tax under Internal Revenue Code section 501(a), and certain political organizations and non-exempt charitable trusts. Parts I through XI of the form must be completed by all filing organizations, and require reporting on the organization's exempt and other activities, finances, governance, compliance with certain federal tax filings and requirements, and compensation paid to certain persons. Additional schedules are required to be completed depending upon the activities and type of the organization. By completing Part IV, the organization determines which schedules are required. The entire completed Form 990 filed with the IRS, except for certain contributor information on Schedule B, is required to be made available to the public by the IRS and the filing organization, and may be required to be filed with state governments to satisfy state reporting requirements.

Organizations that have total gross income from unrelated trades or businesses of at least $1,000 also are required to file Form 990-T, *Exempt Organization Business Income Tax Return*, in addition to any required Form 990, 990-EZ, or 990-N.

Note: Throughout these instructions, "the organization" and the "filing organization" both refer to the organization filing the Form 990. For group returns, "the organization" generally refers to each subordinate organization included in the group return.

Caution: The examples appearing throughout the Form 990 Instructions are illustrative only and for the purpose of completing this Form, and are not all-inclusive.

A. Who Must File

Most organizations exempt from income tax under Internal Revenue Code section 501(a) must file an annual information return (Form 990 or Form 990-EZ) or an annual electronic notice (Form 990-N), depending upon the organization's gross receipts and total assets.

For 2008, Form 990 must be filed by an organization exempt from income tax under Internal Revenue Code section 501(a) if it has either gross receipts greater than or equal to $1,000,000 or total assets greater than or equal to $2,500,000 at the end of the tax year. This includes the following:

- organizations described in section 501(c)(3) (other than private foundations)
- organizations described in other 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, without subtracting any costs or expenses. Total assets is the amount reported by the organization on its balance sheet as of the end of the year, without reduction for liabilities.

For purposes of Form 990 reporting, the term "section 501(c)(3)" includes organizations exempt under sections 501(e) and (f) (cooperative service organizations), 501(k) (child care organizations), and 501(n) (charitable risk pools). In addition, any organization described in one of these sections is also subject to section 4958 if it obtains a determination letter from the IRS stating that it is described in section 501(c)(3).

TIP: If an organization normally has gross receipts of $25,000 or less, it must file Form 990-N, *Electronic Notice (e-Postcard) for Tax-Exempt Organizations not Required To File Form 990 or 990-EZ* (with exceptions described below for certain section 509(a)(3) supporting organizations and for certain organizations described in General Instruction B). For tax years beginning in 2008, if an organization has gross receipts less than $1,000,000 and total assets at the end of the year less than $2,500,000, it may choose to file Form 990-EZ, *Short Form Return of Organization Exempt From Income Tax*, instead of Form 990. See the instructions for these forms for more information. But see the special rules described herein regarding controlling organizations described in section 512(b)(13) and sponsoring organizations of donor advised funds.

TIP: Certain Form 990 filers **must** file electronically. See *General Instruction E* for who must file electronically.

TIP: The Form 990 (including its schedules) has been substantially redesigned for 2008 and later tax years. The IRS has provided transitional relief to small and mid-size organizations, allowing many to file Form 990-EZ for 2008 and 2009 instead of Form 990, and providing them time to become familiar with the new form and its requirements. The following schedule sets forth the modified thresholds for filing Form 990-EZ (instead of Form 990) during this transition period:

May file 990-EZ for:	***If gross receipts are:***	***And if assets are:***
2008 Form (generally filed in 2009)	< $1,000,000	< $2,500,000
2009 Form (generally filed in 2010)	< $500,000	< $1,250,000
2010 and later Forms	< $200,000	< $500,000

Foreign and U.S. Possession organizations. Foreign as well as domestic organizations described above must file Form 990 or 990-EZ unless specifically excepted under General Instruction B. Report amounts in U.S. dollars, and state what conversion rate the organization uses. Combine amounts from within and outside the U.S., and report the total for each item. All information must be written in English.

Sponsoring organizations of donor advised funds. Sponsoring organizations of donor advised funds, if required to file an annual information return for the year, must file Form 990 and not Form 990-EZ.

Controlling organizations described in section 512(b)(13). A controlling organization of one or more controlled entities, as described in section 512(b)(13), must file Form 990 and not Form 990-EZ if it is required to file an annual information return for the year and if there was any transfer of funds between the controlling organization and any controlled entity during the year.

Section 509(a)(3) supporting organizations. A section 509(a)(3) supporting organization must file Form 990 or 990-EZ, even if its gross receipts are normally $25,000 or less, unless it qualifies as one of the following:

1. an integrated auxiliary of a church
2. the exclusively religious activities of a religious order
3. a religious organization whose gross receipts are normally not more than $5,000
4. an organization whose gross receipts are normally not more than $5,000 that supports a 501(c)(3) religious organization
5. a charitable organization supported partly by funds contributed by United States, State, or local governmental units, or primarily by contributions of the general public, whose gross receipts are normally not more than $5,000

If the organization is described in 3, 4, or 5, then it must file Form 990-N unless it voluntarily files Form 990 or Form 990-EZ.

Section 501(c)(15) organizations. A section 501(c)(15) organization applies the same gross receipts test as other organizations to determine whether it must file the Form 990, but uses a different definition of gross receipts to determine whether it qualifies as tax-exempt for the tax year. See Appendix C, *Section 501(c)(15) Organizations and Gross Receipts,* for more information.

Section 527 political organizations. Tax-exempt political organizations must file Form 990 or Form 990-EZ unless excepted under General Instruction B. A qualified state or local political organization must file Form 990 or Form 990-EZ only if it has gross receipts of $100,000 or more. Political organizations are not required to file Form 990-N.

Section 4947(a)(1) non-exempt charitable trusts. A non-exempt charitable trust described under section 4947(a)(1) of the Code (if it is not treated as a private foundation) is required to file Form 990 or Form 990-EZ, along with a completed Schedule A (among other schedules), unless excepted under General Instruction B. If such a trust does not have any taxable income under Subtitle A of the Code, it can file Form 990 or Form 990-EZ to meet its section 6012 filing requirement and does not have to file Form 1041, *U.S. Income Tax Return for Estates and Trusts*.

B. Organizations Not Required to File Form 990

An organization does not have to file Form 990 or 990-EZ even if it has at least $1,000,000 of gross receipts or $2,500,000 of total assets if it is described below (except for section 509(a)(3) supporting organizations—the filing exceptions for supporting organizations are described above). See General Instruction A (above) for determining whether the organization may file Form 990-EZ instead of Form 990. An organization described in 2, 10, 11, or 13 below is required to file Form 990-N unless it voluntarily files Form 990, 990-EZ, or 990-BL.

Certain religious organizations

1. A church, an interchurch organization of local units of a church, a convention or association of churches, or an integrated auxiliary of a church (such as a men's or women's organization, religious school, mission society, or youth group).
2. A church-affiliated organization that is exclusively engaged in managing funds or maintaining retirement programs and is described in Rev. Proc. 96-10, 1996-1 C.B. 577.
3. A school below college level affiliated with a church or operated by a religious order.
4. A mission society sponsored by, or affiliated with, one or more churches or church denominations, if more than half of the society's activities are conducted in, or directed at, persons in foreign countries.
5. An exclusively religious activity of any religious order.

Certain governmental organizations

6. A state institution whose income is excluded from gross income under section 115.
7. A governmental unit or affiliate of a governmental unit described in Rev. Proc. 95-48, 1995-2 C.B. 418.
8. An organization described in section 501(c)(1). A section 501(c)(1) organization is a corporation organized under an act of Congress that is an instrumentality of the United States, and exempt from federal income taxes.

Certain political organizations

9. 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 with limited gross receipts

10. An organization whose gross receipts are normally $25,000 or less. To determine what an organization's gross receipts "normally" are, see the Appendix B, *How to Determine Whether an Organization's Gross Receipts Are Normally $25,000 (or $5,000) or Less,* or the Instructions for Form 990-EZ.
11. A foreign organization, including organizations located in U.S. Possessions, whose gross receipts from sources within the U.S. are normally $25,000 or less.

Certain organizations that file different kinds of annual information returns

12. A private foundation exempt under section 501(c)(3) and described in section 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) non-exempt charitable trust treated as a private foundation, and a private foundation terminating its status by becoming a public charity under section 507(b)(1)(B) (for tax years within its 60-month termination period).

13. A black lung benefit trust described in section 501(c)(21). Use Form 990-BL, *Information and Initial Excise Tax Return for Black Lung Benefit Trusts and Certain Related Persons*,
14. A religious or apostolic organization described in section 501(d). Use Form 1065, *U.S. Return of Partnership Income*.
15. A stock bonus, pension, or profit-sharing trust that qualifies under section 401. Use Form 5500, *Annual Return/Report of Employee Benefit Plan*.

C. Sequencing List to Complete the Form and Schedules

You may find the following chart helpful. It limits jumping from one part of the form to another to make a calculation or determination needed to complete an earlier part, as certain later parts of the form must first be completed in order to complete earlier parts. In general, first complete the core form, and then alphabetically through Schedules A-R, except as provided below:

1. Complete lines A through F and H(a) through M in the Heading of Form 990, on page 1.
2. Determine the organization's related organizations (see Schedule R instructions), disregarded entities, and joint ventures for which reporting will be required (see Appendix F, *Disregarded Entities and Joint Ventures*).
3. Complete Parts VIII, IX, and X of Form 990.
4. Complete line G in the Heading of Form 990, on page 1.
5. Complete Parts III, V, VII, and XI of Form 990.
6. See Schedule L instructions and complete Schedule L (if required).
7. Complete Part VI of Form 990.
8. Complete Parts I and IV of Form 990.
9. Complete remaining applicable Schedules (for which "Yes" boxes were checked in Part IV).
10. Complete Part II of Form 990, *Signature Block*.

D. Accounting Periods and Methods

TIP: See IRS Publication 538, Accounting Periods and Methods, about reporting changes to accounting periods and methods.

ACCOUNTING PERIODS

Calendar year. Use the 2008 Form 990 to report on the 2008 calendar year accounting period. A calendar year accounting period begins on January 1 and ends on December 31.

Fiscal year. If the organization has established a fiscal year accounting period, use the 2008 Form 990 to report on the organization's fiscal year that began in 2008 and ended 12 months later. A fiscal year accounting period should normally coincide with the natural operating cycle of the organization. Be certain to indicate in the Heading of Form 990 the date the organization's fiscal year began in 2008 and the date the fiscal year ended in 2009.

Short period. A short accounting period is a period of less than 12 months, which exists when an organization first commences operations or changes its accounting period. If the Form 990 and instructions for the short year is not yet available when the return is due, use the prior year Form 990 to meet the organization's filing requirement, cross out the year on the form, and show the short year.

Accounting period change. If the organization changes its accounting period, it must file a Form 990 for the short period resulting from the change. Write "Change of Accounting Period" at the top of this short-period return.

If the organization previously changed its accounting period within the 10-calendar-year period that includes the beginning of the short period, and it had a Form 990 filing requirement at any time during that 10-year period, it must also attach a Form 1128 to the short-period return. See Rev. Proc. 85-58, 1985-2 C.B. 740.

ACCOUNTING METHODS

Unless instructed otherwise, the organization should generally use the same accounting method on the return to report revenue and expenses that it regularly uses to keep its books and records. To be acceptable for Form 990 reporting purposes, however, the method of accounting must clearly reflect income.

Accounting method change. Generally, the organization must file Form 3115 to change its accounting method. An exception applies where a 501(c) organization changes its accounting method to comply with SFAS 116, Accounting for Contributions Received and Contributions Made. See Notice 96-30, 1996-1 C.B. 378. An organization that makes a change in accounting method, regardless of whether if files Form 3115, and that has audited financial statements, must report any adjustment required by Internal Revenue Code section 481(a) on Schedule D, Parts XI through XIV, of Form 990.

State reporting. Most states that accept Form 990 in place of their own forms require that all amounts be reported based on the accrual method of accounting. If the organization prepares Form 990 for state reporting purposes, it may file an identical return with the IRS even though the return does not agree with the books of account, unless the way one or more items are reported on the state return conflicts with the instructions for preparing Form 990 for filing with the IRS.

Example 1 The organization maintains its books on the cash receipts and disbursements method of accounting but prepares a Form 990 return for the state based on the accrual method. It could use that return for reporting to the IRS.

Example 2 A state reporting requirement requires the organization to report certain revenue, expense, or balance sheet items differently from the way it normally accounts for them on its books. A Form 990 prepared for that state is acceptable for the IRS reporting purposes if the state reporting requirement does not conflict with the Form 990 instructions.

An organization should keep a reconciliation of any differences between its books of account and the Form 990 that is filed. Organizations with audited financial statements are required to provide such reconciliations in Schedule D, Parts XI through XIII.

E. When, Where, and How to File

File Form 990 by the 15th day of the 5th month after the organization's accounting period ends (May 15 for a calendar-year filer). If the regular due date falls on a Saturday, Sunday, or legal holiday, file on the next business day. A business day is any day that is not a Saturday, Sunday, or legal holiday.

If the organization is liquidated, dissolved, or terminated, file the return by the 15th day of the 5th month after liquidation, dissolution, or termination.

If the return is not filed by the due date (including any extension granted), attach a statement giving the reasons for not filing on time.

Send the return to the:

Department of the Treasury
Internal Revenue Service Center
Ogden, UT 84201-0027

Private delivery services. The organization can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing/paying" rule for tax return payments. These private delivery services include only the following:

- DHL Express (DHL): DHL "Same Day" Service, DHL Next Day 10:30 AM, DHL Next Day 12:00 PM, DHL Next Day 3:00 PM, and DHL 2nd Day Service.
- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day, FedEx International Priority, FedEx International First.
- United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air AM, UPS Worldwide Express Plus, and UPS Worldwide Express.

The private delivery service can tell you how to get written proof of the mailing date.

Electronic filing. The organization can file Form 990 and related forms, schedules, and attachments electronically. However, if an organization files at least 250 returns during the calendar year and has total assets of $10 million or more at the end of the tax year, it must file Form 990 electronically.

To determine if the organization meets the $10 million asset test, use the amount that will be entered on Form 990, Part X, line 16 (total assets), column (B).

If an organization is required to file a return electronically but does not, the organization is considered not to have filed its return, even if a paper return is submitted. See Temporary Regulations section 310.6033-4T for more information.

For additional information on the electronic filing requirement, visit *www.irs.gov/efile.*

The IRS may waive the requirements to file electronically in cases of undue hardship. For information on filing a waiver, see Notice 2005-88, 2005-48 I.R.B. 1060.

F. Extension of Time to File

Use Form 8868 to request an automatic 3-month extension of time to file. Use Form 8868 also to apply for an additional (not automatic) 3-month extension if the original 3 months was not enough time. To obtain this additional extension of time to file, the organization must show reasonable cause for the additional time requested. See the Instructions for Form 8868.

G. Amended Return/Final Return

To change the organization's return for any year, file a new return including any required schedules. Use the version of Form 990 applicable to the year being amended. The amended return must provide all the information called for by the form and instructions, not just the new or corrected information. Check the *Amended Return* box in the heading of the return.

The organization may file an amended return at any time to change or add to the information reported on a previously filed return for the same period. It must make the amended return available for inspection for 3 years from the date of filing or 3 years from the date the original return was due, whichever is later.

The organization must also send a copy of the information or amended return to any state with which it filed a copy of Form 990 originally to meet that state's filing requirement.

Use Form 4506 to obtain a copy of a previously filed return. See *www.irs.gov* for information on getting blank tax forms.

If the return is a final return, see the *Specific Instructions* for Schedule N for further details.

H. Failure to File Penalties

Against the organization. Under section 6652(c)(1)(A), a penalty of $20 a day, not to exceed the smaller of $10,000 or 5% of the gross receipts of the organization for the year, may be charged when a return is filed late, unless the organization can show that the late filing was due to reasonable cause. Organizations with annual gross receipts exceeding $1 million are subject to a penalty of $100 for each day failure continues (with a maximum penalty with respect to any one return of $50,000). The penalty begins on the due date for filing the Form 990.

Tax exempt organizations which are required to file electronically but do not are deemed to have failed to file the return. This is true even if a paper return is submitted.

The penalty may also be charged if the organization files an incomplete return. To avoid having to supply missing information later:

(1) complete all applicable line items;
(2) unless instructed to skip a line, answer each question on the return;
(3) make an entry (including a zero when appropriate) on all lines requiring an amount to be reported; and
(4) provide required explanations as instructed.

Also, this penalty may be imposed if the organization's return contains incorrect information. For example, an organization that reports contributions net of related fundraising expenses may be subject to this penalty.

Use of a paid preparer does not relieve the organization of its responsibility to file a complete return.

Against Responsible Person(s). If the organization does not file a complete return or does not furnish correct information, the IRS will send the organization a letter that includes a fixed time to fulfill these requirements. After that period expires, the person failing to comply will be charged a penalty of $10 a day. The maximum penalty on all persons for failures with respect to any one return shall not exceed $5,000.

There are also penalties (fines and imprisonment) for willfully not filing returns and for filing fraudulent returns and statements with the IRS (sections 7203, 7206, and 7207). States may impose additional penalties for failure to meet their separate filing requirements.

I. Group Return

A central, parent, or like organization can file a group return on Form 990 for two or more subordinate or local organizations that are:

1. Affiliated with the central organization at the time its annual accounting period ends,
2. Subject to the central organization's general supervision or control,
3. Exempt from tax under a group exemption letter that is still in effect, and
4. Using the same accounting period as the central organization.

The central organization cannot use a Form 990-EZ for the group return.

A subordinate organization covered by a group ruling may file a separate return instead of being included in the group return. If a subordinate organization is not required to file a return, it need not be included in the group return or file a separate return.

If the central organization is required to file a return for itself, it must file a separate return and may not be included in the group return. See *General Instruction B* for a list of organizations not required to file.

Every year, each subordinate organization must authorize the central organization in writing to include it in the group return and must declare, under penalty of perjury, that the authorization and the information it submits to be included in the group return are true and complete.

The central organization should send the annual information update required to maintain a group exemption letter (a separate requirement from the annual return) to the:

Department of the Treasury
Internal Revenue Service Center
Ogden, UT 84201-0027

For Special Instructions regarding answering certain Form 990 questions, parts or schedules in the context of a group return, see Appendix E, *Group Returns*.

J. Requirements for a Properly Completed Form 990

All organizations must complete Parts I through XI of the Form 990, and any schedules for which a "Yes" response is indicated in Part IV.

Public inspection. In general, all information the organization reports on or with its Form 990, including schedules and attachments, will be available for public inspection. Note, however, the special rules for Schedule B, a required schedule for certain organizations that file Form 990. Make sure the forms and schedules are clear enough to photocopy legibly. For more information on public inspection requirements, see Appendix D, *Public Inspection of Returns,* and Publication. 557.

Signature. A Form 990 is not complete without a proper signature. For details, see the instructions to Part II (Signature Block).

Recordkeeping. The organization's records should be kept for as long as they may be needed for the administration of any provision of the Internal Revenue Code. Usually, records that support an item of income, deduction, or credit must be kept for 3 years from the date the return is due or filed, whichever is later. Keep records that verify the organization's basis in property for as long as they are needed to figure the basis of the original or replacement property.

The organization should also keep copies of any returns it has filed. They help in preparing future returns and in making computations when filing an amended return.

Rounding off to whole dollars. The organization must round off cents to whole dollars on the returns and schedules, unless otherwise noted for particular questions. To round, drop amounts under 50 cents and increase amounts from 50 to 99 cents to the next dollar. For example, $1.39 becomes $1 and $2.50 becomes $3. If the organization has to add two or more amounts to figure the amount to enter on a line, include cents when adding the amounts and round off only the total.

Completing all lines. Enter the required information on the appropriate line on Form 990; do not leave any applicable lines blank, unless expressly instructed to skip that line. If answering a line is predicated on a "Yes" answer to the preceding line, and if the organization's answer to the preceding line was "No," then leave the "If Yes" line blank. In general, answers may be explained or supplemented in Schedule O if the allotted space in the form or other schedule is insufficient, or if a "Yes" or "No" answer is required but the organization wishes to explain its answer. Do not attach any materials not authorized in the instructions.

Reporting proper amounts. Some lines request information reported on other forms filed by the organization (such as Form W-2 or Form 990-T). If the organization is aware that the amount actually reported on the other form is incorrect, it must report on Form 990 the information that should have been reported on the other form (in addition to filing an amended form with the proper amount).

Inclusion of activities and items of disregarded entities and joint ventures. An organization must report in its Form 990 all of the revenues, expenses, assets, liabilities, and net assets or funds of a disregarded entity of which it is the sole member, and must report in its Form 990 its share of all such items of a joint venture or other investment or arrangement taxed as a partnership. This includes passive investments. In addition, the organization generally must report the activities of a disregarded entity or a joint venture in the appropriate parts of schedules of the Form 990. For special instructions regarding the treatment of disregarded entities and joint ventures for various parts of the form, see Appendix F, *Disregarded Entities and Joint Ventures*.

Assembling Form 990.
Before filing the Form 990, assemble the package of schedules being filed in alphabetical order after Page 11 of the core form.

SPECIFIC INSTRUCTIONS

Completing the Heading of Form 990

Complete all of items A through M.

Item A. Accounting period. File the 2008 return for calendar year 2008 and fiscal years that began in 2008 and ended in 2009. For a fiscal year return, fill in the tax year space at the top of page 1. See *General Instruction D* for additional information about accounting periods.

Item B. Checkboxes
Address change, name change, and initial return. Check the appropriate box if the organization changed its address or legal name (not its “doing business as” name) since it filed its previous return, or if this is the first time the organization is filing either a Form 990 or Form 990-EZ.

If the organization changed its name, attach the following documents:

IF the organization is	THEN attach
A corporation	Amendments to the articles of incorporation with proof of filing with the state of incorporation.
A trust	Amendments to the trust agreements signed by the trustee.
An association	Amendments to the articles of association, constitution, bylaws, or other organizing document, with the signatures of at least two officers/members.

Termination. Check this box if the organization has terminated its existence or ceased to be a section 501(a) or section 527 organization and is filing its final return as an exempt organization. For example, an organization should check this box when it has ceased operations and dissolved or has had its exemption revoked by the IRS. An organization that checks this box must also attach Schedule N.

Amended Return. Check this box if the organization previously filed a return with the IRS for the same tax year and is now filing another return for the same tax year to amend the previously filed return. State in Schedule O which Parts and Schedules of the Form 990 were amended and describe the amendments.

Note: A State may require an organization to file an amended Form 990 to satisfy State reporting requirements, even if the original return was accepted by the IRS.

Application pending. Check this box if the organization filed either a Form 1023 or Form 1024 with the IRS and is awaiting a response. If this box is checked, the organization must complete all parts of the Form 990 and any required schedules.

Item C. Name and address. Enter the organization’s legal name in the “Name of organization” box. If the organization operates under a name different from its legal name, enter the alternate name in the “Doing Business As” box.

If the organization receives its mail in care of a third party (such as an accountant or an attorney), enter on the street address “C/O” followed by the third party’s name and street address or P.O. Box.

Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and the organization has a P.O. box, show the box number instead of the street address.

For foreign addresses, enter the information in the following order: city, province or state, and the name of the country. Follow the country’s practice in placing the postal code in the address. Do not abbreviate the country name.

If a change in address occurs after the return is filed, use Form 8822 to notify the IRS of the new address.

Item D. Employer identification number (EIN). Use the EIN provided to the organization for filing its Form 990 and federal tax returns. The organization must have only one EIN. If it has more than one and has not been advised which to use, notify the:

Department of the Treasury
Internal Revenue Service Center
Ogden, UT 84201-0027

State what numbers the organization has, the name and address to which each EIN was assigned, and the address of the organization’s principal office. The IRS will advise the organization which number to use.

TIP: A section 501(c)(9) voluntary employees’ beneficiary association must use its own EIN and not the EIN of its sponsor.

Item E. Telephone number. Enter a telephone number of the organization that members of the public and government personnel may use during normal business hours to obtain information about the organization’s finances and activities. If the organization does not have a telephone number, enter the telephone number of an organization official who can provide such information.

Item F. Name and address of principal officer. The address provided must be a complete mailing address to enable the IRS to communicate with the officer if necessary. If the officer prefers to be contacted at the organization’s address listed in item C, state “same as C above.” For purposes of this item, “principal officer” means a person 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.

Item G. Gross receipts. Add lines 6b (both columns), 7b (both columns), 8b, 9b, 10b, and 12, Column A of Form 990, Part VIII, and enter the total here. See the exceptions from filing Form 990 based on gross receipts and total assets in *General Instructions A and B.*

Item H. Group returns. If the organization answers “Yes” to line H(a) but “No” to H(b), attach a list (not in Schedule O) showing the name, address, and EIN of each affiliated organization included in the group return. Enter in line H(c) the four-digit group exemption number (GEN) if the organization is filing a group return, or if the organization is a central or subordinate organization in a group exemption and is filing a separate return. Do not confuse the four-digit GEN number with the nine-digit EIN number reported in item D of the form’s Heading

If attaching a list:

- Show the form number and tax year;
- Show the organization’s name and EIN;
- Enter the four-digit group exemption number (GEN);
- Use the same size paper as the form.

Item I. Tax-exempt status. If the organization is exempt under section 501(c), check the first box and insert the appropriate subsection number within the parentheses (for example, “3” for a 501(c)(3) organization).

Item J. Website. Enter the organization’s website address. If the organization does not maintain a website, enter “N/A” (not applicable).

Item K. Type of organization. Check the box describing the organization’s legal entity form or status under State law in its state of legal domicile. These include corporations, trusts, unincorporated associations, and other (e.g., partnerships and limited liability companies).

Item L. Year of formation. State the year in which the organization was legally created under State or foreign law (if a corporation, the year of incorporation).

Item M. State of legal domicile. For a corporation, enter the state of incorporation (country of incorporation for a foreign corporation formed outside the U.S.). For a trust or other entity, enter the State whose law governs the organization’s internal affairs (the foreign country whose law governs for a foreign organization other than a corporation).

Part I Summary

TIP: Because Part I generally reports information reported elsewhere on the form, completion of Part I should be deferred until after the other parts of the form are completed. See General Instructions Item C, Sequencing List to Complete the Form.

Complete lines 3-5 and 7-22 by using applicable references made in Part I to other items.

Line 1. Mission or significant activity. Describe either the organization’s mission or its most significant activity for the year, whichever the organization wishes to highlight on the summary page. See the instruction for Part III, line 1, below, for an explanation of “mission.”

Line 2. Discontinued operations or major dispositions. Check this box if the organization answered "Yes," to Part IV, Lines 31 or 32, and complete Schedule N, Part I or Part II.

Line 6. Number of volunteers. Provide the number of volunteers, full-time and part-time, who provided volunteer services to the organization during the reporting year. Organizations that do not keep track of this information in their books and records or report this information elsewhere (such as in annual reports or grant proposals) may provide a reasonable estimate, and may use any reasonable basis for determining this estimate. Organizations may, but are not required to, provide an explanation in Schedule O of how this number was determined, and the types of services or benefits provided by the organization's volunteers.

Line 7b. Unrelated business taxable income. If the organization is not required to file a Form 990-T for the tax year, enter "0". If the organization has not yet filed Form 990-T for the tax year, provide an estimate of the amount it expects to report on line 34 of the Form 990-T when it is filed.

Lines 8-19. Prior year (2007) amounts for 2008 filings. If this is an initial return, leave the "Prior Year" column blank. **Use the following list to determine what to report on these lines for** prior year revenue and expense amounts from the 2007 Form 990:

Line 8, Contributions and grants (Part I, line 1e of 2007 Form 990)
Line 9, Program service revenue (Part I, lines 2 and 3)
Line 10, Investment income (Part I, lines 4, 5, and 7, less any royalties reported in line 7, and 8d)
Line 11, Other revenue (Part I, lines 6c, 9c, 10c, and 11, plus any royalties reported in line 7)
Line 12, Total revenue (Part I, line 12)
Line 13, Grants and similar amounts paid (Part II, lines 22a-23, column (A))
Line 14, Benefits paid to or for members (Part II, line 24, column (A))
Line 15, Salaries, other compensation, employee benefits (Part II, lines 25a-28, column (A))
Line 16, Professional fundraising expenses (Part II, line 30, column (A))
Line 17, Other expenses (Part II, lines 29 and 31-43g, column (A))
Line 18, Total expenses (Part II, line 44, column (A))
Line 19, Revenue less expenses (Part I, line 18)

Part II Signature Block

To make the return complete, an officer of the organization authorized to sign it must sign in the space provided. For a corporation or association, this officer may be the president, vice president, treasurer, assistant treasurer, chief accounting officer, or other corporate or association officer, such as a tax officer. A receiver, trustee or assignee must sign any return he or she files for a corporation or association. For a trust, the authorized trustee(s) must sign.

Generally, anyone who is paid to prepare the return must sign in the Paid Preparer's Use Only *area.*

The paid preparer must:

- Sign the return in the space provided for the preparer's signature.
- Enter the preparer information (other than PTIN and EIN blocks, except as described below).
- Give a copy of the return to the organization.

The paid preparer must enter the preparer taxpayer identification number (PTIN) and the preparer's firm's EIN only if filing Form 990 for a section 4947(a)(1) nonexempt charitable trust that is not filing Form 1041.

TIP: The preparer may apply for a PTIN with Form W-7P if he or she does not have one.

Leave the paid preparer's space blank if the return was prepared by a regular employee of the filing organization.

On the last line of Part II, check "Yes" if the IRS may contact the paid preparer who signed the return to discuss the return. By checking this box "Yes," the organization is authorizing the IRS to contact the paid preparer to discuss any matter relating to this return. Check "No" if the IRS is to contact the organization or its principal officer listed in Item F of the Heading rather than the paid preparer.

Specific Instructions, continued

Part III Statement of Program Service Accomplishments

A program service is a major, usually ongoing, activity of an organization that accomplishes its exempt purpose. Examples of program service accomplishments may include providing charity care under a hospital's charity care policy, providing higher education to students under a college's degree program, making grants or providing assistance to individuals who were victims of a natural disaster, and providing rehabilitation services to residents of a long-term care facility. Do not report a fundraising activity as a program service accomplishment unless it is substantially related to the accomplishment of the organization's exempt purposes (other than by raising funds).

Line 1. Mission. Describe the organization's mission as articulated in its mission statement or as otherwise adopted by the organization's governing body, if applicable. The mission statement may address why the organization exists, what it hopes to accomplish, who it intends to serve, and what activities it will undertake and where. If the organization does not have a mission that has been adopted by its governing body, leave this blank.

Line 2. New program services. Answer "Yes" if the organization undertook any new significant program service activities during the tax year that were not described in the prior year's Form 990 or Form 990-EZ. Describe these items in Schedule O.

Line 3. Changes in program services and discontinued activities. Answer "Yes" if the organization made any significant changes during the year in how it conducts its program service activities to further its exempt purposes, or if the organization ceased conducting significant program services that had been conducted in a prior year. Describe these items in Schedule O.

Lines 4a-4c. Program Service Accomplishments. All organizations must describe their achievements for each of their three largest program services, as measured by total expenses incurred. If there were three or fewer of such activities, describe each program service activity. The organization may report in Schedule O additional activities that it considers of comparable or greater importance although smaller in terms of expenses incurred (such as activities conducted with volunteer labor).

Code. For the 2008 tax year, leave this blank.

Expenses and grants. For each program service reported, section 501(c)(3) and (4) organizations and section 4947(a)(1) trusts must enter the total expenses included in Part IX, line 25, column (B), and the total grants and allocations (if any) included within such total expenses that were reported on lines 1-3, column (B) of Part IX. For all other organizations, entering these amounts is optional.

Revenue. For each program service activity, report any revenue derived directly from the activity, such as fees for services or from the sale of goods that directly relate to the listed activity. This revenue includes program service revenue reported in Part VIII, line

2, column (A), and includes other amounts reported in lines 3-11 of Part VIII as related or exempt function revenue. Also include unrelated business revenue from a business that exploits an exempt function, such as advertising in a journal. For this purpose, charitable contributions and grants (including the charitable contribution portion, if any, of membership dues) reported in line 1 of Part VIII are not considered revenues derived from program services.

Description of program services.
• Describe program service accomplishments through specific measurements such as clients served, days of care provided, number of sessions or events held, or publications issued.
• Describe the activity's objective, for both this time period and the longer-term goal, if the output is intangible, such as in a research activity.
• Give reasonable estimates for any statistical information if exact figures are not readily available. Indicate that this information is estimated.
• Be clear, concise, and complete in the description. Use Schedule O if additional space is needed.

Donated services. The organization may report the amount of any donated services, or use of materials, equipment, or facilities it received or used in connection with a specific program service, on the lines for the narrative description of the appropriate program service. However, do not include these amounts in revenue, expenses, or grants reported in lines 4a-4e.

Public interest law firm. A public interest law firm exempt under section 501(c)(3) or (c)(4) must include a list of all the cases in litigation or that have been litigated during the year. For each case, describe the matter in dispute and explain how the litigation will benefit the public generally. Also state the fees sought and recovered in each case. See Rev. Proc. 92-59, 1992-2 C.B. 411.

Other program services. List in Schedule O the organization's other program services, and report the total revenue derived directly from these other program services.
• The detailed information required for the three largest program services need not be provided for these other program services.
• Section 501(c)(3) and (4) organizations, and section 4947(a)(1) trusts, must report the total expenses and the total grants and allocations reported in Part IX, column (B) that are attributable to these other program services in line 4d, and the total program service expenses from lines 4a-4d in line 4e. The line 4e amount must equal the amount reported in Form 990, Part IX, line 25, column (B). For all other organizations, entering these amounts is optional.

Specific Instructions, continued

Part IV Checklist of Required Schedules

For each “Yes” answer to a line in Form 990, Part IV, complete the applicable Schedule (or Part or line of the Schedule).

TIP: See the Glossary and instructions for the pertinent schedules for definitions of terms and explanations that are relevant to questions in this section. The organization is not required to complete a schedule if the organization is not required to provide any information in the schedule.

Line 1. Schedule A, Public Charity Status and Public Support. Answer “Yes” if the organization is a section 501(c)(3) or 4947(a)(1) organization that is not a private foundation. All other organizations answer “No.”

Line 2. Schedule B, Schedule of Contributors. Answer “Yes” if any of the following are satisfied:

- A section 501(c)(3) organization that met the 33⅓% support test of the regulations under sections 509(a)(1)/170(b)(1)(A)(vi), and received from any one contributor, during the year, a contribution of the greater of $5,000 (in money or property) or 2% of the amount on line 1h of Form 990, Part VIII.
- A section 501(c)(3) organization that did not meet the 33⅓% support test of the regulations under sections 509(a)(1)/170(b)(1)(A)(vi), and received during the year contributions of $5,000 or more from any one contributor.
- A section 501(c)(7), (8), or (10) organization that received, during the year, contributions or bequests of any amount for use *exclusively* for religious, charitable, scientific, literary, or educational purposes, or the prevention of cruelty to children or animals, or contributions or bequests of $5,000 or more not exclusively for such purposes from any one contributor.
- Any other organization that received, during the year, contributions of $5,000 or more from any one contributor.

Line 3. Political campaign activities. All organizations must answer this question, even if they are not subject to a prohibition against political campaign intervention. Answer “yes” even if the activity is conducted indirectly through a disregarded entity or a joint venture or other arrangement that is taxed as a partnership and in which the organization is an owner.

Line 4. Lobbying activities. Complete only if the organization is a section 501(c)(3) organization. Other organizations leave this line blank.

Line 5. Section 6033(e) notice, reporting and proxy tax. Complete only if a section 501(c)(4), 501(c)(5), or 501(c)(6) organization. Other organizations leave this line blank.

Line 6. Donor advised funds and similar accounts. Answer "Yes," if the organization maintained any such fund or account at any time during the year. See the Glossary for a definition of these funds and accounts.

Line 7. Conservation easements. Answer "Yes," if the organization received or held any conservation easement at any time during the year, regardless of how the organization acquired the easement or whether a charitable deduction was claimed by a donor of the easement. For this purpose, a conservation easement is an easement or similar legally enforceable restriction on the use of real property, including land, buildings, and improvements, that is established for the purpose of conservation or preservation. It includes easements that are qualified real property interests as described in Regulations section 1.170A-14, including land and façade easements.

Line 8. Collections of works of art and similar assets. Answer "Yes" if at any time during the year the organization maintained collections of works of art, historical treasures, or other similar assets as described within SFAS 116, regardless of whether the organization reported revenues and assets relating to such collections in its financial statements. Organizations that answer "Yes" to this question often will answer "Yes" to Part IV, line 30, which addresses current-year contributions of such items.

Line 9. Escrow account liability, custodial arrangements, or credit counseling. Answer "Yes" if the organization has an escrow account liability; holds funds in custodial accounts for other organizations or individuals; or provides credit counseling, debt management, credit repair, or debt negotiation services.

Custodial accounts include:

- Amounts held in a trust account or in an escrow account for other organizations or individuals that the organization has signature authority over and that have been reported on Part X, line 21.
- Amounts held in a trust account or in an escrow account for other organizations or individuals that the organization has signature authority over but does not report the assets or liabilities on Part X, line 21.

If a substantial purpose of the organization is to provide credit counseling, debt management, credit repair, or debt negotiation services, Schedule D, Part IV must be completed.

- Credit Counseling services, as defined in Internal Revenue Code section 501(q), 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.

Debt management, credit repair and/or debt negotiation services are defined in Internal Revenue Code section 501(q), as services related to the repayment, consolidation, or restructuring, of a consumer's debt, and includes the negotiation with creditors of lower interest rates, the waiver or reduction of fees, and the marketing and processing of debt management plans.

Line 10. Endowments. Answer “Yes” if the organization, a related organization, or an organization formed and maintained exclusively to further one or more exempt purposes of the organization (such as a foundation formed and maintained exclusively to hold endowment funds to provide scholarships and other funds for a college or university described within section 501(c)(3)), held assets in term, permanent, or quasi endowment funds at any time during the year, regardless of whether the organization follows SFAS 117 and reports endowments in Part X, line 32. See Schedule D, Part V, Instructions for the definitions of these types of endowments.

Line 11. Schedule D items. Answer “Yes” if the organization reported an amount for land, buildings and equipment, investments-other securities, investments-program related, other assets, or other liabilities, in Part X, lines 10, 12, 13, 15 or 25.

Line 12. Audited financial statements. Answer “Yes” if the organization received an audited financial statement prepared in accordance with generally accepted accounting principles for the year for which it is completing this return. All other organizations answer “No.” Organizations that answer “No” may, but are not required to, provide the reconciliations contained in Schedule D, Parts XI-XIII.

Line 13. Schools. Answer “Yes” if the organization checked the box on line 2 of Schedule A, Part I (a school).

Lines 14-16. Activities outside the United States. Answer “Yes” to line 14a if the organization maintained an office, or had employees or agents, outside the United States. An organization that answers “Yes” to line 14a is not required to complete Schedule F unless it satisfies one or more of the dollar thresholds described in lines 14b, 15, or 16.

Lines 17-19. Professional Fundraising or Gaming. An organization that answers “No” should consider whether to complete Schedule G in order to report its fundraising or gaming activities for state or other reporting purposes.

Line 20. Hospitals. Answer “Yes” if the organization, directly or indirectly through a disregarded entity or joint venture taxed as a partnership, operated any facility that at any time during the year was, or was required to be, licensed or certified by a state as a hospital. Except in the case of a group return, do not include facilities operated by another organization that is treated as a separate taxable or tax-exempt corporation for federal income tax purposes. For group returns, answer “Yes” if any affiliate within the group operated such a facility.

Lines 21-22. Grantmaking. Organizations that answer “No” to lines 21 and 22 should consider whether to complete Schedule I in order to report grantmaking activities in the United States for state or other reporting purposes.

Line 23. Compensation Information. All organizations are required to complete Part VII on pages 7 and 8. Answer “Yes” to line 23 if the organization (a) listed in Part VII a former officer, director, trustee, key employee, or highest compensated employee; or (b) reported for any person listed in Part VII more than $150,000 of reportable or other compensation. Also answer “Yes” to line 23 if, under the circumstances described in the instructions to Part VII, Section A, line 5, the filing organization had knowledge that any person listed in Part VII received or accrued compensation from an unrelated organization for services rendered to the filing organization.

Line 24. Tax-exempt bonds. Lines 24a through 24d involve questions regarding tax-exempt bonds. All organizations must answer line 24a. Those organizations that answer "Yes" to line 24a must also answer lines 24b through 24d and complete Schedule K. Those that answer "No" to line 24a may skip to line 25.

Line 24a. Tax-exempt bonds. Answer "Yes" if the organization had any tax-exempt bond liabilities outstanding at any time during the tax year. Complete and attach Schedule K for each tax-exempt bond issued after December 31, 2002, including refunding bonds, with an outstanding principal amount of more than $100,000 as of the last day of the tax year.

Line 24b. Temporary period exception. For purposes of line 24b, the organization need not include the following as investments of proceeds: any investment of proceeds relating to a reasonably required reserve or replacement fund as described in section 148(d); any investment of proceeds properly characterized as replacement proceeds as defined in section 1.148-1(c); any investment of net proceeds relating to a refunding escrow as defined in section 1.148-1(b). Temporary period exceptions are described in sections 148(c) and 1.148-2(e).

Line 24c. Escrow accounts. For purposes of line 24c, the organization is treated as maintaining an escrow account if such account is maintained by a trustee with respect to tax-exempt bonds issued for the benefit of the organization.

Line 24d. "On behalf of" issuances. Answer "Yes" if the organization meets the conditions for issuing tax-exempt bonds as set forth in Rev. Rul. 63-20, 1963-1 C.B. 24. Also answer "Yes" if the organization has outstanding qualified scholarship funding bonds under section 150(d) or bonds of a qualified volunteer fire department under section 150(e).

Lines 25a and 25b. Excess benefit transactions. Organizations not described in section 501(c)(3) or 501(c)(4) are to skip lines 25a and 25b and leave them blank. All section 501(c)(3) and 501(c)(4) organizations are required to complete lines 25a and 25b by answering "Yes" or "No."

TIP: An excess benefit transaction may have serious implications for the disqualified person that entered into the transaction with the organization, any organization managers that knowingly approved of the transaction, and the organization itself. A section 501(c)(3) or 501(c)(4) organization that becomes aware that it may have engaged in an excess benefit transaction should obtain competent advice regarding section 4958, consider pursuing correction of any excess benefit, and take other appropriate steps to protect its interests with regard to such transaction and the potential impact it could have on the organization's continued exempt status. See Appendix G for a discussion of section 4958, and Schedule L, Part I, regarding reporting of excess benefit transactions.

Lines 26-28. Transactions with interested persons. Lines 26 through 28 ask questions about loans to or from the organization and certain interested persons, grants and other financial assistance provided by the organization to certain interested persons, and certain direct and indirect business transactions involving current or former governance and management officials of the organization or their associated businesses or family members. All organizations must answer these questions. The organization should review carefully the instructions to Schedule L, Parts II through IV before answering these questions and completing Schedule L.

Line 29. Non-cash contributions. All organizations are required to answer "Yes" to line 29 if they received during the year more than $25,000 in value of donations, gifts, grants or other contributions of property other than cash, regardless of whether they reported such amounts as non-cash contributions in Part VIII, line 1g. Do not include contributions of services or contributions to the capital of the organization.

Line 30. Contributions of art, historical treasures and similar assets, and conservation easements. All organizations are required to answer "Yes" to line 30 if during the year the organization received as a donation, gift, grant or other contribution (a) any work of art, historical treasure, historical artifact, scientific specimen, archeological artifact, or similar asset, including a fractional interest, regardless of amount or whether the organization maintains collections of such items; or (b) any conservation easements regardless of whether the contributor claimed a charitable contribution deduction for such contribution. See the Instructions to Schedule M for definitions of these terms. Do not include contributions to the capital of the organization.

Lines 31 and 32. Liquidations, terminations, dissolutions, cessation of operations, and major dispositions of assets. All organizations must answer "Yes" if they liquidated, terminated, dissolved, ceased operations, or engaged in a major disposition of their net assets during the year. See the Instructions to Schedule N for definitions and explanations of these terms and transactions or events. Organizations that answer "Yes" to either of these questions must also check the box on line 2 of Part I and complete Schedule N, Part I or II.

Lines 33 through 35. Schedule R related organizations and controlled entities. All organizations are required to report on Schedule R certain information regarding ownership or control of, and transactions with, their disregarded entities and related tax-exempt and taxable organizations. Any organization that answers "Yes" to line 33 or 34 must list its disregarded entities and related organizations on Schedule R and provide specified information regarding such organizations. Any organization that is a controlling entity with respect to a controlled entity within the meaning of section 512(b)(13) must answer "Yes" to line 35 and report certain information with respect to specified payments of interest, rents, royalties, and annuities received or accrued from the controlled entity. See the Glossary and the Instructions to Schedule R for definitions of these terms, including control, controlled entity, and related organization.

Line 36. Transfers by charitable organization to exempt non-charitable organizations. Section 501(c)(3) organizations must answer "Yes" or "No" to line 36. All other organizations are to leave this line blank and go to line 37. See the Glossary and the Instructions to Schedule R for the types of transfers required to be reported on Schedule R, Part V, line 2.

Line 37. Conduct of substantial activities through an unrelated partnership. Answer “Yes” if at any time during the year the organization conducted more than 5 percent of its activities, measured by total gross revenue or total assets of the organization, through an unrelated organization that is taxed as a partnership for federal income tax purposes. The 5 percent test is applied on a partnership by partnership basis, although direct ownership by the organization and indirect ownership through disregarded or tiered entities is aggregated for this purpose. The organization need not report the conduct of activities by an entity whose sole purpose is to make passive investments, or the conduct of activities through an organization treated as a taxable or tax-exempt corporation for federal income tax purposes, for purposes of this question.

Specific Instructions, continued

Part V Statements Regarding Other IRS Filings and Tax Compliance

TIP: See *Glossary* for definition of terms used in the questions in this section.

TIP: Some questions below pertain to other IRS forms. Forms are available by calling 1-800-TAX-FORM (1-800-829-3676) or by downloading from the IRS Website at www.irs.gov. Most forms and publications are also available at your local IRS office.

Line 1a. Number of information returns. The organization must use Form 1096 to transmit paper Forms 1099, 1098, 5498, and W-2G to the IRS, which are information returns reporting certain amounts paid or received by the organization. If the organization transmits any of these forms electronically, add this number to the total reported. Examples of payments requiring Form 1099 reporting include certain payments to independent contractors for services rendered.

Line 1b. Forms W-2G. Form W-2G pertains to certain gambling winnings.

Line 1c. Backup withholding. For more information on backup withholding for missing or incorrect names or taxpayer identification numbers, see Publication 1281.

Line 2b. Employment tax return filings. If the organization reported at least one employee on line 2a, answer whether it filed all required federal employment tax returns (Forms 940 and 941) relating to such employees. For more information, see the discussion of employment taxes in Publication 557.

Line 3a. Unrelated business income. Check “Yes” on line 3a if the organization’s total gross income from all of its unrelated trades and businesses is $1,000 or more for the year. Gross income is the amount of gross receipts less the cost of goods sold. See Publication 598 for a description of unrelated business income and the Form 990-T filing requirements for organizations having such income.

Neither Form 990-T nor Form 990 is a substitute for the other. Report on Form 990 items of income and expense that are also required to be reported on Form 990-T when the organization is required to file both forms.

Line 3b. Form 990-T. Answer “Yes” if the organization filed the Form 990-T by the time this Form 990 is filed. Check “No” if the organization has filed an extension but has not filed the Form 990-T. If “No,” provide an explanation in Schedule O, *Supplemental Information to Form 990.*

Caution: All tax-exempt organizations must pay estimated taxes with respect to their unrelated business income if they expect their tax liability to be $500 or more. Use Form 990-W to compute these amounts.

Line 4a. Foreign accounts. Answer “Yes” if either item 1 or 2 below applies:

1. At any time during the calendar year ending with or within the organization's tax year, the organization had an interest in, or signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account); and
    a. The combined value of all such accounts was more than $10,000 at any time during the calendar year; and
    b. The accounts were not with a U.S. military banking facility operated by a U.S. financial institution.
2. The organization owns more than 50% of the stock in any corporation that would answer "Yes" to item 1 above.

If "Yes," file Form TD F 90-22.1 by June 30 after the end of the calendar year with the Department of the Treasury at the address shown on the form.

Form TD F 90-22.1 is available by calling 1-800-TAX-FORM (1-800-829-3676) or by downloading it from the IRS website at *www.irs.gov*. Do not file FORM TD F 90-22.1 with the IRS or attach it to Form 990.

Line 4b. Foreign country. Enter the name of each foreign country in which a foreign account described in line 4a is located.

Line 5. Prohibited tax shelter transactions. Answer "Yes" if the organization was a party to a prohibited tax shelter transaction as described in section 4965(e) at any time during the tax year. An organization that files Form 990 (other than a section 527 political organization or a section 4947(a)(1) trust) and that is a party to a prohibited tax shelter transaction must file Form 8886-T and may also have to file Form 4720 and pay excise tax imposed by section 4965. For more information, see the instructions to Forms 8886-T and 4720.

Line 6. Solicitations of nondeductible contributions. Any fundraising solicitation by or on behalf of any section 501(c) or 527 organization that is not eligible to receive contributions deductible as charitable contributions for federal income tax purposes must include an explicit statement that contributions or gifts to it are not deductible as charitable contributions. The statement must be in an easily recognizable format whether the solicitation is made in written or printed form, by television or radio, or by telephone. This provision applies only to those organizations whose annual gross receipts are normally more than $100,000.

Failure to disclose that contributions are not deductible could result in a penalty of $1,000 for each day on which a failure occurs. The maximum penalty for failures by any organization, during any calendar year, shall not exceed $10,000. In cases where the failure to make the disclosure is due to intentional disregard of the law, more severe penalties apply. No penalty will be imposed if the failure is due to reasonable cause.

All organizations that qualify under section 170(c) to receive contributions that are deductible as charitable contributions for federal income tax purposes should answer "No".

TIP: See Publication 1771, *Charitable Contributions: Substantiation and Disclosure Requirements*.

Line 7. Organizations that may receive deductible contributions under section 170(c). Line 7 is directed only to organizations that may receive deductible charitable contributions under section 170(c). See Publication 526, *Charitable Contributions*, for a description of such organizations. All other organizations should leave lines 7a through 7h blank and go to line 8.

Lines 7a and 7b. "Quid pro quo" contributions. If a donor makes a payment in excess of $75 partly as a contribution and partly in consideration for goods or services provided by the organization, the organization generally must notify the donor of the value of the goods and services provided.

Example. A donor gives a charity $100 in consideration for a concert ticket valued at $40 (a quid pro quo contribution). In this example, $60 would be deductible. Because the donor's payment exceeds $75, the organization must furnish a disclosure statement even though the taxpayer's deductible amount does not exceed $75. Separate payments of $75 or less made at different times of the year for separate fundraising events will not be aggregated for purposes of the $75 threshold.

TIP: See Publication 1771, *Charitable Contributions: Substantiation and Disclosure Requirements*.

Line 7c and 7d. Form 8282. The organization must answer "Yes" and indicate the number of forms filed if it filed Form 8282, *Donee Information Return*, to report information to the IRS and to donors about dispositions of certain donated property made within three years after the donor contributed the property.

Line 7e and 7f. Personal benefit contract. If, in connection with a transfer of funds to the organization, the organization directly or indirectly pays premiums on any personal benefit contract, or there is an understanding or expectation that any person will directly or indirectly pay such premiums, the organization must report on Form 8870 the premiums it paid, and the premiums paid by others but treated as paid by the organization. The organization must report and pay an excise tax, equal to premiums paid, on Form 4720. A *personal benefit contract* is generally any life insurance, annuity, or endowment contract that benefits, directly or indirectly, the transferor, a member of the transferor's family, or any other person designated by the transferor (other than an organization described in section 170(c)).

Line 7g. Qualified intellectual property. Form 8899, *Notice of Income from Donated Intellectual Property*, must be filed by certain organizations that received a charitable gift of qualified intellectual property that produces net income. The organization should check "Yes" if it provided all required Forms 8899 for the year for net income produced by donated qualified intellectual property.

Line 7h. Form 1098-C. A donor of a (1) motor vehicle for use on public roads, (2) boat, or (3) airplane cannot claim a charitable contribution deduction in excess of $500 unless the donee organization provides the donor with a Form 1098-C with respect to the donation (or a written acknowledgement with the same information). See the instructions for Form 1098-C for more information.

Line 8. Disclosure of Excess Business Holdings. Line 8 is required to be answered by sponsoring organizations maintaining donor advised funds and certain section 509(a)(3) supporting organizations. Such organizations must answer “Yes” if the organization is the sponsoring organization of a donor advised fund that had excess business holdings at any time during the organization’s tax year, or if the organization is a 509(a)(3) supporting organization of the type described below that had excess business holdings at any time during the organization’s tax year. All other organizations should leave this line blank and go to line 9. If “Yes,” see the Instructions for Form 4720, *Schedule C*, to determine whether the organization is subject to the excess business holdings tax under section 4943 and is required to file Form 4720.

Donor advised funds. For purposes of the excise tax on excess business holdings under section 4943, a donor advised fund is treated as a private foundation. For a definition of “donor advised fund” and “sponsoring organization,” see the *Glossary.* Also see the *Glossary* to determine who is considered a disqualified person for purposes of determining the excise tax on excess business holdings for a donor advised fund.

Supporting organizations. Only certain supporting organizations are subject to the excess business holdings tax under section 4943. These include:
• Type III supporting organizations that are not functionally integrated; and
• Type II supporting organizations that accept any gift or contribution from a person who, by himself or in connection with a related party, controls a supported organization of such Type II supporting organization.

To determine whether the organization is a supporting organization and if so, what type of supporting organization it is, see the Instructions for *Schedule A, Part I, Line 11*.

Line 9. 501(c)(3) and other sponsoring organizations maintaining donor advised funds. Line 9 is required to be completed by sponsoring organizations maintaining a donor advised fund. All other organizations may leave this line blank and go to line 10. See Glossary for definitions of a sponsoring organization, donor advised fund, and donor advisor.

Line 9a. Section 4966 taxable distributions. Answer “Yes” if the organization made any taxable distributions under section 4966. See Glossary for definition of taxable distribution.

For purposes of this question, a *related person* is any family member (as defined in section 4958(f)) of the donor or donor advisor and any 35% controlled entity (as defined in section 4958(f)) of the donor or donor advisor.

TIP: A distribution from a donor advised fund to an estate, partnership, association, company or corporation is subject to an excise tax under section 4966 unless:
(1) the distribution is for a charitable purpose (i.e., a purpose described in section 170(c)(2)(B)), or (2) the organization exercises expenditure responsibility with respect to the distribution.

The above does not apply to distributions to any organization described in section 170(b)(1)(A) (other than a disqualified supporting organization, defined in section 4966(d)(4)), to the sponsoring organization of such donor advised fund, or to any other donor advised fund. A distribution from a donor advised fund to an individual is subject to an excise tax under section 4966, whether a grant, reimbursement, payment of compensation for services, or other distribution, unless it is excepted as an individual educational grant program as described in section 4966(d)(2)(B)(ii), or the grant program is excepted from classification as a donor advised fund under Notice 2006-109.

Line 9b. Distribution to donor, donor advisor, or related person. Answer "Yes" if the organization makes a distribution from a donor advised fund to a donor, donor advisor, or related person (as defined in the Instructions for line 9a).

TIP: If an organization makes a distribution from a donor advised fund resulting from the advice of a donor, donor advisor, a family member, or a 35% controlled entity of any of these persons, which distribution directly or indirectly benefits one of such persons, section 4967 imposes a tax on (1) the person upon whose advice the distribution was made, (b) the beneficiary of the distribution, and (3) a fund manager for knowingly agreeing to make the distribution. The persons liable for the section 4967 tax must file Form 4720 to pay the tax.

Line 10 Section 501(c)(7) organizations. Answer lines 10a and 10b if the organization is a section 501(c)(7) organization. Skip lines 10a and 10b if the organization is not exempt under 501(c)(7).

Line 10a. Initiation fees and capital contributions. Enter the amount of initiation fees and capital contributions included in Part VIII, Statement of Revenue, Line 12, Total Revenue. However, if the organization is a college fraternity or sorority that charges membership initiation fees but not annual dues, do not include such initiation fees.

Line 10b. Gross receipts from public use of facilities. Enter the amount of gross receipts included in Part VIII, Statement of Revenue, line 12, Total Revenue, derived from the general public for the use of the organization's facilities, that is, from persons other than members, their spouses, dependents, or guests. Include this amount on Form 990-T also.

Line 11. Section 501(c)(12) organizations. Answer lines 11a and 11b if the organization is a section 501(c)(12) organization. Skip these lines if the organization is not exempt under 501(c)(12).

One of the requirements that an organization must meet to qualify under section 501(c)(12) is that at least 85% of its gross income consists of amounts collected from members for the sole purpose of meeting losses and expenses. For purposes of section 501(c)(12), the term *gross income* means gross receipts without reduction for any cost of goods sold.

Gross income for mutual or cooperative electric companies is figured by excluding any income received or accrued from:

1. Qualified pole rentals,
2. Any provision or sale of electric energy transmission services or ancillary services if the services are provided on a nondiscriminatory open access basis under an open access transmission tariff; approved or accepted by the Federal Energy Regulatory Commission (FERC) or under an independent transmission provider agreement approved or accepted by FERC (other than income received or accrued directly or indirectly from a member),
3. The provision or sale of electric energy distribution services or ancillary services if the services are provided on a nondiscriminatory, open-access basis to distribute electric energy not owned by the mutual or electric cooperative company:
    a. To end-users who are served by distribution facilities not owned by the company or any of its members (other than income received or accrued directly or indirectly from a member), or
    b. Generated by a generation facility not owned or leased by the company or any of its members and which is directly connected to distribution facilities owned by such company or any of its members (other than income received or accrued directly or indirectly from a member).
4. From any nuclear decommissioning transaction, or
5. From any asset exchange or conversion transaction.

For a mutual or cooperative telephone company, *gross income* does not include amounts received or accrued either from another telephone company for completing long distance calls to or from or between the telephone company's members, from qualified pole rentals, from the sale of display listings in a directory furnished to the telephone company's members, or from the prepayment of a loan under section 306A, 306B, or 311 of the Rural Electrification Act of 1936 (as in effect on January 1, 1987).

Line 12. 4947(a)(1) trusts. All organizations that are not 4947(a)(1) trusts are to leave line 12 blank.

If a 4947(a)(1) nonexempt charitable trust has no taxable income under Subtitle A, its filing of Form 990 may be used to meet its income tax return filing requirement under section 6012. Such a trust must, if it answers "Yes" to line 12a, report its tax-exempt interest received or accrued (if reporting under the accrual method) during the tax year on line 12b

Specific Instructions, continued

Part VI Governance, Management, and Disclosure

All organizations must answer each question in Part VI. Even though certain governance, management, and disclosure policies and procedures may not be required under the Internal Revenue Code, the IRS considers such policies and procedures to generally improve tax compliance. For example, although the governing body is not required by federal tax law to review the Form 990, line 10 asks certain questions about the organization's process, if any, it uses to review the Form 990. See the *Glossary* for definitions of certain terms.

Section A. Governing Body and Management

Line 1a. Number of voting members of governing body. The governing body is 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). State the number, as of the end of the organization's tax year, of members of the organization's governing body with power to vote on all matters that may come before the governing body (other than when a conflict of interest disqualifies the member from voting). If the members of the governing body do not all have the same voting rights, explain material differences in Schedule O.

Line 1b. Independent voting members. State the number of independent voting members of the organization's governing body as of the end of the organization's tax year. A member of the governing body is considered "independent" only if all four 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 Schedule R instructions) except for the religious exception discussed below.
2. The member did not receive total compensation or other payments exceeding $10,000 for the year from the organization or from related organizations as an independent contractor, other than reimbursement of expenses or 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 receives payments of $7,500 from the organization for other arrangements.
3. The member did not otherwise receive, directly or indirectly, material financial benefits from the organization or from a related organization. Transactions reportable in Schedule L with respect to a member of the governing body, or which would be reportable but for the large board exception (see Schedule L instructions), are deemed material financial benefits to the member for this purpose, except for a loan to the organization on arm's length or more favorable terms for the organization. In any case, a transaction with an amount greater than $50,000 is a per se material financial benefit for this purpose.

4. The member did not have a family member that received compensation or other material financial benefits from the organization or from a related organization.

A member of the governing body is not considered to lack independence merely because of the following circumstances:

1. the member is a major donor to the organization;
2. the member receives officer or employee compensation as an agent of a religious order or a 501(d) religious or apostolic organization who has taken a bona fide vow of poverty, under circumstances in which the individual does not receive taxable income (see, e.g., Rev. Ruls. 77-290, 80-332); or
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.

Example. A is a voting member of the organization's governing body. A is also a member of the organization, which is a section 501(c)(6) trade association whose exempt purpose is to promote the trade and business of its members. As a member of the organization, A is entitled to receive material financial benefits generally available to all of the organization's members under the terms and conditions of membership. Neither A nor a family member of A received compensation or other material financial benefits that violate factors 1, 2 or 4 above. Any material financial benefits that A receives from the organization solely in A's capacity as a member of the trade association are disregarded for purposes of factor 3 and when determining whether A is an independent voting member of the organization's governing body.

Line 2. Relationships among officers, etc. Answer "Yes" if any of the listed persons had a family or business relationship with another listed person at any time during the organization's tax year. For each family and business relationship, identify the persons and describe their relationship in Schedule O. It is sufficient to state "family relationship" or "business relationship" without greater detail.

Family relationship. 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, and spouses of brothers, sisters, children, and grandchildren.

Business relationship. 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, 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 $5,000 in the aggregate during the 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; and

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 may be ownership through multiple tiers of entities.

Line 3. Delegation of management to management company. Answer "Yes" if the organization used a management company or other person to perform management duties customarily performed by or under the direct supervision of officers, directors, trustees, or key employees. Such management duties include, but are not limited to, hiring, firing, and supervising personnel, planning or executing budgets or financial operations, or supervising exempt operations or unrelated trades or businesses of the organization. For this purpose, do not include an investment management company unless the organization conducts investment management services for others.

Line 4. Changes to organizational documents. The organization must report significant changes to its organizing or enabling document by which it was created (articles of incorporation, association, or organization; trust instrument; constitution; or similar document), and to its rules governing its affairs commonly known as bylaws (or regulations, operating agreement, or similar document). Report changes made since the prior Form 990 was filed, or that were not reported on any prior Form 990. Do not report changes to policies described or established outside of the organizing or enabling document and bylaws (or similar documents), such as adoption of, or change to, a policy adopted by resolution of the governing body that does not entail a change to the organizing document or bylaws.

Examples of significant changes to the organizing or enabling document or bylaws include changes to such documents:

- in the number, composition, qualifications, authority, or duties of the governing body's voting members;
- in the number, composition, qualifications, authority, or duties of the organization's officers or key employees;
- in the role of the stockholders or membership in governance;
- in the distribution of assets upon dissolution;
- in the provisions to amend the organizing or enabling document or bylaws;
- in the quorum, voting rights, or voting approval requirements of the governing body members or the organization's stockholders or membership;
- in the organization's exempt purposes or mission;
- in the policies or procedures regarding compensation of officers, directors, trustees, or key employees, conflicts of interest, whistleblowers, or document retention and destruction; and
- in the composition or procedures of an audit committee.

Examples of insignificant changes made to organizing or enabling documents or bylaws that are not required to be reported here include changes to the organization's registered agent with the State and to the required or permitted number or frequency of governing body or member meetings.

Describe significant changes in Schedule O, but do not attach a copy to Form 990 of the amendments or amended document (or recite the entire amended document verbatim), unless such amended documents reflect a change in the organization's name.

TIP: If an exempt organization changes its legal structure, such as from a trust to a corporation, then a new exemption application is required to establish that the new legal entity qualifies for exemption.

Line 5. Material diversion of assets. Answer "Yes" if the organization became aware during the year of a material diversion of its assets, whether or not the diversion occurred during the year. If "Yes," explain the nature of the diversion, amounts or property involved, corrective actions taken to address the matter, and pertinent circumstances in Schedule O, though the person or persons who diverted the assets should not be identified by name.

A diversion of assets includes any unauthorized conversion or use of the organization's assets other than for the organization's authorized purposes, including but not limited to an embezzlement or theft. Report diversions by the organization's officers, directors, trustees, employees, volunteers, independent contractors, grantees (diverting grant funds), or any other person, even if not associated with the organization other than by the diversion. A diversion of assets does not include an authorized transfer of assets for fair market value consideration, such as to a joint venture or for-profit subsidiary in exchange for an interest in the joint venture or subsidiary. For this purpose, a diversion is considered material if it exceeds the lesser of $250,000 or 5 percent of the organization's gross receipts for its tax year or total assets as of the end of its tax year.

Note: A diversion of assets may in some cases constitute inurement of the organization's net earnings. In the case of 501(c)(3) and (4) organizations, it also may be an excess benefit transaction taxable under section 4958 and reportable in Schedule L.

Line 6. Members or stockholders. Answer "Yes" if the organization is organized as a stock corporation, a joint-stock company, a partnership, a joint venture, or a limited liability company. Also state "Yes" if the organization is organized as a non-stock, non-profit, or not-for-profit corporation or association with members if (1) the right to participate in and benefit from the organization's activities is limited primarily to members (as with a cooperative or mutual benefit corporation), (2) the members elect the members of the governing body (but not if the persons on the governing body are the organization's only members), (3) the members approve decisions of the governing body, or (4) the members may receive a share of the organization's profits, excess dues, or net assets upon the organization's dissolution. Answer "No" if the organization is a trust for federal tax purposes. Describe in Schedule O the classes of members or stockholders.

Line 7a. Election of members of governing body. Answer "Yes" to Line 7a if there are one or more persons (other than the organization's governing body itself, acting in such capacity) that have the right to elect or appoint one or more members of the organization's governing body, whether periodically, as vacancies arise, or otherwise. If "Yes," describe in Schedule O the class or classes of such persons and the nature of their rights.

Line 7b. Approval of decisions of governing body. Answer "Yes" to Line 7b if there are one or more persons (whether members, stockholders, or otherwise) who have the right to approve or ratify decisions of the governing body, such as approval of the governing body's election or removal of members of the governing body, or approval of the governing body's decision to dissolve the organization. If "Yes," describe in Schedule O the class or classes of such persons, the decisions that require their approval, and the nature of their voting rights.

Line 8. Documentation of meetings and actions. Answer "Yes" to lines 8a and 8b if the organization contemporaneously documented by any means permitted by state law every meeting held and written action taken during the organization's tax year by its governing body and committees with authority to act on behalf of the governing body (which ordinarily do not include advisory boards). Documentation may include approved minutes, strings of e-mails, or similar writings that explain the action taken, when it was taken, and who made the decision. For this purpose, contemporaneous means by the later of (1) the next meeting of the governing body or committee (e.g., approving the minutes of the prior meeting), or (2) 60 days after the date of the meeting or written action. If "No," explain in Schedule O the organization's practices or policies, if any, regarding documentation of meetings and written actions of its governing body and committees with authority to act on its behalf.

Line 9a. Local chapters, branches, or affiliates. Answer "Yes" if the organization had during its tax year any local chapters, branches, lodges, units, or similar affiliates. These terms include organizations over which the organization has the legal authority to exercise supervision and control, such as subordinate organizations in a group exemption, as well as local units that are not separate legal entities under state law over which the organization has such authority.

Line 9b. Policies and Procedures Governing Chapters. "Written policies and procedures governing the activities of chapters, branches, and affiliates to ensure their consistency with activities of the organization" are documents used by the organization and its local units to address the policies, practices, and activities of the local unit. Such policies and procedures may include required provisions in the chapter's articles of organization or bylaws, a manual provided to chapters, a constitution, or similar documents. If "No," explain in Schedule O how the organization ensures that the local unit's activities are consistent with its own.

Note: The central or parent organization of a group exemption ruling is required to exercise oversight over its subordinate organizations as a condition of the group exemption.

Line 10. Governing body review of Form 990. State "Yes" only if a copy of the organization's final Form 990 (including required schedules), as ultimately filed with the IRS, was provided to each voting member of the organization's governing body, whether in paper or electronic form, prior to its filing with the IRS. Also describe in Schedule O the process, if any, by which any of the organization's officers, directors, trustees, board committee members, or management reviewed the prepared Form 990, whether before or after it was filed with the IRS, including specifics regarding who conducted the review, when they conducted it, and the extent of any such review. If no review was conducted, state "No review was conducted."

Line 11. Addresses of officers, directors, etc. The IRS needs a mailing address to contact the organization's officers, directors, trustees, and key employees. The organization may use its official mailing address stated on the first page of Form 990 as the mailing address for such persons. Otherwise, state in Schedule O the mailing addresses for such persons that are to be contacted at a different address.

Section B. Policies

Line 12a. Conflict of interest policy. A conflict of interest policy defines conflicts of interest, identifies the classes of individuals within the organization covered by the policy, facilitates disclosure of information that may 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, may 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.

Example. B is a member of the governing body of X Charity and of Y Charity, which are 501(c)(3) public charities with different charitable purposes. X Charity has taken a public stand in opposition to a specific legislative proposal. At an upcoming board meeting, Y Charity will consider whether to publicly endorse the same specific legislative proposal. While B may have a conflict of interest in this decision, the conflict does not involve a material financial interest of B's merely as a result of Y Charity's position on the legislation.

Line 12b. Annual disclosure of interests. Answer "Yes" if the organization's officers, directors, trustees, and key employees are required to disclose or update annually (or more frequently) their interests that could give rise to conflicts of interest, such as a list of family members, substantial business or investment holdings, and other transactions or affiliations with businesses and other organizations.

Line 12c. Enforcement of conflicts policy. If "Yes," describe in Schedule O the organization's practices for monitoring proposed or ongoing transactions for conflicts of interest and dealing with potential or actual conflicts, whether discovered before or after the transaction has occurred. The description should include an explanation of which persons are covered under the policy, the level at which determinations of whether a conflict exists are made, and the level at which actual conflicts are reviewed. Also explain any restrictions imposed on persons with a conflict, such as prohibiting them from participating in the governing body's deliberations and decision in the transaction.

Lines 13 and 14. Whistleblower and document retention policies. A whistleblower policy encourages staff and volunteers to come forward with credible information on illegal practices or violations of adopted policies of the organization, specifies that the organization will protect the individual from retaliation, and identifies those staff or board members or outside parties to whom such information can be reported. A document retention and destruction policy identifies the record retention responsibilities of staff, volunteers, board members, and outsiders for maintaining and documenting the storage and destruction of the organization's documents and records. Answer "Yes" if the organization implemented these policies on or before the last day of the organization's tax year.

TIP: The Sarbanes-Oxley legislation imposes criminal liability on tax-exempt and other organizations for retaliation against whistleblowers, and for destruction of records with the intent to obstruct a federal investigation. See 18 U.S.C. sections 1513(e) and 1519. Also note that organizations are required to keep books and records relevant to its tax exemption and its filings with the IRS

Line 15. Process for determining compensation. Answer "Yes" to line 15a if the organization used a process for determining compensation (reported in Part VII or Schedule J) of the CEO, Executive Director, or other person who is the top management official, that included all of the following elements:

- Review and approval by a governing body or compensation committee, provided that persons with a conflict of interest with respect to the compensation arrangement at issue were not involved. For purposes of this question, use the definition of "conflict of interest" set forth in Regulations section 53.4958-6(c)(1)(iii).
- Use of data as to comparable compensation for similarly qualified persons in functionally comparable positions at similarly situated organizations.
- Contemporaneous documentation and recordkeeping with respect to the deliberations and decisions regarding the compensation arrangement.

Answer "Yes" to Line 15b if the process for determining compensation of one or more officers or key employees other than the top management official included all of the elements listed above.

If "Yes" to Lines 15a and/or 15b, describe the process in Schedule O, identify the offices or positions for which the process was used to establish compensation of the persons who served in those offices or positions, and state the year in which this process was undertaken.

Line 16. Joint venture policy. Answer "Yes" to Line 16a if at any time during its tax year the organization invested in, contributed assets to, or otherwise participated in a joint venture or similar arrangement with one or more taxable persons, regardless of whether the venture or arrangement is taxed as a partnership or as an association taxable as a corporation for federal income tax purposes. Include all such arrangements whether the purpose is to conduct an exempt activity, an investment activity, or an unrelated trade or business activity, and regardless of whether the organization controls the joint venture or arrangement. Disregard ventures or arrangements that meet both of the following conditions:

1. 95% or more of the venture's or arrangement's income for its tax year ending with or within the organization's tax year is described in sections 512(b)(1)-(5) (including unrelated debt-financed income)
2. The primary purpose of the organization's contribution to, or investment or participation in, the venture or arrangement is the production of income or appreciation of property.

Answer "Yes" to Line 16b if the organization has both (1) adopted a written policy or procedure that requires the organization to negotiate in its transactions and arrangements with other members of the partnership such terms and safeguards adequate to ensure that the organization's exempt status is protected, and (2) taken steps to safeguard the organization's exempt status with respect to the venture or arrangement.

Some examples of safeguards include: control over the venture or arrangement sufficient to ensure that the venture furthers the exempt purpose of the organization; requirements that the venture or arrangement give priority to exempt purposes over maximizing profits for the other participants; that it not engage in activities that would jeopardize the organization's exemption; and that all contracts entered into with the organization be on terms that are arm's length or more favorable to the organization.

Section C. Disclosure

Line 17. Form 990 filings in States. Use Schedule O if additional space is necessary.

TIP: Some States require or permit the filing of Form 990 to fulfill State exempt organization or charitable solicitation reporting requirements.

Line 18. Public availability of Forms 1023/1024, 990, and 990-T. Exempt organizations must make publicly available their Form 1023 or 1024 application for recognition of exemption. Applications filed before July 15, 1987, need not be made publicly available unless the organization had a copy on July 15, 1987. Organizations that file Form 990 must make it publicly available for a period of three years from the date it is required to be filed (including extensions) or, if later, is actually filed. Names and addresses of contributors (as set forth in Form 990 Schedule B and in Form 1023/1024) must be withheld from public inspection. 501(c)(3) organizations that file Form 990-T also are required to make their Form 990-T publicly available for the corresponding three-year period, for forms filed after August 17, 2006 (unless the Form was filed solely to request a refund of telephone excise taxes). See Appendix for more information on public inspection availability. Explain in Schedule O if the organization does not make publicly available any form discussed above upon request.

Line 19. Public availability of other documents. Explain in Schedule O whether the organization makes its governing documents, conflict of interest policy, and financial statements (whether or not audited) available to the general public, and if so, how it makes them available to the public (e.g., posting on the organization's website, posting on another website, providing copies on request, inspection at an office of the organization).

Federal tax law does not require that such documents be made publicly available except as part of a form that is publicly available (such as Form 1023 or 1024).

Line 20. Location of books and records. The organization is not required to provide the address or telephone number of a personal residence of an individual. Provide the name of the person who possesses the books and records, and the business address and telephone number of such person (or of the organization if the books and records are kept by such person at a personal residence).

Specific Instructions, continued

Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Overview. Form 990, Part VII requires the listing of the organization's current or former officers, directors, trustees, key employees, and highest compensated employees, and current independent contractors, and reporting of certain compensation information relating to such persons.

All organizations are required to complete Part VII, and when applicable, Schedule J, Compensation Information, for certain persons. Compensation must be reported for the calendar year ending with or within the organization's tax year. In some cases, persons are reported in Part VII or Schedule J only if their reportable compensation (as defined below) or total compensation (as defined below) from the organization and related organizations (as defined in the Schedule R instructions) exceeds certain thresholds. In some cases, compensation from an unrelated organization must be reported on the Form 990. See the instructions for Part VII, Section A, line 5.

Section A requires reporting of officers, directors, trustees, key employees and up to five of the organization's highest compensated employees. Compensation from related organizations must also be taken into account in determining a person's compensation and reported separately in Section A, Columns (E) and (F). Section A provides space for listing up to 34 different persons.

Use Schedule J-2, Continuation Sheet for Compensation, if more space is needed to list additional persons. Use as many Schedules J-2 as needed.

Section B requires reporting of the five highest compensated independent contractors. Section B does not require reporting of compensation from related organizations.

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

Overview. Organizations are required to list the following officers, directors, trustees, and employees of the organization whose reportable compensation from the organization and related organizations (as defined in the Schedule R instructions) exceeded the following thresholds:

- current officers, directors, and trustees (no minimum compensation threshold)
- current key employees ($150,000)
- current five highest compensated employees other than officers, directors, trustees, or listed key employees ($100,000)
- former officers, key employees, and highest compensated employees ($100,000)
- former directors and trustees ($10,000 in the capacity as a former director or trustee)

Special rules described below apply for disregarded entities of which the organization is the sole member.

Director or trustee. A "director or trustee" is a member of the organization's governing body, but only if the member has any voting rights. Members of advisory boards that do not exercise any governance authority over the organization are not considered directors or trustees.

An "institutional trustee" is 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.

Officer. An officer is a person elected or appointed to manage the organization's daily operations, such as a president, vice-president, secretary, or treasurer. The officers of an organization may be determined by reference to its organizing document, bylaws, or resolutions of its governing body, but in all cases include those officers required by applicable state law. For purposes of Form 990 reporting, treat the organization's top management official as an officer.

Key employee. For purposes of Form 990 reporting, a key employee is an employee of the organization (other than an officer, director, or trustee) who (1) has responsibilities, powers or influence over the organization as a whole that is similar to those of officers, directors, or trustees; (2) manages a discrete segment or activity of the organization that represents 5% or more of the activities, assets, income, or expenses of the organization, as compared to the organization as a whole; or (3) has or shares authority to control or determine 5% or more of the organization's capital expenditures, operating budget, or compensation for employees. An individual that is not an employee of the organization (or of a disregarded entity of the organization) is treated as a key employee if he or she serves as a director or similar fiduciary of a disregarded entity of the organization and otherwise meets the standards of a key employee set forth above. See below for the treatment of certain employees of a disregarded entity as a key employee of the organization. *Exclude any person whose reportable compensation from the organization and related organizations does not exceed $150,000.* Management companies and similar entities that are independent contractors should not be reported as key employees.

Caution: The form indicates that all current key employees must be listed "regardless of amount of compensation." By definition, a person should not be listed as a key employee unless his or her reportable compensation from the organization and related organizations exceeds $150,000.

In the examples set forth below, assume that the individual involved is an employee of the organization with reportable compensation in excess of $150,000, but is not an officer, director, or trustee.

Example 1. T is a large 501(c)(3) university. L is the dean of the law school of T, which generates more than 5% of the revenue of T, including contributions from alumni and foundations. L does not have ultimate responsibility for managing the university as whole. However, as dean of the law school, L plays a key role in faculty hiring and determines the law school's capital expenditures and operating budget, which represents more than 5% of the capital expenditures and operating budget of T. Under these facts and circumstances L is a key employee of T.

Example 2. S chairs a small academic department in the College of Arts and Sciences of the same university T described above. As department chair, S supervises faculty in the department, approves the course curriculum, and oversees the operating budget for the department. Even though S manages the department, that department represents less than 5% of T's activities, assets, income, expenses, and operating budget. Under these facts and circumstances, S is not a key employee of T.

Example 3. U is a large acute-care 501(c)(3) hospital. U employs X as a radiologist. X gives instructions to staff with respect to the radiology work X conducts, but X does not supervise other U employees or manage 5% or more of U's operations. Under these facts and circumstances, X is not a key employee of U.

Example 4. W is a cardiologist and head of the cardiology department of the same hospital U described above. The cardiology department is a major source of patients admitted to U and consequently represents more than 5% of U's income, as compared to U as a whole. As department head, W manages the cardiology department. Under these facts and circumstances, W is a key employee of U.

Five Highest Compensated Employees. The organization is required to list the highest compensated employees whose reportable compensation combined from the organization and related organizations is greater than $100,000 for the year and who are not also an officer, director, trustee, or listed key employee of the organization. The organization is not required to list more than the top five such persons, ranked by amount of reportable compensation. Use the calendar year ending with or within the organization's tax year for determining the organization's current five highest compensated employees.

Reportable compensation. Reportable compensation consists of:

- For officers and other employees --- amounts reported in Box 5 of Form W-2.
- For directors and individual trustees --- amounts reported in Box 7 of Form 1099-MISC (plus Box 5 of Form W-2 if also compensated as an officer or employee).
- For institutional trustees --- fees for services paid pursuant to a contractual agreement or statutory entitlement. While the compensation of institutional trustees must be reported in Form 990, Part VII, it need not be reported in Schedule J.

If the organization does not file a Form W-2 or 1099-MISC because the amounts paid were below the threshold reporting requirement, then include and report the amount actually paid. Do not apply this rule to related organizations.

TIP: Corporate officers are considered employees for purposes of Form W-2 reporting, unless they perform no services as officers, or perform only minor services and neither receive nor are entitled to receive, directly or indirectly, any compensation. Corporate directors are considered independent contractors, not employees, and director compensation, if any, generally is required to be reported on Form 1099-MISC. See Regulations.section 31.3401(c)-1(f).

To determine whether an individual received more than $100,000 (or $150,000) in reportable compensation in the aggregate from the organization and related organizations, add the following amounts:

- Amounts reported in Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC issued to the individual by the organization and all related organizations.
- Amounts reported in Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC issued to the individual by each related organization. Disregard payments from a related organization if below $10,000.

To determine whether an individual received solely in the capacity as a former trustee or director of the organization more than $10,000 in reportable compensation, in the aggregate, from the organization and all related organizations (and thus must be reported in Form 990, Part VII and Schedule J, Part II), add the amounts reported in Box 7 of all Forms 1099-MISC and, if relevant, Box 5 of all Forms W-2 issued to the individual by the organization and all related organizations, to the extent that such amounts relate to the individual's past services as a trustee or director of the organization (disregarding payments from a related organization if below $10,000, except to the extent paid to a former director or former trustee of the organization for services as a director or trustee of the organization).

Other compensation. Other compensation includes compensation other than reportable compensation, including deferred compensation not currently reportable on Form W-2, Box 5 or Form 1099- MISC, Box 7, and certain nontaxable benefits, as discussed in detail in the Schedule J, Part II instructions. See the instructions for other compensation below, which includes a table to show where and how to report certain types of compensation on Part VII and Schedule J.

Disregarded entities. Disregarded entities (such as a limited liability company that is wholly owned by the organization and not treated as a separate entity for federal tax purposes) are treated as part of the organization rather than as related organizations for purposes of Form 990, Part VII and Schedule J. A person is not considered an officer or director of the organization by virtue of being an officer or director of a disregarded entity, but he or she may qualify as a highest compensated employee of the organization, or as a key employee. An officer, director, or employee of a disregarded entity is a key employee of the organization if the person has responsibilities, powers or influence over a discrete segment or activity of the disregarded entity that represents at least 5 percent of the activities, assets, income or expenses of the filing organization as a whole, or has or shares authority to control or determine the disregarded entity's capital expenditures, operating budget, or compensation for employees that constitutes at least 5 percent of the filing organization's respective items as a whole. If an officer or director of a disregarded entity also serves as an officer, director, trustee, or key employee of the organization, report this individual as an officer, director, trustee, or key employee, as applicable, of the organization, and add the compensation, if any, paid by the disregarded entity to this individual to the compensation, if any, paid directly by the organization to this individual. Report the total aggregate amount in Column (D) rather than in Columns (D) and (E).

Group returns. A central or parent organization (as described in General Instruction I) that files a group Form 990 return must generally file a separate Form 990 for itself (unless it is excepted from filing Form 990) in addition to the group return. With respect to Form 990, Part VII and Schedule J, Part II, however, the central organization has two choices, as follows: (1) file separately a Form 990, Part VII and Schedule J, Part II for itself with its return, and a Form 990, Part VII and Schedule J, Part II with the group return for each subordinate included in the group return, or (2) file a single consolidated Form 990, Part VII and Schedule J, Part II for itself and all included subordinates with the group return. The central organization must state in Schedule O whether it has adopted the first or second method of reporting and may not change it without IRS consent. If an organization reports by the consolidated method, it must report the five highest compensated employees and independent contractors above $100,000 for each subordinate, not the five highest for the whole group. If an organization reports by the consolidated method and one or more officers, directors, trustees, key employees, or highest compensated employees receives compensation from more than one organization in the group, the person's compensation from the several organizations must be reported once but not more than once. Regardless of the method used, indicate which organization(s) paid the compensation.

Column (A). Name and title. For each person required to be listed, enter the name in the top of each row and the person's title or position with the organization in the bottom of the row. List all titles or positions if more than one. Use the Schedule J-2 Continuation Sheet if additional space is needed for additional persons or titles.

Column (B). Average hours per week. For each person listed in column (A), estimate the average hours per week devoted to the organization and to all related organizations for which compensation is reported during the calendar year ending with or within the organization's tax year. Entry of a specific number is required for a complete answer. Statements such as "as needed," "as required," or "40+" are unacceptable. Hours devoted to related organizations may be reported in Schedule O.

Column (C). Position. For each person listed in column (A), check all applicable boxes for positions with the organization.

Current and former. A "current" officer, director, trustee, or key employee is a person that was an officer, director, trustee, or key employee at any time during the organization's tax year.

Do not check the "Former" box if the person was a current officer, director, trustee, key employee, or among the five highest compensated employees at any time during the organization's tax year. A current employee may, however, be reported in Form 990, Part VII and Schedule J, Part II because he or she formerly served as a director or trustee and received or accrued more than $10,000 in the capacity as a former director or trustee; in such case indicate the individual's former status in his or her titles.

Check the "Former" box only if the organization reported (or should have reported) an individual as an officer, director, trustee, key employee, or one of the five highest compensated employees on any of the organization's **prior five** Forms 990, 990-EZ or 990-PF, applying the instructions in effect for such years. If a person was reported (or should have been reported) as an officer, director, trustee, key employee, or one of the five highest compensated employees on any of the organization's prior five Forms 990, 990-EZ or 990-PF, and the person was still employed at any time during the organization's tax year either (1) by the organization in a lesser capacity; or (2) by a related organization in any capacity, check only the "Former" box.

If the organization uses a non-calendar tax or fiscal year, use the tax year to determine the organization's "current" officers, directors, and trustees, and the calendar year ending within the tax year to determine the organization's "current" key employees and five highest compensated employees.

Employee. An employee is a person who performs services for an employer, if the employer has the right to control and direct the results of the work and the way in which it is done. Management companies and similar entities that are independent contractors should not be reported as employees.

Columns (D) & (E). Reportable compensation. Enter the amounts required to be reported on Form W-2, Box 5 and/or Form 1099-MISC, Box 7 issued to the person for the calendar year ending with or within the organization's tax year. For institutional trustees that do not receive a Form 1099-MISC, enter the amount that the organization would have reported in Box 7 if a 1099-MISC had been required.

Treat amounts paid by a common paymaster as defined in Regulations section 31.3121(s)-1(b) for services performed for the organization as if paid directly by the organization. Likewise, treat amounts paid by a common paymaster for services performed for a related organization as if paid directly by the related organization.

For purposes of column (E), the organization need not include payments from a single related organization if less than $10,000, except to the extent paid to a former director or former trustee of the organization for services as a director or trustee of the organization. For example, if an officer of the organization received compensation of $6,000, $15,000 and $50,000 from three separate related organizations, the organization needs to report only $65,000 in column (E) for the officer.

<u>Volunteer Exception.</u> The organization need not report in Column (E) compensation from a related organization paid to a volunteer officer, director, or trustee of the organization if the related organization is a for-profit organization and is not owned or controlled directly or indirectly by the organization or one or more related tax-exempt organizations.

<u>Bank or Financial Institution Trustee Exception.</u> If the organization is a trust with a bank or financial institution trustee that is also trustee of another trust, it need not report in Column (E) compensation from the other trust for services provided as the trustee to the other trust.

Column (F). Other compensation. Other compensation includes deferred compensation not currently reportable on Form W-2, Box 5 or Form 1099-MISC, Box 7, and nontaxable benefits other than disregarded benefits, as discussed in the Schedule J, Part II instructions. Treat amounts paid or accrued under a deferred compensation plan, or held by a deferred compensation trust, that is established, sponsored, or maintained by the organization (or a related organization) as paid, accrued, or held directly by the organization (or the related organization). Report a reasonable estimate if actual numbers are not readily available. Refer to the Schedule J, Part II instructions to determine which nontaxable benefits must be reported as other compensation.

$10,000 exclusions for certain "other compensation" items. The following items of compensation must be reported as "other compensation" in all cases regardless of the amount (unless the $10,000 exception for compensation from a related organization applies):

1. Tax-deferred contributions by the employer and employee to a qualified defined-contribution retirement plan.
2. The value of health benefits provided by the employer, and contributions by the employee to a health benefit plan, whether or not qualified, that are not included in reportable compensation. For this purpose, health benefits provided by the employer include payments of health benefit plan premiums, medical reimbursement and flexible spending programs, and health benefits provided by employer self-insurance. Health benefits include dental, optical, drug, and medical equipment benefits. They do not include disability or long-term care insurance premiums or benefits.
3. Tax-deferred contributions by the employer and employee to a non-qualified retirement or deferred compensation plan, and the annual increase in earnings of such plan, or increase in actuarial value of a qualified defined benefit plan, whether or not funded, vested, or subject to a substantial risk of forfeiture.

If a person's compensation does not need to be reported in Schedule J, Part II, then the organization generally is not required to report any other item of "other compensation" (as set forth in the table below) if its total value is less than $10,000 for the calendar year ending with or within the organization's tax year.

The $10,000 exclusions are to be applied to all individuals in determining whether the individual's total reportable and other compensation exceeds the thresholds set forth in Form 990, Part VII, Section A, lines 3 and 4. If the total exceeds the threshold, then the $10,000 exclusions are not applied to the individual's compensation reported either in Form 990, Part VII or in Schedule J. The $10,000 exclusions apply separately with respect to each item of other compensation from the organization and from each related organization.

Example.
Organization X provides the following compensation to its current officer:

$105,000	reportable compensation
5,000	tax-deferred employer contribution to qualified defined-contribution retirement plan
5,000	pre-tax employee contribution to same plan
4,000	nontaxable employer contribution to health benefit plan
4,000	pre-tax employee contribution to same plan
4,000	nontaxable dependent care assistance
500	nontaxable group life insurance premium

8,000	moving expense (nontaxable as qualified under section 132)

Organization Y, a related organization, also provides compensation to the officer as follows:

$20,000	reportable compensation
1,000	tax-deferred employer contribution to qualified defined-contribution retirement plan
1,000	pre-tax employee contribution to same plan
5,000	nontaxable tuition assistance

The officer receives no compensation in the capacity as a former director or trustee of X, and no unrelated organization pays the officer for services provided to X. The organization may disregard as other compensation $4500 from the organization (dependent care and group life) and $5000 from the related organization (tuition) in determining whether the officer's total reportable and other compensation from the organization and related organizations exceeds $150,000. In this case, total reportable compensation is $125,000, and total other compensation (excluding the excludible items below $10,000) is $20,000. Under these circumstances, the officer's total reportable and other compensation ($145,000) is not reportable in Schedule J, and therefore the dependent care, group life, and tuition items need not be reported as other compensation in Form 990, Part VII, Section A, Column (F). If instead, the officer's reportable compensation from Y were $30,000 rather than $20,000, then the officer's total reportable and other compensation ($155,000) would be reportable in Schedule J, and the dependent care, group life, and tuition items would have to be reported as other compensation in both Form 990, Part VII as well as Schedule J. In any event, the moving expense is not reportable as other compensation, as section 132 fringes are generally disregarded.

Compensation table for reporting on Part VII or Schedule J. The following table may be useful in determining how and where to report items of compensation and benefits in Form 990, Part VII, Section A and in Schedule J, Part II. The list is not comprehensive but covers most items for most organizations. Many items of compensation may or may not be taxable or currently taxable, depending on the plan or arrangement adopted by the organization and other circumstances. The list attempts to take into account these varying facts and circumstances. The list is merely a guideline to report amounts for those persons required to be listed. In all cases, items included in Box 5 of Form W-2 and Box 7 of Form 1099-MISC are required to be reported in Part VII, Section A and, for applicable persons, Schedule J, Part II, Column B.

Type of compensation	Where to report				
	Form 990, Part VII, Section A, Col. (D) or (E)			Form 990, Part VII, Section A, Col. (F)	
	Schedule J, Part II, Col.				
	B(i)	B(ii)	B(iii)	C	D
Base salary/wages/fees paid	x				
Base salary/wages/fees deferred (taxable)	x				

Base salary/wages/fees deferred (nontaxable)				x	
Bonus paid (including signing bonus)		x			
Bonus deferred (taxable in current year)		x			
Bonus deferred (not taxable in current year)				x	
Incentive compensation paid		x			
Incentive compensation deferred (taxable in current year)		x			
Incentive compensation deferred (not taxable in current year)				x	
Severance or change of control payments made			x		
Sick pay paid by employer	x				
Third party sick pay			x		
Other compensation amounts deferred (taxable in current year)		x			
Other compensation amounts deferred (not taxable in current year)				x	
Tax gross-ups paid			x		
Vacation/sick leave cashed out			x		
Stock options at time of grant				x	
Stock options at time of exercise			x		
Stock awards paid by taxable organizations substantially vested			x		
Stock awards paid by taxable organizations not vested				x	
Stock equivalents paid by taxable organizations substantially vested			x		
Stock equivalents paid by taxable organizations not vested				x	
Loans—forgone interest or debt forgiveness			x		
Contributions (employer) to qualified retirement plan				x	
Contributions (employee deferrals) to 401(k) plan				x	
Contributions (employee deferrals) to 403(b) plan			x		
Qualified retirement plan benefit accruals (for defined benefit plan, reasonable estimate of increase in actuarial value)				x	
Qualified retirement plan (defined				x	

contribution) investment earnings					
Taxable distributions from qualified retirement plan (reported on Form 1099-R)					
Distributions from nongovernmental 457(b) plan					
Amounts includible in income under 457(f)			x		
Amounts deferred (plus earnings) under 457(b) plan (vested)			x		
Amounts deferred (plus earnings) under 457(b) plan (nonvested)				x	
Contributions to nonqualified plans (vested)			x		
Contributions to nonqualified plans (nonvested)				x	
Increase in earnings of nonqualified plan			x		
Cost of current insurance protection under compensatory split dollar life insurance arrangement			x		
Scholarships and fellowship grants (taxable)			x		
Health benefit plan premiums (taxable)			x		
Health benefit plan premiums (nontaxable)					x
Medical reimbursement and flexible spending programs (taxable)			x		
Medical reimbursement and flexible spending programs (nontaxable)					x
Other health benefits (taxable)			x		
Other health benefits (nontaxable)					x
Life, disability, or long-term-care insurance (taxable)			x		
Life, disability, or long-term-care insurance (nontaxable)					x
Split-dollar life insurance					
Housing provided by employer (taxable)			x		
Housing provided by employer (nontaxable)					x
Personal legal services (taxable)			x		
Personal legal services					x

(nontaxable)					
Personal financial services (taxable)			x		
Personal financial services (nontaxable)					x
Dependent care assistance (taxable)			x		
Dependent care assistance (nontaxable)					x
Adoption assistance (taxable)			x		
Adoption assistance (nontaxable)					x
Tuition assistance for family (taxable)			x		
Tuition assistance for family (nontaxable)					x
Cafeteria plans (taxable)			x		
Cafeteria plans (nontaxable)					x
Liability insurance (taxable)			x		
Employer-provided automobile (taxable)			x		
Employer-subsidized parking (taxable)			x		
Travel (taxable)			x		
Moving (taxable)			x		
Meals and entertainment (taxable)			x		
Social club dues (taxable)			x		
Spending account (taxable)			x		

Line 3. Compensation thresholds for Schedule J reporting of former persons. Complete Schedule J for the following:

- each individual listed in Section A as a former **officer**, former **key employee**, or a former **highest compensated employee** (among the five highest in any of the five prior years) who received more than $100,000 of reportable compensation for the current year from the organization and/or related organizations. To determine whether an individual received more than $100,000 in reportable compensation in the aggregate from the organization and related organizations, add the amounts reported in Box 5 of all Forms W-2 and Box 7 of all Forms 1099-MISC issued to the individual by the organization and all related organizations (disregarding amounts from a related organization if below $10,000) for the calendar year ending with or within the organization's tax year. This computation includes payments for past services as a former officer, key employee or highest compensated employee of the organization and payments for present services in any capacity to the organization or a related organization.

- each individual that received, solely in the capacity as a former **director** or former **trustee** of the organization, more than $10,000 of reportable compensation during the year from the organization and/or related organizations.

To determine whether an individual received or accrued more than $10,000 in reportable compensation solely in the capacity as a former trustee or director of the organization, add the amounts reported in Box 7 of all Forms 1099-MISC and, if relevant, Box 5 of all Forms W-2 issued to the individual by the organization and all related organizations ((disregarding payments from a related organization if below $10,000, except to the extent paid to a former director or former trustee of the organization for services as a director or trustee of the organization) for the calendar year ending with or within the organization's tax year, to the extent that such amounts relate to the individual's past services as a trustee or director of the organization (not of a related organization).

Line 4. Schedule J reporting of listed individuals with compensation greater than $150,000. Complete Schedule J for each individual listed in Section A who received or accrued more than $150,000 of reportable and other compensation from the organization and related organizations. To determine whether any listed individual received or accrued more than $150,000 of reportable and other compensation, add all compensation included in columns (D), (E), and (F) of Section A.

The following chart explains which officers, directors, trustees, key employees, and highest compensated employees must be reported in Form 990, Part VII, Section A, and which in Schedule J as well. See also line 5 for additional individuals who must be reported in Schedule J, Part II.

Position	Current or former	List in Form 990, Part VII, Section A:	List in Schedule J:
Directors and trustees	current	all	if reportable and other compensation > $150,000 in the aggregate from organization and related organizations (except institutional trustee)
	former	if reportable compensation in capacity as former director or trustee > $10,000 in the aggregate from organization and related organizations	if listed in Form 990, Part VII, Section A (except institutional trustee)
Officers and key employees	current	Key employees if reportable compensation > $150,000 in the aggregate from organization and related organizations, and all officers	if reportable and other compensation > $150,000 in the aggregate from organization and related organizations
	former	if reportable compensation > $100,000 in the aggregate from organization and related organizations	if listed in Form 990, Part VII, Section A

Other five highest compensated employees	current	if reportable compensation > $100,000 in the aggregate from organization and related organizations	if reportable and other compensation > $150,000 in the aggregate from organization and related organizations
	former	if reportable compensation > $100,000 in the aggregate from organization and related organizations	if listed in Form 990, Part VII, Section A

Line 5. Schedule J reporting for compensation from certain unrelated organizations. Complete Schedule J for any individual listed in Form 990, Part VII, Section A if the person receives or accrues compensation from an unrelated organization for services rendered to the organization in the person's capacity as an officer, director, trustee, or employee of the organization. Also, specify in Part III of Schedule J the name of the unrelated organization, the type and amount of compensation it paid or accrued, and the person receiving or accruing such compensation. The organization must report as compensation amounts received or accrued by the person from the unrelated organization for services rendered to the organization, whether the unrelated organization treats the amounts as compensation, grants, or otherwise. The organization is required to report compensation from an unrelated organization only if it has knowledge of the compensation arrangement.

The compensation from the unrelated organization for services provided to the organization must be reported as compensation from the organization both in Form 990, Part VII and in Schedule J. The amounts from the unrelated organization must be taken into account in determining whether the person must be reported in Form 990, Part VII in the first place.

For purposes of line 5, disregard:

1. payments from a deferred compensation trust or plan established, sponsored, or maintained by the organization (or a related organization), and deferred compensation held by such trust or plan.
2. payments from a common paymaster for services provided to the organization (or to a related organization).
3. payments from an unrelated taxable organization that employs the individual and continues to pay the individual's regular compensation while the individual provides services without charge to the organization, but only if the unrelated organization does not treat the payments as a charitable contribution or distribution to the organization.

Example 1. A is the CEO of the organization. In addition to compensation paid by the organization to A, A receives payments from B, an unrelated corporation (using the definition of relatedness in Schedule R), for services provided by A to the organization. B also makes rent payments for A's personal residence. The organization is aware of the compensation arrangement between A and B, and does not treat the payments as paid by the organization for Form W-2 reporting purposes. The amounts paid by B to A require that the organization answer “yes” to line 5 and complete Schedule J with respect to A.

Example 2. C is an attorney employed by a law firm that is not a related organization with respect to the organization. The organization and the law firm enter into an arrangement where C serves the organization, a 501(c)(3) legal aid society pro bono, on a full-time basis as its vice-president while continuing to receive her regular compensation from the law firm. The organization does not provide any compensation to C for the services provided by C to the organization, and does not report C’s compensation on Form W-2 or Form 1099-MISC. The law firm does not treat any part of C’s compensation as a charitable contribution to the legal aid society. Under these circumstances, the amounts paid by the law firm to C do not require that the organization answer “yes” to line 5.

Example 3. D, a volunteer director of the organization, is also the sole owner and CEO of M management company, which provides management services to the organization. The organization pays M an annual fee of $150,000 for the management services. Under the circumstances, the amounts paid by M to D (in the capacity as owner and CEO of M) do not require that the organization answer “yes” to line 5. The organization must report in Schedule L, Part IV, however, the transaction with M, including the relationship between D and M.

Section B. Five Highest Compensated Independent Contractors

Complete this table for the five highest compensated independent contractors that received more than $100,000 in compensation for services, whether professional services or other services, from the organization. Independent contractors include organizations as well as individuals. See Publication 1779 and Publication 15-A for distinguishing employees from independent contractors.

Column (C). Compensation. Enter the amount the organization paid, whether reported on Form 1099-MISC, Box 7 or paid pursuant to the parties’ agreement or applicable state law, for the calendar year ending with or within the organization’s tax year.

Compensation includes fees and similar payments to independent contractors but not reimbursement of expenses. However, for this purpose, the organization may report the gross payment to the independent contractor that includes expenses and fees if the expenses are insubstantial and not separately reported to the organization.

TIP: Form 1099-MISC is not always required to be issued for payments to an independent contractor.

Specific Instructions, continued

Part VIII Statement of Revenue

Column (A) – Total Revenue
All organizations must complete Column (A), *Total Revenue*, reporting their gross receipts for all sources of revenue. All organizations (except section 527 political organizations) must complete Columns (B) through (D). Refer to specific instructions below for completing each column.

TIP: If the organization enters an amount in column (A) for lines 2a – 2e or lines 11a – 11c, it must also enter a business code for each line from the *Codes for Unrelated Business Activity* in the 2008 Instructions for Form 990-T. If none of the listed codes accurately describe the activity, enter 900099.

Column (B) – Related or Exempt Function Revenue
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 section 512, 513, or 514, such as interest on state and local bonds that is excluded from tax by section 103.

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

Column (D) –Unrelated Business Revenue Excluded From Tax (under sections 512, 513, or 514)
In column (D), report any revenue excludable from unrelated business income by Code sections 512, 513, or 514.

Line 1. In General

Contributions, Gifts, Grants and Similar Amounts Received
On lines 1a through 1f report amounts received as voluntary contributions, gifts, grants or other similar amounts from the general public, governmental units, foundations, and other exempt organizations. 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 gross amounts of contributions collected in the organization's name by fundraisers.

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

Report the value of noncash contributions at the time of the donation. For example, report the gross value of a donated car at the time the car was received as a donation.

Reporting line 1 in accordance with SFAS 116 is acceptable for Form 990 purposes, but not required by IRS. An organization that receives a grant to be paid in future years should, according to SFAS 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.

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 or of use of materials, equipment, or facilities.
- unreimbursed expenses of officers, employees, or volunteers. (*See the explanations of charitable contributions and employee business expenses in Publication 526 and Publication 463, respectively.*)
- payments received from employers for welfare benefits under plans described in sections 501(c)(9), (17), and (18). Report these amounts on line 2, program service revenue.

Use line 1g to report those amounts reported in lines 1a through 1f which are non-cash contributions of property.

Line 1a. Federated Campaigns. Enter on Line 1a the total amount of contributions received indirectly from the public through solicitation campaigns conducted by federated fundraising agencies and similar fundraising organizations (such as a United Way organization). These organizations normally conduct fundraising campaigns within a single metropolitan area or 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.

Line 1b. Membership Dues. Report on line 1b membership dues and assessments that represent contributions from the public rather than payments for benefits received or payments from affiliated organizations.

> **Example.** M is an organization whose primary purpose is to support the local symphony orchestra. Members have the privilege of purchasing subscriptions to the symphony's annual concert series before they go on sale to the general public, but must pay the same price as any other member of the public. They also are entitled to attend a number of rehearsals each season without charge. Under these circumstances, M's receipts from members are contributions reported on line 1b.

Membership dues that are not contributions because they compare reasonably with available benefits are reported on line 2, program service revenue.

Membership dues may consist of both contributions and payment for goods and services. In that case, the portion of the membership dues that is a payment for goods or services should be reported on line 2, program service revenue. The portion that exceeds the fair market value of the goods or services provided should be reported on line 1b.

Line 1c. Fundraising Events. Enter the total amount of 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 activities

> **Example.** An organization announces that anyone who contributes at least $40 to the organization can choose to receive a book worth $16 retail value. A person who gives $40, and who chooses the book, is really purchasing the book for $16 and making a contribution of $24. The contribution of $24, which is the difference between the buyer's payment and $16 retail value of the book, would be reported on line 1c and again on line 8a (within the parentheses). The revenue received ($16 retail value of the book) would be reported in the right-hand column on line 8a.
>
> If a contributor gives more than $40, that person would be making a larger contribution, the difference between the book's retail value of $16 and the amount actually given. Rev. Rul. 67-246, 1967-2 C.B. 104 explains this principle in detail. See also the instructions for lines 8a through 8c and Publication 526.

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 on line 1d amounts contributed by other organizations closely associated with the reporting organization. This includes contributions received from a parent organization, a subordinate, or another organization with the same parent.

Include on Line 1d only those contributions made to enable the organization to provide a service to the general public or maintain a facility for the direct benefit of the public, including contributions to the capital of the organization for which the organization does not receive any economic or physical benefit. Do not report as contributions on this line any payments for a service, facility, or product that primarily gives some economic or physical benefit to the payer.

Line 1e. Government Grants. Enter the total amount of contributions in the form of grants or similar payments from local, state, or federal government sources, as well as foreign governments. Include grant amounts from U.S. possessions (American Samoa, Guam, Puerto Rico, and the U.S. Virgin Islands).

A grant or other payment from a governmental unit is reported here if its primary purpose is to enable the organization to provide a service to, or maintain a facility for, the direct benefit of the public rather than to serve the direct and immediate needs of the governmental unit. In other words, the payment is recorded on line 1e if the general public gets 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.

The following are examples of governmental grants and other payments that are treated as contributions and reported on line 1e:

- Payments by a governmental unit for the construction or maintenance of library or museum facilities open to the public.
- Payments by a governmental unit to nursing homes to provide health care to their residents.
- Payments by a governmental unit to child placement or child guidance organizations under government programs to better serve children in the community.

Line 1f. All Other Contributions, Gifts, and Similar Amounts. The organization must enter on line 1f all other contributions, gifts and similar amounts it received from sources not reported separately on lines 1(a) through 1(e). This amount includes contributions from donor-advised funds, in which the donor or the donor's advisor had the right to make recommendations regarding the charitable use of the funds.

Line 1g. Non-cash Contributions. Enter on Line 1g the amount of non-cash contributions included 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, *Non-Cash Contributions*.

Noncash contributions are anything other than cash, checks, money orders, credit card charges, wire transfers, and other transfers and deposits to a cash account of the organization. Value noncash donated items, like cars and securities, as of the time of their receipt, even if sold immediately after they were received.

> **Example.** A charity receives a gift of stock from an unrelated donor. The stock is delivered to the charity's broker, who sells it on the same day and remits the sales proceeds, net of commissions, to the charity. 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.

For more information on non-cash contributions, see Instructions for Schedule M.

Line 1h. – Total. Enter on line 1h the total of lines 1a through 1f.

TIP: The organization may also need to attach Schedule B, *Schedule of Contributors*. See the instructions for Schedule B for more information.

Line 2. – Program Service Revenue. On lines 2a – 2e, enter the organization's five largest sources of program service revenue. Program services are primarily those that form the basis of an organization's exemption from tax. For a more detailed description of program service revenue, refer to the instructions for Part IX, column (B), Program service expenses.

On line 2f, enter the total received from all other sources of program service revenue not listed individually on lines 2a – 2e. On line 2g, enter the total of column (A), lines 2a – 2f.

Program service revenue. Program service revenue includes income earned by the organization for providing a government agency with a service, facility, or product that benefited that government agency directly rather than benefiting the public as a whole. Program service revenue also includes tuition received by a school, revenue from admissions to a concert of other performing arts event or to a museum; royalties received as author of an educational publication distributed by a commercial publisher; interest income on loans a credit union makes to its members; payments received by a section 501(c)(9) organization from participants or employers of participants for health and welfare benefits coverage; insurance premiums received by a fraternal beneficiary society; and registration fees received in connection with a meeting or convention.

Program related investments. Program service revenue also includes income from program-related investments. These investments are made primarily to accomplish an exempt purpose of the investing organization rather than to produce income. Examples are scholarship loans and low interest loans to charitable organizations, indigents, or victims of a disaster.

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. For purposes of this return, report all rental income from an affiliated organization on line 2.

Unrelated trade or business activities. Unrelated trade or business activities (not including any special events or activities) that generate fees for services may also be program service activities. A social club, for example, should report as program service revenue the fees it charges both members and nonmembers for the use of its tennis courts and golf course.

Sales of inventory items by hospitals, colleges, and universities. Books and records maintained in accordance with generally accepted accounting principles for hospitals, colleges, and universities are more specialized than books and records maintained according to those accounting principles for other types or organizations that file Form 990. Accordingly, hospitals, colleges, and universities may report, as program service revenue on line 2, sales of inventory items otherwise reportable on line 10a. In that event, show the applicable cost of goods sold as program service expense in column (B) of Part IX. No other organizations should report sales of inventory items on line 2.

Common Types of Program Service Revenue:

- 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 units

> **Example.** A payment by a governmental agency to a medical clinic to provide vaccinations to the general public is a contribution reported on line 1e. A payment by a governmental agency to a medical clinic to provide vaccinations to employees of the agency is program service revenue reported on line 2.
>
> **Example.** A payment by a governmental agency to an organization to provide job training and placement for disabled individuals is a contribution reported on line 1e. A payment by a governmental agency to the same organization to operate the agency's internal mail delivery system is program service revenue reported on line 2.

● Income from program related investments. Report interest, dividends, and other revenues from those 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 borrowed the funds to pursue the reporting organization's exempt function.

● Membership dues and assessments received that compare reasonably with the membership benefits provided by the organization. Organizations described in sections 501(c)(5), (6) or (7) generally provide benefits that have a reasonable relationship with dues.

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
- discounts on articles or services that members and nonmembers can buy

Caution: For each amount entered on lines 2a through 2e, the organization must also enter a corresponding business code from *Codes for Unrelated Business Activity* from the 2008 Instructions for Form 990-T.

Line 3. Investment Income. Enter the amount of interest income from savings 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 section 512(a)(5), as well as interest from notes and loans receivable. Do not include unrealized gains and losses on investments carried at market value.

Line 4. Income from Investment of Tax-Exempt Bond Proceeds. Report on line 4 all investment income actually or constructively received from investing the proceeds of a tax-exempt bond.

Line 5. Royalties. Report on Line 5 royalties received by the organization from licensing the ongoing use of its property to others. Typically, royalties are received for the use of intellectual property, such as patents and trademarks. Royalties 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.

Line 6a. Gross Rents. Enter on line 6a the rental income received for the year from investment property. Allocate revenue to real property and personal property in the spaces provided. Do not include on line 6a rental income related to the reporting organization's exempt function (program service). Report such income on line 2. For example, an exempt organization whose exempt purpose is to provide low-rental housing to persons with low income would report that rental income as program service revenue on line 2.

Rental income received from an unaffiliated exempt organization is generally considered unrelated to the reporting organization's exempt purpose and reportable on line 6a. However, note an exception given in the instructions for line 2 when the reporting organization aids an unaffiliated organization with its exempt function.

Only for purposes of completing this return, the reporting organization must report any rental income received from an affiliated 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, while rental income from personal property is included. There are special rules when rents are received from personal property leased with real property (a mixed lease). In general, rental revenue from real property is excluded from unrelated business revenue when:

- the determination of the amount of such rents is not based on income or net profits derived by any person from the property leased other than an amount based on a fixed percentage of the gross receipts or sales.
- the lease does not include personal services other than customary ones such as trash removal and cleaning of public areas.
- any portion attributable to personal property is 10% or less of the total rent.
- the real property is not debt-financed within the meaning of sections 512, 513 or 514. (Rent from debt-financed real property is generally includible in unrelated business income, but there may be exceptions based on use of the property. See Publication 598.)

Rent received from leased personal property is generally taxable except when leased with real property, and the rent attributable to the personal property does not exceed 10% of the total rents from all leased property.

Line 6b. Less: Rental Expenses. Enter on Line 6b 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.

Line 6c Rental Income or (Loss). Subtract line 6b from line 6a for both columns (i) and (ii) and enter on line 6c. Show any loss in parentheses.

Line 6d. Net Rental Income or (Loss). Add line 6c, columns (i) and (ii) and enter on line 6d. Show any loss in parentheses.

Lines 7a through 7d – Gains (or Losses) from Sales of Assets Other Than Inventory. Report, on lines 7a through 7c, all sales of securities in column(A). Use column (B) to report sales of all other types of investments (such as real estate, royalty interests, or partnership interests) and all other non-inventory assets (such as program-related investments and fixed assets used by the organization in its related and unrelated activities.

On line 7a, for each column, enter the total gross sales price of all such assets. Total the cost or other basis (less depreciation) and selling expenses and enter the result on line 7b. On line 7c, enter the net gain or loss.

On lines 7a and 7c, also report capital gains dividends, the organization's share of capital gains and losses from a partnership and capital gains distributions from trusts.

Combine the gain or loss figures reported on line 7c, columns (i) and (ii) and report that total on line 7d. Do not include any unrealized gains or losses on securities carried at market value in the books of account.

For reporting sales of securities on Form 990, the organization may use the more convenient average cost basis method to figure the organization's gain or loss. When a security is sold, compare its sales price with the average cost basis of the particular security to determine gain or loss. Generally, however, do not use the average cost basis to determine gain or loss in reporting sales of securities on Form 990-T.

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 recorded information should include:

- a description of the asset
- date acquired
- whether acquired by donation or purchase
- cost or other basis
- expense of sale
- depreciation

Line 8a. Gross Income from Fundraising Events. 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.*

Compute the organization's gross income from fees, ticket sales or other revenue from fundraising events. These are events and activities conducted for the sole or primary purpose of raising funds to finance the organization's exempt activities.

Fundraising events include:	**Fundraising does not include:**
• dinners/dances • door-to-door sales of merchandise • concerts • carnivals • sports events • auctions •	• sales or gifts of goods or services of only nominal value • sweepstakes, lotteries or raffles where the names of contributors or other respondents are entered in a drawing for prizes • raffles or lotteries where prizes have only nominal value • solicitation campaigns that generate only contributions Proceeds from these activities are considered contributions and should be reported on Line 1c.

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

> ***Example:*** An organization formed to promote and preserve folk music and related cultural traditions holds an annual folk music festival featuring concerts, handcraft

demonstrations, and similar activities. Because the festival directly furthers the organization's exempt purpose, income from ticket sales should be reported on line 2 as program service revenue.

Fundraising events sometimes generate both contributions and income, such as when an individual pays more than the retail value for the goods or services furnished. Report in parentheses the total amount from fundraising events that represents contributions rather than payment for goods or services. Treat the following as contributions:

- Amounts paid in excess of retail value of goods or service furnished. See Example for line 1(c) on page 54.

- Amounts from fundraising activities when items of only nominal value are given or offered.

  Example: In return for a contribution of any amount, donors receive a keychain with the organization's logo. All amounts received should be reported as contributions on line 1f and all associated expenses in Part IX, Column (D). In such a case, no amounts would be reported on line 8.

Line 8b. Less Direct Expenses. Report on this line the expenses that relate directly to the production of the revenue portion of the fundraising activity. In the book example above, the wholesale cost of the book would be reported on line 8b. 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 on line 8c 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 sections 512, 513, or 514 (column (D))

Line 9a. Gross Income from Gaming Activities. Organizations that report more than $15,000 on line 9a must also answer "Yes" to Part IV, line 19 and complete Part III of Schedule G, *Supplemental Information Regarding Fundraising or Gaming Activities.*

Types of gaming include, but are not limited to:	
- bingo - pull tabs - instant bingo - raffles - scratch-offs - charitable gaming tickets - break-opens - hard cards - banded tickets - jar tickets - pickle cards	- Nevada Club tickets - casino nights - Las Vegas nights - coin-operated gambling devices including: • slot machines • electronic video slot or line games • video poker • video blackjack • video keno • video bingo • video pull tab games

Many games of chance are taxable. Income from bingo games is not subject to the tax on unrelated business income if the games meet the legal definition of bingo. 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.

A wagering game that does not meet the legal definition of bingo does not qualify for the exclusion, regardless of its name. For example, "instant bingo," in which a player buys a pre-packaged bingo card with pull-tabs that the player removes to determine if he or she is a winner, does not qualify. See Publication 598, *Tax on Unrelated Business Income of Exempt Organizations* and Form 990-T,.

Line 9b. Less Direct Expenses. Report on this line the expenses that relate directly to the production of the revenue portion of the gaming activity.

Direct expenses of gaming include:

- cash prizes
- noncash prizes
- compensation to bingo callers and workers
- rental of gaming equipment
- cost of bingo supplies such as pull tabs, etc.

Line 9c. Net Income or (loss) from Gaming Activities. Report on line 9c the difference between 9a and 9b.

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. Sales of inventory items reportable on line 10a are sales of those items the organization makes to sell to others or buys for resale. Sales of inventory do not, however, include the sale of goods related to a fundraising event, which must be reported on Line 8. Sales of investments on which the organization expected to profit by appreciation and sale are not reported here. Report sales of investments on line 7.

The organization must report the sales revenue regardless of whether the sales activity is an exempt function of the organization or an unrelated trade or business.

Line 10b. Less Cost of Goods Sold. Report the cost of goods sold related to the sales of inventory. The usual items included in cost of goods sold are 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 cost of goods sold but are reported in Column (B), *Program Service Expenses,* of Part IX, Statement of Functional Expenses.

Line 10c. Net Income or (Loss) from Sales of Inventory. Report in the appropriate Columns (A) through (D), the net income or (loss) from the sale of inventory items.

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

Caution: For each amount entered on lines 11a, b and c, the organization must also enter a corresponding business code from *Codes for Unrelated Business Activity* from the 2008 Instructions for Form 990-T.

Line 12. Total Revenue. 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).

Part IX-- Statement of Functional Expenses

In General
Use the organization's normal accounting method to complete this section. If the organization's accounting system does not allocate expenses, the organization may use any reasonable method of allocation. The organization must report amounts accurately and document the method of allocation in its records. Do not report in Part IX expenses that must be reported on lines 6b, 7b, 8b, 9b, or 10b of Part VIII, Statement of Revenue.

Column (A)—Total Expenses
Section 501(c)(3) and (c)(4) organizations as well as section 4947(a)(1) nonexempt charitable trusts must complete columns (A) through (D).

All other organizations must complete column (A) but may complete columns (B), (C), and (D).

Caution: State reporting requirements may be different from IRS reporting requirements applicable to Part IX.

Column (B)—Program Service Expenses
Program services are mainly those activities that further the organization's exempt purposes. Fundraising expenses should not be reported as program-service expenses even though one of the organization's purposes is to solicit contributions.

Include lobbying expenses in this column if the lobbying is directly related to the organization's exempt purposes.

> **Example:** Foundation M, an organization exempt under section 501(c)(3), has the exempt purpose of improving health care for senior citizens. Foundation M operates in state N. The legislature of state N is considering legislation to improve funding of health care for senior citizens. Foundation M lobbies state legislators in support of the legislation. Since this lobbying is directly related to Foundation M's exempt purpose, it would be considered an exempt function expense, and would be included under Column (B).

Include in Column (B) expenses for unrelated trade or business activities. For example, publishing a magazine is a program service 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 unrelated business income.

Also include costs incurred when an organization receives 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, line 1, as a contribution.

Column (C) — Management and General Expenses
Use Column (C) to report expenses that relate to the organization's overall operations and management, rather than to fundraising activities or program services. Overall management usually includes the salaries and expenses of the organization's chief executive officer and his or her staff, unless a part of their time is spent directly supervising program services or fundraising activities. In that case, their salaries and expenses should be allocated among management, fundraising, and program services.

Expenses incurred to manage investments must be reported in Column (C), *Management and general expenses*. Lobbying expenses should be reported in this column if they do not directly relate to the organization's exempt purposes.

Organizations must also report the following in Column (C): costs of board of directors meetings; committee meetings, and staff meetings (unless they involve specific program services or fundraising activities); general legal services; accounting (including patient accounting and billing); general liability insurance; office management; auditing, human resources, and other centralized services; preparation, publication, and distribution of an annual report; and management of investments.

However, report expenses related to the production of program-related income in Column (B) and expenses related to the production of rental income on Line 6b of Part VIII, Statement of Revenue. Rental expenses incurred for the organization's office space or facilities are reported on Line 16 of the Statement of Functional Expenses.

Do not use this column to report costs of special meetings or other activities that relate to fundraising or specific program services.

Column (D) — Fundraising Expenses
Fundraising expenses are the expenses incurred in soliciting contributions, gifts, and grants. Report as fundraising expenses all expenses, including allocable overhead costs, incurred in: (a) publicizing and conducting fundraising campaigns; (b) soliciting bequests and grants from foundations or other organizations, or government grants reportable on Part VIII line 1. This includes participating in federated fundraising campaigns; 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.

> **Example***:* For an employee who works on fundraising 40 percent of the time and program management 60 percent of the time, an organization must allocate that employee's salary 40 percent to fundraising and 60 percent to program service expenses. It may not report the 100 percent of salary as program expenses simply because the employee spent over 50 percent of his time on program management.

Allocating Indirect Expenses

Direct costs are expenses that can be identified specifically with an organization's activity or project, and can be assigned to an activity or project with a high degree of accuracy. Indirect costs are costs that cannot be identified specifically with an activity or project. For example, a computer bought by a university specifically for a research project is a direct cost. In contrast, the costs of software licensing for programs that run on all the university's computers are indirect costs.

Colleges, universities, hospitals, and other organizations that incur indirect expenses in various cost centers (such as organizational memberships, books and subscriptions, and regular telecommunications costs) may allocate and report such expenses in the following manner:

1. Report the expenses of all indirect cost centers in column (C) of lines 5 through 24.
2. As a separate line item of line 24, enter "Allocation of [name of indirect cost center] expenses".
   a. If any of the cost center's expenses are allocated to expenses listed in Part VIII such as the expenses attributable to fundraising events and activities, enter such expenses as a negative figure in columns (A) and (C).
   b. Allocate expenses to column (B) or (D) as positive amounts.
   c. Add the amounts in columns (B) and (D) and enter the sum as a negative offsetting amount in column (C). Do not make any entries in Column (A) for these offsetting entries.

Example: An organization reports in column (C) $50,000 of its actual management and general expenses and $100,000 of expenses of an indirect cost center that are allocable in part to other functions. The total of lines 5 through 24 of column (C) would be $150,000 before the indirect cost center allocations were made. Assume that of the $100,000 total expenses of the cost center, $10,000 was allocable to fundraising; $70,000 to various program services; $15,000 to management and general functions; and $5,000 to special events and activities. To report this in Part IX under this optional method:
1. Indicate the cost center, the expenses of which are being allocated, on line 24, as Allocation of [specify the indirect cost center] expenses;
2. Enter a decrease of $5,000 on the same line in the column (A), *Total*, representing the fundraising event expenses that were already reported on Part VIII, line 8b;
3. Enter $70,000 on the same line in column (B), *Program service expenses*;
4. Enter $10,000 on the same line in column (D), *Fundraising expenses*; and
5. Enter a decrease of $85,000 on the same line in column (C), *Management and general expenses*, to represent the allocations to functional areas other than management and general.

Line	(A)	(B)	(C)	(D)
5 – 24a	$150,000	-	$150,000	-
24b Allocation of $100,000 indirect cost center expenses reported in (C)	(5,000)	70,000	(85,000)	10,000
25	$145,000	$70,000	$65,000	$10,000

After making these allocations, the column (C) total (line 25, column (C)) would be $65,000, consisting of the $50,000 actual management and general expense amount and the $15,000 allocation of the aggregate cost center expenses to management and general.

The above is an example of a one-step allocation that shows how to report the allocation in Part IX. This reporting method would actually be more useful to avoid multiple step allocations involving two or more cost centers. Without this optional reporting method, the total expenses of the first cost center would be allocated to the other functions, and might include an allocation of part of these expenses to another cost center. The expenses of the second cost center would then be allocated to other functions and, perhaps, to other cost centers, and so on. The greater the number of these cost centers that are allocated out, the more difficult it is to preserve the object classification identity of the expenses of each cost center (for example, salaries, interest, supplies, etc.). Using the reporting method described above avoids this problem.

Caution: The intent of the above instructions is only to facilitate reporting indirect expenses by both object classification and function. These instructions do not authorize the allocation to other functions of expenses that should be reported as management and general expenses.

Grants and other Assistance to Governments, Organizations and Individuals
Organizations should report the amount of grants, awards and other assistance on lines 1 through 3 (see instructions below). "Grants" include allocations, stipends, scholarships and other types of similar payments made to organizations or individuals for an exempt purpose. Report expenses incurred in selecting recipients or monitoring compliance with the terms of a grant or award on lines 5 through 23.

Note: Organizations may report this information in accordance with Statement of Financial Accounting Standards (SFAS 116) but are not required to do so. 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 to Governments and Organizations in the U.S. Enter the amount that the organization, at its own discretion, paid in grants to governmental units and other organizations in the United States. 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, *Supplemental Information on 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 by the organization to individuals in the United States in the form of scholarships, fellowships, stipends, research grants, and similar payments and distributions.

Also include grants or other assistance paid to third party providers for the benefit of specified individuals. For example, a grant payment to a hospital to cover the medical expenses of a particular patient must be reported on line 2. By comparison, a grant to the same hospital to provide services to the general public or to unspecified charity patients must be reported on line 1.

If line 2 exceeds $5,000, the organization must complete Parts I and III of Schedule I.

Line 3. Grants and Other Assistance to Governments, Organizations, and Individuals Outside the U.S. The organization must enter the total amount of grants and other forms of assistance made to governments, organizations, and individuals outside the United States.

Foreign grants to organizations include grants to organizations, partnerships, corporations, and other business entities that are not organized in the United States or under the law of the United States 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 specific assistance to individuals include grants or assistance to persons who are not citizens or residents of the United States. It also includes grants or assistance to United States citizens residing in foreign countries, and grants for the primary purpose of study or research in foreign countries.

If line 3 exceeds $5,000, the organization must complete parts II and/or III of Schedule F.

Line 4. Benefits Paid to or for Members. Enter the payments made by the organization to provide benefits to members (such as payments made by an organization exempt under sections 501(c)(8), (9), or (17) to obtain insurance benefits for members). Do not report on this line the cost of employment-related benefits such as health insurance, life insurance, or disability insurance provided by the organization to its officers and employees. Report those expenses on lines 8 and 9.

Line 5. Compensation of Current Officers, Directors, and Key Employees.
TIP: Compensation for Part IX is to be reported 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.

Enter the total compensation paid to current officers, directors, trustees, and key employees for the tax year. 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. Report all compensation amounts relating to such an individual, including those related to services performed in a capacity other than as an officer, director, trustee, or key employee.

Examples:
Note: To the extent that these examples discuss allocation of expenses in columns B, C, and D, they apply only to filers required to complete those columns.

(1) Key employee A spent 90% of her time administering a program that constitutes the basis of the organization's exempt purpose and 10% of her time in the general management of the organization itself. Allocate 90% of key employee A's compensation to column (B), program services, and 10% to column (C), management and general.

(2) Director B is not paid as a member of the board, but is employed and compensated by the organization as a part-time fundraiser. Allocate 100% of Director B's compensation to column (D), fundraising.

(3) Key Employee C receives $100,000 of salaries and wages. In addition, the organization paid $25,000 of fringe benefits, $10,000 of travel reimbursements, and $7,500 of pension plan contributions relating to C. The organization reports $132,500 as compensation on line 5 and reports the $10,000 of expense reimbursements on line 17.

Line 6. Compensation, Not Included Above, to Disqualified Persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B). Section 501(c)(3) and 501(c)(4) organizations must report the total compensation and other distributions provided to disqualified persons and persons described under section 4958(c)(3)(B) not included on line 5.

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.

Line 7. Other Salaries and Wages. Enter the total amount of employee salaries, wages, fees, bonuses, severance payments, and similar amounts not reported on lines 5 or 6.

Line 8. Pension Plan Contributions. Enter the employer's share of contributions to qualified and nonqualified pension plans for the year. The organization should include contributions made to 401(k) and 403(b) pension plans on behalf of employees. However, it should not include contributions to qualified pension, profit-sharing, and stock bonus plans under section 401(a) solely for the benefit of current or former officers, directors, trustees, or key employees that are reportable on lines 5 or 6.

TIP: Complete Form 5500, "Annual Return/Report of Employee Benefit Plan," for the organization's plan and file it as a separate return. If the organization has more than one pension plan, complete a Form 5500 for each plan. File the form by the last day of the 7th month after the plan year ends.

Line 9. Other Employee Benefits. Enter the organization's contributions to employee benefit programs (such as 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.

For example, report expenses for employee events such as a picnic or holiday party on line 9. Do not include contributions on behalf of current or former officers, directors, trustees, key employees or other persons that were included on lines 5 or 6.

Line 10. Payroll Taxes. Enter the amount of federal, state, and local payroll taxes for the year but only those taxes that are imposed on the organization as an employer. 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. Do not include on line 10 taxes withheld from employees' salaries and paid to various governmental units such as federal, state, and local income taxes and the employees' shares of Social Security and Medicare taxes. Such withheld amounts are reported as compensation.

Line 11. Fees for Services Paid to Non-Employees (Independent Contractors). Enter on lines 11a through 11g 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. Do not include on line 11 amounts paid to or earned by employees for these types of services, which must be reported on lines 5 through 7.

Line 11a. Management Fees. Enter the total fees charged for management services provided by outside firms and individuals who are not employees of the reporting organization.

Line 11b. Legal Fees. Enter the total legal fees charged by outside firms and individuals who are not employees of the reporting organization. Do not include any penalties, fines, settlements or judgments imposed against the organization as a result of legal proceedings. Report those expenses on line 24, Other expenses. Report any amounts for lobbying services provided by attorneys on line 11d.

Line 11c. Accounting Fees. Enter the total accounting and auditing fees charged by outside firms and individuals who are not employees of the reporting organization.

Line 11d. Lobbying Fees. Enter amounts for lobbying and legislative liaison services.

Line 11e. Professional Fundraising Fees. Enter amounts for fundraising services, including for conducting solicitation campaigns and for providing advice or other consulting services supporting in-house fundraising campaigns. Do not include the payment by the organization of fundraising expenses such as printing, paper, envelopes, postage, mailing list rental, and equipment rental, which should be reported on line 24 as other expenses.

TIP: Do not include on line 11e salaries and wages for employees who undertake fundraising as part of their employment duties. These amounts must be reported on lines 5 or 7 as appropriate.

Line 11f. Investment Management Fees. Enter amounts for investment counseling and portfolio management. Monthly account service fees are considered portfolio management expenses, and must be reported here. Do not include transaction costs such as brokerage fees and commissions, which are considered sales expenses and are included on line 7b, Part VIII.

Line 11g. Other Fees for Services. Enter amounts for other independent contractor services not listed on lines 11a through 11f. For example, amounts paid to an independent contractor for advocacy services that do not constitute lobbying should be reported here. For health care organizations, payments to health care professionals who are independent contractors are reported on line 11g.

Line 12. Advertising Expenses. Enter amounts paid for advertising. Include amounts for print and electronic media advertising. Also include Internet site link costs, signage costs, and amounts for the organization's in-house fundraising campaigns. Do not include fees paid to independent contractors for conducting outside fundraising campaigns (these amounts must be reported on line 11e).

Line 13. Office Expenses. 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 printing costs of a general nature. Printing costs that relate to conferences or conventions must be reported on line 19.

Line 14. Information Technology. Enter amounts for information technology, including hardware, software, and support services, such as maintenance, help desk, and other technical support services. Also include expenses for infrastructure support, such as web site design and operations, and virus protection and other information security programs and services to keep the organization's web site operational and secured against unauthorized and unwarranted intrusions.

Line 15. Royalties. Enter amounts for royalties, license fees and similar amounts that allow the organization to use intellectual property such as patents and copyrights.

Line 16. Occupancy. 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 similar occupancy-related expenses. Do not include expenses reportable as office expenses such as telephone expenses, on line 13.

Do not net any rental income received from leasing or subletting rented space against the amount reported on line 16 for occupancy expenses. If the tenant's activities are related to the organization's exempt purpose, report rental income as program-service revenue on Part VIII, line 2, and allocable occupancy expenses on this line 16. However, if the tenant's activities are not program-related, report the rental income on Part VIII, line 6a, and related rental expenses on Part VIII, line 6b.

Do not include employee salaries or depreciation as occupancy expenses. These expenses are reported on lines 5 through 7 and 22, respectively.

Line 17. Travel. Enter the total travel expenses, including transportation costs (fares, mileage allowances, and automobile expenses), meals and lodging, and per diem payments. Travel costs include the expenses of purchasing, leasing, operating, and repairing any vehicles owned by the organization and used for the organization's activities. However, if the organization leases vehicles on behalf of its executives or other employees as part of an executive or employee compensation program, the leasing costs are considered employee compensation, and are reported on lines 5 through 7.

Line 18. Payments of Travel or Entertainment Expenses for any Federal, State or Local Public Officials. Enter total amounts for travel or entertainment expenses (including reimbursement for such costs) for any federal, state or local public officials (as determined under section 4946(c)) and their family members (as determined under 4946(d)). The reported total amount should include:
a. each separate expenditure relating to a government official or family member of such official that exceeds $200, and
b. aggregate expenditures relating to a government official or family member of such official that exceed $1,000 for the year.

Caution: Do not double count expenditures that are described in both a. and b. above. For expenditures that are not specifically identifiable to a particular individual, the organization may use any reasonable allocation method to estimate the cost of the expenditure to an individual.

Amounts not described in a. and b. above may be included in the reported total amount for line 18 or may be reported on line 24, Other expenses. The organization is responsible for keeping records of all travel and entertainment expenses related to a government official regardless of whether reported on line 18 or line 24.

Line 19. Conferences, Conventions, and Meetings. 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. Travel expenses incurred by officers, directors, and employees attending such conferences, conventions and meetings must be reported on line 17.

Line 20. Interest. 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 as an occupancy expense on line 16).

Line 21. Payments to Affiliates. Enter certain types of payments to organizations affiliated with (closely related to) a reporting agency.

Payments to affiliated state or national organizations. Dues paid by the local charity 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, general use of funds for the national organization's own program and support services.

Purchases from affiliates. Purchases of goods or services from affiliates are not reported on line 21 but are reported 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:

1. The goods or services provided are not related to the program services conducted by the organization furnishing them (for example, when a local organization incurs expenses in the production of a solicitation film for the state or national organization); and
2. 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. Federated fundraising agencies should include in their own support 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. These fundraising agencies 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, such as regular services, publications, and other materials, from other organizations as miscellaneous expenses on line 24. This is the case, for example, if a charitable organization pays dues to a trade association comprised of otherwise unrelated members.

TIP: Properly distinguishing between payments to affiliates and grants and allocations is especially important if the organization uses Form 990 for state reporting purposes. If the organization uses Form 990 only for reporting to the IRS, payments to affiliated or national organizations that do not represent membership dues reportable as miscellaneous expenses on line 24 may be reported either on line 21 or line 1.

Line 22. Depreciation, Depletion, and Amortization. If the organization records depreciation, depletion, amortization, or similar expenses, enter the total on line 22. Include any depreciation or amortization of leasehold improvements and intangible assets. An organization is not required to use the Modified Accelerated Cost Recovery System (MACRS) to compute depreciation reported on Form 990. For an explanation of acceptable methods for computing depreciation see Publication 946. If an amount is reported on this line, the organization is required to maintain books and records to substantiate any amount reported.

Line 23. Insurance. 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 payments made exempt under sections 501(c)(8), (9), or (17) to obtain insurance benefits for members. Report those expenses on line 4. Do not report on this line the cost of employment-related benefits such as health insurance, life insurance, or disability insurance provided by the organization to its officers and employees. Report those expenses on lines 8 and 9. Do not report on this line property or occupancy-related insurance. Report those expenses on line 16.

Line 24. Other Expenses. 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 of fundraising expenses such as printing, paper, envelopes, postage, mailing list rental, and equipment rental. Enter the 5 largest dollar amounts on lines 24a – 24e and the total of all remaining expenses on line 24f. However, the organization must separately report the amount, if any, of unrelated business income taxes on line 24. If lines 24a – 24e contain an amount labeled "other expenses" or "miscellaneous expenses" or something similar, the amount reported cannot exceed 5% of the total expenses reported on line 25.

Line 25. Total Functional Expenses. 501(c)(3) and (c)(4) organizations and section 4947(a)(1) nonexempt charitable trusts: Add lines 1 through 24f and enter the totals on line 25 in columns (A), (B), (C), and (D).

All other organizations: Add lines 1 through 24f and enter the total on line 25 in column (A).

Line 26. Joint Costs. Organizations that included in program service expenses (column (B) of Part IX) any joint costs from a combined educational campaign and fundraising solicitation must disclose how the total joint costs of all such combined activities were reported in Part IX.

Organizations checking the box in line 26 must furnish the relevant financial data in the spaces provided.

An organization conducts a combined educational campaign and fundraising solicitation when it solicits contributions (by mail, telephone, broadcast media, or any other means) and includes, with the solicitation, educational material or other information that furthers a bona fide nonfundraising exempt purpose of the organization.

Expenses attributable to providing information regarding the organization itself, its use of past contributions, or its planned use of contributions received are fundraising expenses and must be reported in Column (D). Do not report such expenses as program service expenses in Column (B).

Any method of allocating joint costs between columns (B) and (D) must be reasonable under the facts and circumstances of each case. Most states with reporting requirements for charitable organizations and other organizations that solicit contributions either require or allow reporting of joint costs under AICPA Statement of Position 98-2 (SOP 98-2). See *Glossary*.

Part X Balance Sheet

All organizations must complete Part X and may not submit a substitute balance sheet. All references to Schedule D are to Schedule D (Form 990), *Supplemental Financial Statements*.

Column (A) – Beginning of Year
In column (A), enter the amount from the preceding year's Form 990 column (B). If the organization was excepted from filing 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 zeros on lines 16, 26, 33, and 34 in column (A).

Column (B) – End of Year
When Schedule D reporting is required for any item in Part X, it is only for the end-of-year balance sheet figure reported in column (B). If this is the organization's final return, enter zeros on lines 16, 26, 33, and 34 in column (B).

Line 1. Cash (Non-Interest Bearing). Enter the total funds that the organization has in cash, including amounts held as "petty cash" at its offices or other facilities, and amounts held in banks in non-interest bearing accounts. Also include cash held in investment accounts that has not been used to buy securities or other income producing assets.

Line 2. Savings and Temporary Cash Investments. Enter the combined total of amounts held in interest-bearing checking and savings accounts, deposits in transit, temporary cash investments (such as money market funds, commercial paper, and certificates of deposit), and U.S. Treasury bills or other governmental obligations that mature in less than a year. Do not include advances to employees or officers or refundable deposits paid to suppliers or other independent contractors. Report the income from these investments on Part VIII, Statement of Revenue line 3.

Line 3. Pledges and Grants Receivable, Net. Enter the total of (a) pledges receivable, less any amounts estimated to be uncollectible, and (b) grants receivable.

Organizations that follow Statement of Financial Accounting Standards (SFAS) 116 may report the present value of the grants receivable as of each balance sheet date.

Line 4. Accounts Receivable, Net. Enter the organization's total accounts receivable (reduced by any allowance for doubtful accounts) from the sale of goods and the performance of services. Report claims against vendors or refundable deposits with suppliers or others here, if not significant in amount. Otherwise, report them on line 15, *Other assets*. Report the net amount of all receivables due from officers, directors, trustees, or key employees on line 5. Report receivables (including loans and advances) due from other disqualified persons on line 6. Receivables (including loans and advances) from employees who are not current or former officers, directors, trustees, key employees, or disqualified persons must be reported on Line 7.

Line 5. Receivables from Current Officers, Directors, Trustees, Key Employees. Report all receivables due from current or former officers, directors, trustees, key employees, and highest compensated employees listed in Form 990, Part VII. The receivables reportable here include all secured and unsecured loans made to such persons. 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. Report interest from such receivables on Part VIII, Statement of Revenue line 11.

The organization must also answer "Yes" to Part IV, line 26 and complete Schedule L, Part II.

Line 6. Receivables from Other Disqualified Persons. Section 501(c)(3) and 501(c)(4) organizations report the receivables due from disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(3)(B). Do not include on Line 6 amounts reported on Line 5. The organization must also answer "Yes" to Part IV, line 26 and complete Schedule L, Part II.

Line 7. Notes and Loans Receivable, Net. Enter the net amount of all receivables (notes and loans) not listed on lines 5 and 6, including receivables from unrelated third parties. The term "unrelated third parties" includes independent contractors providing goods or services and employees who are not current or former officers, directors, trustees, key employees, or disqualified persons. Do not include the following:

- Receivables reportable on line 4.
- Program-related investments reportable on line 13.
- Notes receivable acquired as investments reportable on line 12.

Line 8. Inventories for Sale or Use. Enter the amount of materials, goods, and supplies held for future sale or use, whether purchased, manufactured by the organization, or donated.

Line 9. Prepaid Expenses and Deferred Charges. Enter 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.

Line 10a. Land, Buildings, and Equipment. Enter the cost or other basis of all land, building, and equipment held at the end of the year. If an amount is reported here, answer "Yes" to Part

IV, line 11 and complete Part VI of Schedule D. The amount reported on line 10a must equal the total of Schedule D, Part VI, columns (a) and (b).

Line 10b. Accumulated Depreciation. Enter the total amount of accumulated depreciation with respect 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) Beginning of Year. Enter the cost or other basis of land, buildings, and equipment, net of any accumulated depreciation, as of the beginning of the year.

Line 10c. Column (B) End of Year. Enter line 10a minus line 10b. The amount reported must equal the total of Schedule D, Part VI, column (d).

Line 11. Investments: Publicly Traded Securities. Enter the total value of publicly traded securities held by the organization as investments. Publicly traded securities include common and preferred stocks, bonds (including governmental obligations such as bonds and Treasury bills), and 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. Report dividends and interest from these securities on Part VIII, Statement of Revenue, line 3.

Do not report on line 11 publicly traded stock for which the organization holds 5% or more of the outstanding shares of the same class. Report these investments on line 12.

Line 12. Investments –Other Securities. Report on this line 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. Other securities also include publicly traded stock for which the organization holds 5% or more of the outstanding shares of the same class. Do not include program related investments.

If an amount is reported on this line, answer “Yes” to Part IV, line 11 and complete Part VII of Schedule D. The amount reported on line 12, column (B) must equal the total of Schedule D, Part VII, column (b).

Line 13. Program-Related Investments. Report here 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.

If an amount is reported on this line, answer “Yes” to Part IV, line 11 and complete Part VIII of Schedule D. The amount reported on line 13, column (B) must equal the total of Schedule D, Part VIII, column (b).

Line 14. Intangible Assets. Report on this line the total value of all non-monetary, non-physical assets such as copyrights, patents, trademarks, mailing lists, or goodwill.

Line 15. Other Assets. Report on this line the total book value of all assets held and not reported on lines 1-14.

If an amount is reported on this line, answer “Yes” to Part IV, line 11 and complete Part IX of Schedule D. The amount reported on line 15, column (B) must equal the total of Schedule D, Part IX, column (b).

Line 16. Total Assets. The organization should add the totals in Columns A and B, Lines 1 through 15. The amounts on line 16 must equal the amounts on line 34 for both the beginning and end of the year. All filers must enter a zero or a dollar amount on this line.

Line 17. Accounts Payable and Accrued Expenses. 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.

Line 18. Grants Payable. 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.

Line 19. Deferred Revenue. Report revenue that the organization has received but not yet earned as of the balance sheet date under its method of accounting.

Line 20. Tax-Exempt Bond Liabilities. Enter the amount of tax-exempt bonds (or other obligations) for which the organization has a direct or indirect liability which were either issued by the organization on behalf of a state or local governmental unit, or by a state or local governmental unit and loaned to the organization, and for which the organization has a direct or indirect liability. 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 section 103. Tax-exempt bonds also include bonds issued by a qualified scholarship funding corporation described in section 150(d) and bonds issued by a qualified volunteer fire department described in section 150(e).

See also Part IV, line 24, and Schedule K, Supplemental Information on Tax-Exempt Bonds.

Line 21. Escrow Account Liability. 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. If an amount is reported on this line, the organization must also answer “Yes” to Part IV, line 9 and complete Part IV of Schedule D. If the organization has signature authority over, or another interest in an escrow account for which it does not report the assets or liabilities, it must also answer “Yes” to Part IV, line 9 and complete Part IV of Schedule D.

> **Example:** 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. It must then report the corresponding liability (the amounts to be paid to the creditors on the debtors’ behalf) on line 21.

Line 22. Payables to Current and Former Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Disqualified Persons. Enter the unpaid balance of loans payable to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. The organization must also answer "Yes" to Part IV, line 26 and complete Schedule L, Part II.

Line 23. Secured Mortgages and Notes Payable to Unrelated Third Parties. 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.

Line 24. Unsecured Notes and Loans Payable. Enter the total amount of notes and loans payable that are owed to financial institutions or other unrelated third parties but are not secured by the organization's assets.

Line 25. Other Liabilities. 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. The organization must also answer "Yes" to Part IV, line 11 and complete Schedule D, Part X.

Line 26. Total Liabilities. The organization should add the totals in Columns A and B, Lines 17 through 25.

Net Assets and Fund Balances

The Financial Accounting Standards Board issued *Financial Statements of Not-for-Profit Organizations* (SFAS 117). SFAS 117 provides standards for external financial statements certified by an independent accountant for certain types of nonprofit organizations. SFAS 117 does not apply to credit unions, voluntary employees' beneficiary associations, supplemental unemployment benefit trusts, section 501(c)(12) cooperatives, and other member benefit or mutual benefit organizations.

While some states may require reporting in accordance with SFAS 117, the IRS does not. However, a Form 990 return prepared in accordance with SFAS 117 will be acceptable to the IRS.

Organizations that follow SFAS 117. If the organization follows SFAS 117, check the box above line 27, and complete lines 27 through 29 and lines 33 and 34. Classify and report net assets in three groups—unrestricted, temporarily restricted, and permanently restricted—based on the existence or absence of donor-imposed restrictions and the nature of those restrictions. Show the sum of the three classes of net assets on line 33. On line 34, add the amounts on lines 26 and 33 to show total liabilities and net assets. This figure must be the same as the figure for *Total Assets* on line 16.

Line 27. Unrestricted Net Assets. Enter the balance per books of unrestricted net assets. Unrestricted net assets are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. All funds without donor-imposed restrictions must be classified as unrestricted, regardless of the existence of any board designations or appropriations.

Line 28. Temporarily Restricted Net Assets. Enter the balance per books of temporarily restricted net assets. Donors' temporary restrictions may require that resources be used after a specified date (time restrictions), or that resources be used for a specified purpose (purpose restrictions), or both.

Line 29. Permanently Restricted Net Assets. Enter the balance per books of permanently restricted net assets. Permanently restricted net assets are (a) assets, such as land or works of art, donated with stipulations that they be used for a specified purpose, be preserved, and not be sold or (b) assets donated with stipulations that they be invested to provide a permanent source of income. The latter results from gifts or bequests that create permanent endowment funds.

Organizations that do not follow SFAS 117. If the organization does not follow SFAS 117, check the box above line 30 and complete lines 30 through 34. Report capital stock, trust principal, or current funds on Line 30. Report paid-in capital surplus or land, building, or equipment funds on Line 31. Report retained earnings, endowment, accumulated income or other funds on Line 32.

Line 30. Capital Stock, Trust Principal, or Current Funds. For corporations, enter the balance per books of capital stock accounts. Show par or stated value (or for stock with no par or stated value, total amount received on issuance) of all classes of stock issued and not yet cancelled. For trusts, enter the amount in the trust principal or corpus. For organizations using the fund method of accounting, enter the fund balances for the organization's current restricted and unrestricted funds.

Line 31. Paid-In or Capital Surplus, or Land, Building, and Equipment Fund. Enter the balance of paid-in capital in excess of par or stated value for all stock issued and not yet cancelled, as recorded on the corporation's books. If stockholders or others made donations that the organization records as paid-in capital, include them here. Enter the fund balance for the land, building, and equipment fund on this line.

Line 32. Retained Earnings or Accumulated Income, Endowment, or Other Funds. For corporations, enter the balance of retained earnings as recorded on the corporation's books, or similar account, minus the cost of any corporate treasury stock. For trusts, enter the balance in the accumulated income or similar account. For those organizations using the fund method of accounting, enter the total of the fund balances for the permanent and term endowment funds as well as balances of any other funds not reported on lines 30 and 31.

Line 33. Total Net Assets or Fund Balances. For organizations that follow SFAS 117, enter the total of lines 27 through 29. For all other organizations, enter the total of lines 30 through 32.

Line 34. Total liabilities and net assets/fund balances. Enter the total of line 26 and line 33. This amount must equal the amount on line 16.

Part XI: Financial Statements and Reporting

Line 1. Accounting method. Indicate the method of accounting used in preparing this return. See General Instruction D. Explain in Schedule O if the organization changed its method of accounting from a prior year.

Line 2. Financial statements and independent accountant. Answer "Yes" or "No" to indicate in line 2a or line 2b whether the organization's financial statements for the reporting period were compiled, reviewed or audited by an independent accountant. See Glossary for definitions of compiled, reviewed or audited financial statements and independent accountant. For group returns, answer "Yes" only for a consolidated financial statement for the group.

If "Yes" to either line 2a or line 2b, answer "Yes" or "No" in line 2c to indicate whether the organization has a committee that is responsible under its governing documents or through delegation by its governing body for (i) overseeing the compilation, review or audit of the financial statements, and (ii) the selection of an independent accountant that compiled, reviewed or audited the statements. Answer "Yes" only if both (i) and (ii) apply. Describe in Schedule O if this process has changed from the prior year.

Line 3a. Single Audit Act and OMB Circular A-133. Answer "Yes" if during the year the organization (or any disregarded entity, but not a joint venture of which the organization was a member) was required under the Single Audit Act of 1984, as amended in 1996, and OMB Circular A-133 to undergo an audit or audits because of its receipt of federal contract awards. The Single Audit Act requires States, local governments, and nonprofit organizations that expend $500,000 or more of federal awards in a year to obtain an annual audit in accordance with the Act.

Line 3b. Required audits. If "Yes" to line 3a, indicate whether the organization (or its disregarded entity, if applicable) has undergone the required audit or audits. If the answer to line 3b is "No," explain in Schedule O why the organization has not undergone any required audits and describe any steps taken to undergo such audits.

Appendix of Special Instructions to Form 990

Contents

Appendix A: Exempt Organizations Reference Chart

To determine how the instructions for Form 990 apply to the organization, an organization must know the Code section under which the organization is exempt.

Type of Organization	I.R.C Section
Corporations Organized Under Act of Congress	501(c)(1)
Title Holding Corporations	501(c)(2)
Charitable, Religious, Educational, Scientific, etc. Organizations	501(c)(3)
Civic Leagues and Social Welfare Organizations	501(c)(4)
Labor, Agricultural, and Horticultural Organizations	501(c)(5)
Business Leagues, etc.	501(c)(6)
Social and Recreation Clubs	501(c)(7)
Fraternal Beneficiary and Domestic Fraternal Societies and Associations	501(c)(8) & (c)(10)
Voluntary Employees' Beneficiary Associations	501(c)(9)
Teachers' Retirement Fund Associations	501(c)(11)

Benevolent Life Insurance Associations, Mutual Ditch or Irrigation Companies, Mutual or Cooperative Telephone Companies, etc.	501(c)(12)
Cemetery Companies	501(c)(13)
State Chartered Credit Unions, Mutual Reserve Funds	501(c)(14)
Insurance Companies or Associations Other that Life	501(c)(15)
Cooperative Organizations to Finance Crop Operations	501(c)(16)
Supplemental Unemployment Benefit Trusts	501(c)(17)
Employee Funded Pension Trusts (created before 6/25/1959)	501(c)(18)
Organizations of Past or Present Members of the Armed Forces	501(c)(19) & (c)(23)
Black Lung Benefit Trusts	501(c)(21)
Withdrawal Liability Payment Funds	501(c)(22)
Title Holding Corporations or Trusts	501(c)(25)
State-Sponsored Organizations Providing Health Coverage for High-Risk Individuals	501(c)(26)
State-Sponsored Workmen's Compensation and Insurance and Reinsurance Organizations	501(c)(27)
Religious and Apostolic Associations	501(d)
Cooperative Hospital Service Organizations	501(e)
Cooperative Service Organizations of Operating Educational Organizations	501(f)
Child Care Organizations	501(k)

Charitable Risk Pools	501(n)
Political Organizations	527

Appendix B: How to Determine Whether an Organization's Gross Receipts Are Normally $25,000 (or $5000) or Less

To figure whether an organization has to file Form 990-EZ (or Form 990) apply the $25,000 (or $5000) gross receipts test (below) using the following definition of gross receipts and information in *Figuring Gross Receipts* below.

Gross Receipts
Gross receipts are the total amounts the organization received from all sources during its annual accounting period, without subtracting any costs or expenses.

Caution: Do not use the definition of gross receipts described in *Appendix C: Section 501(c)(15) Organizations and Gross Receipts* to figure gross receipts.

Gross receipts when acting as an agent. If a local chapter of a section 501(c)(8) fraternal organization collects insurance premiums for its parent lodge and merely sends those premiums to the parent without asserting any right to use the funds or otherwise deriving any benefit from them, the local chapter does not include the premiums in its gross receipts. The parent lodge reports them instead. The same treatment applies in other situations in which one organization collects funds merely as an agent for another.

Figuring Gross Receipts
Figure gross receipts for Form 990 and Form 990-EZ as follows.

Form 990. Gross receipts are the sum of lines 6b (both columns), 7b (both columns), 8b, 9b, 10b, and 12, Column A of Form 990, Part VIII.

Form 990-EZ. Gross receipts are the sum of lines 5b, 6b, 7b, and 9 of Form 990-EZ, Part I.

Example. Organization M reported $50,000 as total revenue on line 9 of its Form 990-EZ. M added back the costs and expenses it had deducted on lines 5b ($2,000); 6b ($1,500); and 7b ($500) to its total revenue of $50,000 and determined that its gross receipts for the tax year were $54,000.

$25,000 Gross Receipts Test
To determine whether an organization's gross receipts are normally $25,000 or less, apply the following test. An organization's gross receipts are considered normally to be $25,000 or less if the organization is:

1. Up to a year old and has received, or donors have pledged to give, $37,500 or less during its first tax year;
2. Between 1 and 3 years old and averaged $30,000 or less in gross receipts during each of its first 2 tax years; or

3. Three years old or more and averaged $25,000 or less in gross receipts for the immediately preceding 3 tax years (including the year for which the return would be filed).

$5,000 Gross Receipts Test
To determine whether an organization's gross receipts are normally $5,000 or less, apply the following test. An organization's gross receipts are considered normally to be $5,000 or less if the organization is:

1. Up to a year old and has received, or donors have pledged to give, $7,500 or less during its first tax year;
2. Between 1 and 3 years old and averaged $6,000 or less in gross receipts during each of its first 2 tax years; or
3. Three years old or more and averaged $5,000 or less in gross receipts for the immediately preceding 3 tax years (including the year for which the return would be filed).

Appendix C: Section 501(c)(15) Organizations and Gross Receipts

A section 501(c)(15) organization applies the same gross receipts test as other organizations to determine whether they must file the Form 990 or Form 990-EZ. However, section 501(c)(15) insurance companies are also subject to separate tests to determine whether they qualify as tax-exempt for the tax year. The following tests use a specific definition for gross receipts defined below only for purposes of the following tests. Insurance companies that do not qualify as tax-exempt must file Form 1120-PC, U.S. Property and Casualty Insurance Company Income Tax Return, or Form 1120, U.S. Corporation Income Tax Return, as taxable entities. See Notice 2006-42, which is on page 878 of the Internal Revenue Bulletin 2006-19 at *www.irs.gov/irs-irbs/irb06-19.pdf.*

Tests for section 501(c)(15) insurance companies to qualify as tax-exempt for the tax year. If any section 501(c)(15) insurance company (other than life insurance) normally has gross receipts of more than $25,000 for the tax year and meets both parts of the following test, then the company can file Form 990 (or Form 990-EZ, if applicable).

1. The company's gross receipts must be equal to or less than $600,000, and
2. The company's premiums must be more than 50% of its gross receipts.

If the company did not meet this test and the company is a mutual insurance company, then it must meet the *Alternate test* to qualify to file Form 990 (or Form 990-EZ, if applicable). Otherwise, the company must file Form 1120 or 1120-PC, as appropriate.

Alternate test. If any section 501(c)(15) insurance company (other than life insurance) is a mutual insurance company and it did not meet the above test, then the company must meet both parts of the following alternate test.

1. The company's gross receipts must be equal to or less than $150,000, and
2. The company's premiums must be more than 35% of its gross receipts.

If the company does not meet either test, then it must file Form 1120-PC or Form 1120 (if the company is not entitled to insurance reserves) instead of Form 990 or Form 990-EZ.

Caution: *The alternate test does not apply if any employee of the mutual insurance company or a member of the employee's family is an employee of another company that is exempt under section 501(c)(15) (or would be exempt if this provision did not apply).*

Gross receipts. To determine whether a section 501(c)(15) organization satisfies either of the above tests, figure gross receipts by adding:

1. premiums (including deposits and assessments) without reduction for return premiums or premiums paid for reinsurance;
2. gross investment income of a non-life insurance company (as described in section 834(b)); and
3. other items that are included in the filer's gross income under Subchapter B, Chapter 1, Subtitle A of the Code.

This definition does not, however, include contributions to capital. For more information, see *Notice 2006-42.*

Premiums. Premiums consist of all amounts received as a result of entering into an insurance contract. They are reported in Form 990, Part VIII (Statement of Revenue), line 2.

Anti-abuse rule. The anti-abuse rule, found in section 501(c)(15)(C), explains how gross receipts (including premiums) from all members of a controlled group are aggregated in figuring the above tests.

Appendix D: Public Inspection of Returns

Some members of the public rely on Form 990, or Form 990-EZ, as the primary or sole source of information about a particular organization. How the public perceives an organization in such cases may be determined by the information presented on its returns.

An organization's completed Form 990, or Form 990-EZ, is available for public inspection as required by section 6104. Schedule B (Form 990, 990-EZ, or 990-PF) is open for public inspection for section 527 organizations filing Form 990 or Form 990-EZ. For other organizations that file Form 990 or Form 990-EZ, parts of Schedule B may be open to public inspection. Form 990-T filed after August 17, 2006, by a 501(c)(3) organization to report any unrelated business income, is also available for public inspection and disclosure.

Through the IRS
Use Form 4506-A to request:

- A copy of an exempt or political organization's return, report, notice, or exemption application;
- An inspection of a return, report, notice, or exemption application at an IRS office.

The IRS can provide copies of exempt organization returns on a compact disc (CD). Requesters can order the complete set (all Forms 990 and 990-EZ or all Forms 990-PF filed for a year) or a partial set by state or by month. For more information on the cost and how to order CD-ROMs, call the TEGE Customer Account Services toll-free number (1-877-829-5500) or write to the IRS:

Internal Revenue Service

TE/GE EO Determinations
P.O. Box 2508
Cincinnati, OH 45201

The IRS may not disclose portions of an exemption application relating to any trade secrets, etc. Additionally, the IRS may not disclose the names and addresses of contributors. See the Instructions for Schedule B (Form 990, 990-EZ, or 990-PF) for more information about the disclosure of that schedule.

Forms 990 or 990-EZ can only be requested for section 527 organizations for tax years beginning after June 30, 2000.

A return, report, notice, or exemption application may be inspected at an IRS office free of charge. Copies of these items may also be obtained through the organization as discussed in the following section.

Through the Organization

Public inspection and distribution of certain returns of unrelated business income. Section 501(c)(3) organizations that are required to file Form 990-T after August 17, 2006, must make Form 990-T available for public inspection under section 6104(d)(1)(A)(ii).

Public inspection and distribution of returns and reports for a political organization. Section 527 political organizations required to file Form 990, or Form 990-EZ, must, in general, make their Form 8871, 8872, 990, or 990-EZ available for public inspection in the same manner as annual information returns of section 501(c) organizations and 4947(a)(1) nonexempt charitable trusts are made available. See the public inspection rules for *Tax-exempt organizations*, later. Generally, Form 8871 and Form 8872 are available for inspection and printing from the Internet. The website address for both of these forms is */www.irs.gov/charities/political/article/0,,id=109332,00.html*.

TIP: *Note that a section 527 political organization (and an organization filing Form 990-PF) must disclose their Schedule B (Form 990, 990-EZ, or 990-PF). See the Instructions for Schedule B.* The penalties discussed in *General Instruction H* also apply to section 527 political organizations (Rev. Rul. 2003-49, 2003-204 I.R.B. 903).

Public inspection and distribution of applications for tax exemption and annual information returns of tax-exempt organizations. Under Regulations sections 301.6104(d)-1 through -3, a tax-exempt organization must:

- Make its application for recognition of exemption and its annual information returns available for public inspection without charge at its principal, regional and district offices during regular business hours.
- Make each annual information return available for a period of 3 years beginning on the date the return is required to be filed (determined with regard to any extension of time for filing) or is actually filed, whichever is later.
- Provide a copy without charge (for Form 990-T, this requirement applies only to Forms 990-T filed after August 17, 2006), other than a reasonable fee for reproduction and actual postage costs, of all or any part of any application or return required to be made

available for public inspection to any individual who makes a request for such copy in person or in writing (except as provided in Regulations sections 301.6104(d)-2 and -3).

Definitions.

Tax-exempt organization is any organization that is described in section 501(c) or (d) and is exempt from taxation under section 501(a). The term tax-exempt organization also includes any section 4947(a)(1) nonexempt charitable trust or nonexempt private foundation that is subject to the reporting requirements of section 6033.

Application for tax exemption includes:
- Any prescribed application form (such as Form 1023 or Form 1024),
- All documents and statements the IRS requires an applicant to file with the form,
- Any statement or other supporting document submitted in support of the application, and
- Any letter or other document issued by the IRS concerning the application.

Application for tax exemption does not include:
- Any application for tax exemption filed before July 15, 1987, unless the organization filing the application had a copy of the application on July 15, 1987;
- In the case of a tax-exempt organization other than a private foundation, the name and address of any contributor to the organization; or
- Any material that is not available for public inspection under section 6104.

Caution: *If there is no prescribed application form, see Regulations section 301.6104(d)-1(b)(4)(i).*

Annual information return includes:
- An exact copy of the Form 990, or Form 990-EZ filed by a tax-exempt organization as required by section 6033.
- Any amended return the organization files with the IRS after the date the original return is filed.
- An exact copy of Form 990-T if one is filed by a 501(c)(3) organization.

The copy must include all information furnished to the IRS on Form 990, Form 990-EZ, or Form 990-T as well as all schedules, attachments and supporting documents, except for the name and address of any contributor to the organization. See the Instructions for Schedule B (Form 990, 990-EZ, or 990-PF).

Annual returns more than 3 years old. An annual information return does not include any return after the expiration of 3 years from the date the return is required to be filed (including any extension of time that has been granted for filing such return) or is actually filed, whichever is later.

If an organization files an amended return, however, the amended return must be made available for a period of 3 years beginning on the date it is filed with the IRS.

Local or subordinate organizations. For rules relating to annual information returns of local or subordinate organizations, see Regulations section 301.6104(d)-1(f)(2).

Regional or district offices. A regional or district office is any office of a tax-exempt organization, other than its principal office, that has paid employees, whether part-time or full-time, whose aggregate number of paid hours a week are normally at least 120.

A site is not considered a regional or district office, however, if:

- The only services provided at the site further exempt purposes (such as day care, health care or scientific or medical research); and
- The site does not serve as an office for management staff, other than managers who are involved solely in managing the exempt function activities at the site.

Special rules relating to public inspection.

Permissible conditions on public inspection. A tax-exempt organization:

- May have an employee present in the room during an inspection.
- Must allow the individual conducting the inspection to take notes freely during the inspection.
- Must allow the individual to photocopy the document at no charge, if the individual provides photocopying equipment at the place of inspection.

Organizations that do not maintain permanent offices. A tax-exempt organization with no permanent office:

- Must make its application for tax exemption and its annual information returns available for inspection at a reasonable location of its choice.
- Must permit public inspection within a reasonable amount of time after receiving a request for inspection (normally not more than 2 weeks) and at a reasonable time of day.
- May mail, within 2 weeks of receiving the request, a copy of its application for tax exemption and annual information returns to the requester instead of allowing an inspection.
- May charge the requester for copying and actual postage costs only if the requester consents to the charge.

An organization that has a permanent office, but has no office hours, or very limited hours during certain times of the year, must make its documents available during those periods when office hours are limited, or not available, as though it were an organization without a permanent office.

Special rules relating to copies.

Time and place for providing copies in response to requests made in-person. A tax-exempt organization must:

- Provide copies of required documents under section 6104(d) in response to a request made in person at its principal, regional and district offices during regular business hours.
- Provide such copies to a requester on the day the request is made, except for unusual circumstances (see below).

Unusual circumstances. In the case of an in-person request, where unusual circumstances exist so that fulfilling the request on the same business day causes an unreasonable burden to the tax-exempt organization, the organization must provide the copies no later than the next business day following the day that the unusual circumstances cease to exist, or the 5th business day after the date of the request, whichever occurs first.

Unusual circumstances include:

- Requests received that exceed the organization's daily capacity to make copies;
- Requests received shortly before the end of regular business hours that require an extensive amount of copying; or
- Requests received on a day when the organization's managerial staff capable of fulfilling the request is conducting special duties, such as student registration or attending an off-site meeting or convention, rather than its regular administrative duties.

Agents for providing copies. For rules relating to use of agents to provide copies, see Regulations sections 301.6104(d)-1(d)(1) and (2).

Request for copies in writing. A tax-exempt organization must honor a written request for a copy of documents (or the requested part) required under section 6104(d) if the request:

1. Is addressed to, and delivered by mail, electronic mail, facsimile, or a private delivery service, as defined in section 7502(f), to a principal, regional, or district office of the organization; and
2. Sets forth the address to which the copy of the documents should be sent.

Time and manner of fulfilling written requests.

IF the organization	THEN the organization
Receives a written request for a copy,	Must mail the copy of the requested documents (or the requested parts) within 30 days from the date it receives the request.
Mails the copy of the requested document,	Is deemed to have provided the copy on the postmark date or private delivery mark (if sent by certified or registered mail, the date of registration or the date of the postmark on the sender's receipt).
Requires payment in advance,	Is required to provide the copies within 30 days from the date it receives payment.
Receives a request or payment by mail,	Is deemed to have received it 7 days after the date of the postmark, absent evidence to the contrary.
Receives a request transmitted by electronic mail or facsimile,	Is deemed to have received it the day the request is transmitted successfully.
Receives a written request without payment or with an insufficient payment, when payment in advance is required,	Must notify the requester of the prepayment policy and the amount due within 7 days from the date of the request's receipt.
Receives consent from an individual making a request,	May provide a copy of the requested document exclusively by electronic mail (the material is provided on the date the organization successfully transmits the electronic mail.

Request for a copy of parts of a document. A tax-exempt organization must fulfill a request for a copy of the organization's entire application for tax exemption or annual information return or any specific part or schedule of its application or return. A request for a copy of less than the entire application or less than the entire return must specifically identify the requested part or schedule.

Fees for copies. A tax-exempt organization may charge a reasonable fee for providing copies. Before the organization provides the documents, it may require that the individual requesting copies of the documents pay the fee. If the organization has provided an individual making a request with notice of the fee, and the individual does not pay the fee within 30 days, or if the individual pays the fee by check and the check does not clear upon deposit, the organization may disregard the request.

Form of payment—(A) Request made in person. If a tax-exempt organization charges a fee for copying, it must accept payment by cash and money order for requests made in person. The organization may accept other forms of payment, such as credit cards and personal checks.

(B) Request made in writing. If a tax-exempt organization charges a fee for copying and postage, it must accept payment by certified check, money order, and either personal check or credit card for requests made in writing. The organization may accept other forms of payment.

Avoidance of unexpected fees. Where a tax-exempt organization does not require prepayment and a requester does not enclose payment with a request, an organization must receive consent from a requester before providing copies for which the fee charged for copying and postage exceeds $20.

Documents to be provided by regional and district offices. Except as otherwise provided, a regional or district office of a tax-exempt organization must satisfy the same rules as the principal office with respect to allowing public inspection and providing copies of its application for tax exemption and annual information returns.

A regional or district office is not required, however, to make its annual information return available for inspection or to provide copies until 30 days after the date the return is required to be filed (including any extension of time that is granted for filing such return) or is actually filed, whichever is later.

Documents to be provided by local and subordinate organizations.

Applications for tax exemption. Except as otherwise provided, a tax-exempt organization that did not file its own application for tax exemption (because it is a local or subordinate organization covered by a group exemption letter) must, upon request, make available for public inspection, or provide copies of, the application submitted to the IRS by the central or parent organization to obtain the group exemption letter and those documents which were submitted by the central or parent organization to include the local or subordinate organization in the group exemption letter.

However, if the central or parent organization submits to the IRS a list or directory of local or subordinate organizations covered by the group exemption letter, the local or subordinate organization is required to provide only the application for the group exemption ruling and the pages of the list or directory that specifically refer to it. The local or subordinate organization must permit public inspection, or comply with a request for copies made in person, within a reasonable amount of time (normally not more than 2 weeks) after receiving a request made in person for public inspection or copies and at a reasonable time of day. See Regulations section 301.6104(d)-1(f) for further information.

Annual information returns. A local or subordinate organization that does not file its own annual information return (because it is affiliated with a central or parent organization that files a group return) must, upon request, make available for public inspection, or provide copies of, the group returns filed by the central or parent organization.

However, if the group return includes separate schedules with respect to each local or subordinate organization included in the group return, the local or subordinate organization receiving the request may omit any schedules relating only to other organizations included in the group return.

The local or subordinate organization must permit public inspection, or comply with a request for copies made in person, within a reasonable amount of time (normally not more than 2 weeks) after receiving a request made in person for public inspection or copies and at a reasonable time of day.

In a case where the requester seeks inspection, the local or subordinate organization may mail a copy of the applicable documents to the requester within the same time period instead of allowing an inspection. In such a case, the organization may charge the requester for copying and actual postage costs only if the requester consents to the charge.

If the local or subordinate organization receives a written request for a copy of its annual information return, it must fulfill the request by providing a copy of the group return in the time and manner specified in the paragraph earlier, *Request for copies in writing*.

The requester has the option of requesting from the central or parent organization, at its principal office, inspection or copies of group returns filed by the central or parent organization. The central or parent organization must fulfill such requests in the time and manner specified in the paragraphs, *Special rules relating to public inspection* and *Special rules relating to copies* earlier.

Failure to comply. If an organization fails to comply with the requirements specified in this paragraph, the penalty provisions of sections 6652(c)(1)(C), 6652(c)(1)(D), and 6685 apply.

Making applications and returns widely available. A tax-exempt organization is not required to comply with a request for a copy of its application for tax exemption or an annual information return if the organization has made the requested document widely available (see below).

An organization that makes its application for tax exemption and/or annual information return widely available must nevertheless make the document available for public inspection as required under Regulations section 301.6104(d)-1(a).

A tax-exempt organization makes its application for tax exemption and/or an annual information return widely available if the organization complies with the Internet posting requirements and the notice requirements given below.

Internet posting. A tax-exempt organization can make its application for tax exemption and/or an annual information return widely available by posting the document on a World Wide Web page that the tax-exempt organization establishes and maintains or by having the document posted, as part of a database of similar documents of other tax-exempt organizations, on a World Wide Web page established and maintained by another entity. The document will be considered widely available only if:

- The World Wide Web page through which it is available clearly informs readers that the document is available and provides instructions for downloading it;
- The document is posted in a format that, when accessed, downloaded, viewed and printed in hard copy, exactly reproduces the image of the application for tax exemption or annual information return as it was originally filed with the IRS, except for any information permitted by statute to be withheld from public disclosure; and
- Any individual with access to the Internet can access, download, view and print the document without special computer hardware or software required for that format (other than software that is readily available to members of the public without payment of any fee) and without payment of a fee to the tax-exempt organization or to another entity maintaining the World Wide Web page.

Reliability and accuracy. In order for the document to be widely available through an Internet posting, the entity maintaining the World Wide Web page must have procedures for ensuring the reliability and accuracy of the document that it posts on the page and must take reasonable precautions to prevent alteration, destruction or accidental loss of the document when posted on its page. In the event that a posted document is altered, destroyed or lost, the entity must correct or replace the document.

Notice requirement. If a tax-exempt organization has made its application for tax exemption and/or an annual information return widely available, it must notify any individual requesting a copy where the documents are available (including the address on the World Wide Web, if applicable). If the request is made in person, the organization must provide such notice to the individual immediately. If the request is made in writing, the notice must be provided within 7 days of receiving the request.

Tax-exempt organization subject to harassment campaign. If the Director EO Examination (or designee) determines that the organization is being harassed, a tax-exempt organization is not required to comply with any request for copies that it reasonably believes is part of a harassment campaign.

Whether a group of requests constitutes a harassment campaign depends on the relevant facts and circumstances such as:

- a sudden increase in requests;
- an extraordinary number of requests by form letters or similarly worded correspondence;
- hostile requests;
- evidence showing bad faith or deterrence of the organization’s exempt purpose;
- prior provision of the requested documents to the purported harassing group; and
- a demonstration that the organization routinely provides copies of its documents upon request.

A tax-exempt organization may disregard any request for copies of all or part of any document beyond the first two received within any 30-day period or the first four received within any 1-year period from the same individual or the same address, regardless of whether the Director EO Examination (or designee) has determined that the organization is subject to a harassment campaign.

A tax-exempt organization may apply for a determination that it is the subject of a harassment campaign and that compliance with requests that are part of the campaign would not be in the public interest by submitting a signed application to the Director EO Examination (or designee) for the area where the organization's principal office is located.

In addition, the organization may suspend compliance with any request it reasonably believes to be part of the harassment campaign until it receives a response to its application for a harassment campaign determination. However, if the Director EO Examination (or designee) determines that the organization did not have a reasonable basis for requesting a determination that it was subject to a harassment campaign or reasonable belief that a request was part of the campaign, the officer, director, trustee, employee, or other responsible individual of the organization remains liable for any penalties for not providing the copies in a timely fashion. See Regulations section 301.6104(d)-3.

Appendix E: Group Returns: Reporting Information on Behalf of the Group.

Except where otherwise instructed, where a line calls for a dollar amount or numerical data, the central organization filing the group return must aggregate the data from all the subordinates included in the group return and report the aggregate number. For example, in answering Form 990, Part I, line 6, the total number of volunteers for all of the subordinate organizations would be reported.

For purposes of Form 990, Part III, report on an aggregate basis for the mission and activities of all of the subordinates (in effect, treating all of the subordinates as one entity).

In general, if a line requires a Yes/No answer and the answer is not the same for all subordinates to which the line applies, then state "Yes" and explain the answer in the Schedule supplemental information (if applicable) or in Schedule O. For the following lines, however, state "No" if the answer is "No" for any of the subordinates to which the line applies, and explain in Schedule O):

Form 990, Part V, lines 1c, 2b, 3b, 5c, 6b, 7b, 7g, and 7h
Form 990, Part VI, lines 8a, 8b, 9b, 12b, and 12c
Form 990, Schedule C, Part I-B, lines 3 and 4a
Form 990, Schedule C, Part I-C, line 4
Form 990, Schedule C, Part II-A, line 1j
Form 990, Schedule C, Part II-B, line 2d
Form 990, Schedule C, Part III-A, lines 1-3
Form 990, Schedule D, Part I, lines 5 and 6
Form 990, Schedule D, Part II, lines 5 and 8
Form 990, Schedule E, lines 1-4d and 7
Form 990, Schedule F, Part I, line 1

Form 990, Schedule G, Part III, line 9a
Form 990, Schedule I, Part I, line 1
Form 990, Schedule J, Part I, lines 1b and 2
Form 990, Schedule M, Part I, line 31
Form 990, Schedule N, Part I, lines 3, 5b, 6, and 7b

The following is a list of other special instructions for group returns:

1. **Header Item B. Termination.** If the group is terminating its group exemption and filing its final group return, do not check the termination box. Refer to Rev. Proc. 80-27, 1980-1 C.B. 677, for procedures for terminating the group exemption.
2. **Header Items C, D, E, F, J.** Enter information for central organization only.
3. **Header Item H. Group returns.** Enter the four-digit group exemption number (GEN). Also, if not all affiliated subordinate organizations are included in the group return, then attach a list (not in Schedule O) showing the name, address, and EIN of each affiliated subordinate organization included in the group return.
4. **Header Item J. Website.** Enter the Website of the central organization (if any).
5. **Header Item K. Type of organization.** Check "other" if the group has more than one type of organization.
6. **Header Item L. Year of formation.** Leave blank for group return.
7. **Header Item M. State of legal domicile.** Leave blank for group return.
8. **Part IV, lines 14b-19, 21-22, and 29 dollar thresholds.** Apply the dollar thresholds with respect to the aggregate data for the group as a whole, not subordinate by subordinate.
9. **Part IV, line 20. Hospitals.** Answer "Yes," if any affiliate within the group operated a hospital facility.
10. **Part VI, line 4. Significant changes to organizational documents.** Report only changes to standardized organizational documents maintained by the central organization that subordinates are required to adopt.
11. **Part VI, line 20. Person who possesses books and records.** Identify the person who possesses the books and records used to prepare the group return.
12. **Part VII. Compensation of officers, etc.** The central organization must either: (1) file separately a Form 990, Part VII and Schedule J, Part II for itself with its return, and a Form 990, Part VII and Schedule J, Part II with the group return for each subordinate included in the group return, or (2) file a single consolidated Form 990, Part VII and Schedule J, Part II for itself and all included subordinates with the group return. The central organization must state in Schedule O whether it has adopted the first or second method of reporting and may not change it without IRS consent. In either case, report the five highest compensated employees and independent contractors above $100,000 for each subordinate (as well as for the central organization, if applicable), not the five highest for the whole group. If an organization reports by the first method and one or more officers, directors, trustees, key employees, or highest compensated employees receives compensation from more than one organization in the group, the person's compensation from the several organizations must be reported once but not more than once. Regardless of the method used, indicate which organization(s) paid the compensation.
13. **Part VII. Compensation from related organizations.** Report compensation from a related organization that is part of a group ruling, even if the related organization is not required to be reported in Schedule R.

14. **Part XI, lines 2a and b. Compiled, reviewed, or audited financial statements.** Answer "Yes" only for consolidated financial statements for the group.
15. **Schedule A. Part I. Reason for public charity status.** If the subordinates do not all have the same public charity status, then check the public charity status box for the largest number of subordinates in the group, and state in Schedule A, Part IV (or, alternatively, in the list required to be attached by Header item H(b)) the public charity status of each subordinate, including the type of 509(a)(3) organization.
16. **Schedule A, Parts II and III. Support Schedules.** Report aggregate data for all subordinates with the public charity status corresponding to Parts II and III.
17. **Schedule B. Contributors.** The central organization must file either: (1) a Schedule B for itself with its return, and a separate Schedule B with the group return for each subordinate organization included in the group return, or (2) a consolidated Schedule B for itself and all included subordinates with the group return. The same information must be reported whichever method of reporting is used, just formatted differently and appearing in different returns. The central organization must indicate in Schedule O whether it has adopted the first or second method of reporting and may not change it without IRS consent.
18. **Schedule C. Part II-A. Lobbying expenditures and affiliated groups.** Complete Part II-A, column (b) for the group as a whole. In column (a), except on lines g and h, include the amounts that apply to all electing members of the group if they are included in the group return. If the group return includes organizations that apply to more than one affiliated group, show in column (b) the totals for all such groups.
19. **Schedule D. Part X. Other liabilities.** The filing organization may summarize that portion, if any, of the FIN 48 footnote that applies to the liability of multiple organizations including the organization (for example, as a member of a group with consolidated financial statements), to describe the filing organization's share of the liability.
20. **Schedule H. Hospitals.** Complete one Schedule H for all of the hospitals operated by subordinates in the group, and report aggregate data from all such hospitals.
21. **Schedule J. Compensation from related organizations.** See the Part VII instructions above.
22. **Schedule N. Liquidation or significant disposition of assets.** Explain in Schedule N, Part III which of the subordinates have undergone a liquidation, termination, dissolution, or significant disposition of assets.
23. **Schedule R. Related organizations.** An organization that is part of a group exemption ruling is not required to list any of the subordinate organizations of the group in Schedule R, Part II (regardless of whether they qualify as related organizations). Similarly, an organization is not required to list in Part II any other related organization that is itself part of another group exemption ruling, although the organization must explain in Schedule O its relationship with the other group exemption ruling. In the case of a subordinate organization filing an individual Form 990 return, the subordinate must list only the central or parent organization as a related organization in Schedule R, Part II. In the case of a group return, the central organization must attach a list of the subordinate organizations in response to Form 990, page one, item H(b). Even if a related organization is not required to be listed in Schedule R, Part II, however, the organization must report its transactions with the related organization in Part V, including listing the name of the related organization in Part V, line 2, column (A) for transactions that must be reported in line 2.

Appendix F : Disregarded Entities and Joint Ventures; Inclusion of Activities and Items.

Disregarded Entities

A disregarded entity, as described in Regulations sections 301.7701-1 through 301.7701-3, is treated as a branch or division of its parent organization for federal tax purposes. Therefore, financial and other information applicable to a disregarded entity must be reported as the parent organization's information.

An organization must report in its Form 990, including Parts VIII through X, all of the revenues, expenses, assets, liabilities, and net assets or funds of a disregarded entity of which it is the sole member. The organization also must report the activities of a disregarded entity in the appropriate parts (including Schedules) of the Form 990. For example, political campaign activity or lobbying activity conducted by a disregarded entity of which the organization is the sole member must be reported in Schedule C, Political Campaign and Lobbying Activities.

The following is a list of special instructions for the Form and Schedules regarding the reporting of a disregarded entity of which the organization is the sole member:

1. **Part I, line 5. Number of employees.** See instruction for Part V, lines 1 and 2 below.
2. **Part I, line 6. Number of volunteers.** The total number of volunteers to be reported may, but is not required to, include volunteers of any disregarded entity.
3. **Part III. Program service accomplishments.** Consider activities and accomplishments of all disregarded entities when answering this Part.
4. **Part IV, line 12. Audited financial statement.** The organization is not to answer "Yes," to this question merely because it received an audited statement of one or more disregarded entities, if the statement of the filing organization was not audited.
5. **Part IV, lines 31-32. Liquidation or significant disposition of assets.** See instruction for Schedule N below.
6. **Part IV, lines 35-36. Transactions with related organizations.** See instruction for Schedule R below.
7. **Part V, lines 1 and 2. Forms 1096 and W-3.** The total number of information returns and employees to be reported, and compliance with backup withholding rules, includes all backup withholding, information returns and employees of any disregarded entity, regardless of whether the disregarded entity has a separate EIN for employment tax and information reporting purposes.
8. **Part V, line 7. Organizations that may receive deductible contributions.** For purposes of Form 990 reporting, lines 7a through 7h are to be answered by taking into account any contributions made to a disregarded entity.
9. **Part VI, Section A, lines 1-11. Governing body and management.** Members of the governing body, officers, directors, trustees, and employees of a disregarded entity will not be treated as governing body members, officers, directors, or trustees of the filing organization, but such persons may constitute a key employee or highest compensated employee of the filing organization by virtue of compensation paid by the disregarded entity, or the person's responsibilities and authority over operations of the disregarded entity when compared to the filing organization as a whole.
10. **Part VI, Section B, lines 12 through 16. Policies.** The organization is to check "Yes," or "No," based on the filing organization's policies, but for each "Yes" response must

report in Schedule O whether the policy applies to all of the organization's disregarded entities (if any).

11. **Part VII, line 1a. Definitions of key employee and highest compensated employee.** Officers, directors, trustees, and employees of a disregarded entity may constitute a key employee or highest compensated employee of the filing organization by virtue of compensation paid by the disregarded entity, or the person's responsibilities and authority over operations of the disregarded entity when compared to the filing organization as a whole.
12. **Part XI, line 3. OMB and Single Audit Act audits.** The organization must check "Yes" if a disregarded entity was required to undergo an audit or audits.
13. **Schedule A. Public support tests.** Support of a disregarded entity must be taken into account for the test as it applies to the filing organization.
14. **Schedule B. Contributors.** Contributions to a disregarded entity must be reported.
15. **Schedule K. Tax exempt bonds.** Obligations or activities of a disregarded entity must be reported on the Schedule K.
16. **Schedule L. Transactions with interested persons.** Reportable transactions include transactions involving disqualified persons who have such status because of their relationship with a disregarded entity (such as an employee of the disregarded entity who qualifies as a key employee of the organization as a whole). A transaction between an interested person and a disregarded entity of the organization is reportable on Schedule L.
17. **Schedule M. Noncash contributions.** Noncash contributions to a disregarded entity must be reported.
18. **Schedule N. Liquidation or significant disposition of assets. T**he organization is not to prepare Part I to report a termination, liquidation, or dissolution of a disregarded entity if the filing organization continues to operate. Transfers to (or by) a filing organization by (or to) its disregarded entity are not to be reported in Part II, but transfers by or contractions of a disregarded entity are to be taken into account to determine whether a reportable event (based on 25% of the filing organization's net assets, including those of its disregarded entities) has occurred.
19. **Schedule R, Part V, line 2. Transactions with related organizations.** Specified payments to a disregarded entity by a controlled entity of the filing organization, and transfers by a disregarded entity to an exempt non-charitable entity, are to be reported in Schedule R, Part V, line 2.

Joint Ventures Taxed as a Partnership

If the organization participates as a partner or member of a joint venture, partnership, LLC, or other entity treated as a partnership for federal tax purposes (referred to here as a "joint venture"), as described in Regulations sections 301.7701-1 through 301.7701-3, then the organization in general must report the activities of the joint venture as its own activities, to the extent of the organization's profits or capital interest in the joint venture, whichever is greater. For example, a pro rata portion of the political campaign activity or lobbying activity conducted by a joint venture of which the organization is a member must be reported in Schedule C, Political Campaign and Lobbying Activities. If the joint venture is a member of a second joint venture, which is a member of a third joint venture, etc., the activities similarly pass through all joint ventures to the organization.

The following is a list of special instructions for the Form and Schedules regarding the reporting of a joint venture of which the organization is a member:

1. **Part I, line 2. Disposition of 25% of assets.** See instruction for Schedule N below.
2. **Part I, line 7. Unrelated business income.** Include the organization's share (whether or not distributed) of income or loss of the joint venture that is unrelated business income in determining the organization's gross and net unrelated business income.
3. **Part IV, lines 3-5. Political campaign and lobbying activities.** See instruction for Schedule C below.
4. **Part IV, line 7. Conservation easements.** See instruction for Schedule D below.
5. **Part IV, lines 14-16. Activities outside the U.S.** See instruction for Schedule F below.
6. **Part IV, lines 17-19. Fundraising and gaming.** See instruction for Schedule G below.
7. **Part IV, line 20. Hospitals.** See instruction for Schedule H below.
8. **Part IV, line 21-22. Grants in the U.S.** See instruction for Schedule I below.
9. **Part IV, lines 26-28. Loans, grants, and business transactions involving interested persons.** See instruction for Schedule L below.
10. **Part IV, line 32. Disposition of 25% of assets.** See instruction for Schedule N below.
11. **Part IV, lines 34-37. Related organizations and unrelated partnerships.** See instruction for Schedule R below.
12. **Part V, line 3a. Unrelated business income.** Include the organization's share (whether or not distributed) of income or loss of the joint venture that is unrelated business income in determining the organization's gross unrelated business income.
13. **Part VI. Governance, management, and disclosure.** Do not take into account a joint venture for purposes of Part VI (except for line 16).
14. **Part VII. Compensation.** See instruction for Schedule J below.
15. **Parts VIII, IX, and X. Financial Statements.** Report in accordance with the organization's books and records.
16. **Part XI. Financial statements and reporting.** Disregard a joint venture.
17. **Schedule C. Political campaign and lobbying activities.** Report the organization's share of political campaign or lobbying activities conducted by a joint venture.
18. **Schedule D, Part II. Conservation easements.** Include conservation easements held by a joint venture formed for the purpose of holding such easements.
19. **Schedule F. Activities outside the U.S.** Include activities of a joint venture, including grants to organizations or individuals outside the U.S.
20. **Schedule G. Fundraising and gaming.** Include activities of a joint venture and the organization's share of revenues and expenses. In Part III, line 12, check "Yes" if the joint venture was formed to administer charitable gaming.
21. **Schedule H. Hospitals.** Include activities of a joint venture and the organization's share of revenues and expenses. See also Schedule H, Part IV regarding certain joint ventures with physicians, officers, etc.
22. **Schedule I. Grants in the U.S.** Include grants from a joint venture to organizations, governments, or individuals in the U.S.
23. **Schedule J. Compensation.** If an officer, director, trustee, or employee of the organization receives compensation from a joint venture, the compensation is not treated as paid pro rata by the organization. The compensation may need to be reported, however, as compensation from a related organization if the joint venture is a related organization.
24. **Schedule K, Part III, line 1. Private business use.** Report certain joint ventures that owned property financed by tax-exempt bonds.

25. **Schedule L, Parts II-IV. Loans, grants, and business transactions involving interested persons.** Report loans and grants made to an interested person by a joint venture. Also report certain joint ventures with interested persons.
26. **Schedule N, Part II. Disposition of 25% of assets.** In determining whether the organization made a disposition of more than 25% of its assets, take into account its share of dispositions by a joint venture.
27. **Schedule R. Related organizations.** Report relationships with certain joint ventures in Parts III and VI, and certain transactions with joint ventures in Part V.

Appendix G: Section 4958 Excess Benefit Transactions

The intermediate sanction regulations are important to the exempt organization community as a whole, and for ensuring compliance in this area. The rules provide a roadmap by which an organization may steer clear of situations that may give rise to inurement.

Under section 4958, any disqualified person who benefits from an excess benefit transaction with an applicable tax-exempt organization is liable for a 25% tax on the excess benefit. The disqualified person is also liable for a 200% tax on the excess benefit if the excess benefit is not corrected by a certain date. Also, organization managers who participate in an excess benefit transaction knowingly, willfully, and without reasonable cause are liable for a 10% tax on the excess benefit, not to exceed $20,000 for all participating managers on each transaction.

Applicable Tax-Exempt Organization

These rules only apply to certain applicable section 501(c)(3) and 501(c)(4) organizations. An *applicable tax-exempt organization* is a section 501(c)(3) or a section 501(c)(4) organization that is tax exempt under section 501(a), or was such an organization at any time during a 5-year period ending on the day of the excess benefit transaction.

An applicable tax-exempt organization does not include:

- A private foundation as defined in section 509(a).
- A governmental entity that is exempt from (or not subject to) taxation without regard to section 501(a) or relieved from filing an annual return under Regulations section 1.6033-2(g)(6).
- Certain foreign organizations.

An organization is not treated as a section 501(c)(3) or 501(c)(4) organization for any period covered by a final determination that the organization was not tax-exempt under section 501(a), so long as the determination was not based on private inurement or one or more excess benefit transactions.

Disqualified Person

The vast majority of section 501(c)(3) or 501(c)(4) organization employees and contractors will not be affected by these rules. Only the few influential persons within these organizations are covered by these rules when they receive benefits, such as compensation, fringe benefits, or contract payments. The IRS calls this class of covered individuals disqualified persons.

A *disqualified person*, regarding any transaction, is any person 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. This would include, for example, voting members of the governing body, and persons holding the power of:

- Presidents, chief executive officers, or chief operating officers.
- Treasurers and chief financial officers.

A disqualified person also includes certain family members of a disqualified person, and 35% controlled entities of a disqualified person.

The following persons are considered disqualified persons along with certain family members and 35% controlled entities associated with them:

- Donors of donor advised funds,
- Investment advisors of sponsoring organizations, and
- The disqualified persons of a section 509(a)(3) supporting organization for the organizations that organization supports.

Substantial contributors to supporting organizations are also considered disqualified persons along with their family members and 35% controlled entities.

See the instructions for Form 4720, Schedule I for more information regarding these disqualified persons.

Who is not a disqualified person? The rules also clarify which persons are not considered to be in a position to exercise substantial influence over the affairs of an organization. They include:

- An employee who receives benefits that total less than the highly compensated amount ($100,000 in 2007) and who does not hold the executive or voting powers just mentioned; is not a family member of a disqualified person; and is not a substantial contributor;
- Tax-exempt organizations described in section 501(c)(3); and
- Section 501(c)(4) organizations with respect to transactions engaged in with other section 501(c)(4) organizations.

Who else may be considered a disqualified person? Other persons not described above can also be considered disqualified persons, depending on all the relevant facts and circumstances.

Facts and circumstances tending to show substantial influence:

- The person founded the organization.
- The person is a substantial contributor to the organization under the section 507(d)(2)(A) definition, only taking into account contributions to the organization for the past 5 years.
- The person's compensation is primarily based on revenues derived from activities of the organization that the person controls.
- The person has or shares authority to control or determine a substantial portion of the organization's capital expenditures, operating budget, or compensation for employees.
- The person manages a discrete segment or activity of the organization that represents a substantial portion of the activities, assets, income, or expenses of the organization, as compared to the organization as a whole.

- The person owns a controlling interest (measured by either vote or value) in a corporation, partnership, or trust that is a disqualified person.
- The person is a nonstock organization controlled directly or indirectly by one or more disqualified persons.

Facts and circumstances tending to show no substantial influence:

- The person is an independent contractor whose sole relationship to the organization is providing professional advice (without having decision-making authority) with respect to transactions from which the independent contractor will not economically benefit.
- The person has taken a vow of poverty.
- Any preferential treatment the person receives based on the size of the person's donation is also offered to others making comparable widely solicited donations.
- The direct supervisor of the person is not a disqualified person.
- The person does not participate in any management decisions affecting the organization as a whole or a discrete segment of the organization that represents a substantial portion of the activities, assets, income, or expenses of the organization, as compared to the organization as a whole.

What about persons who staff affiliated organizations? In the case of multiple affiliated organizations, the determination of whether a person has substantial influence is made separately for each applicable tax-exempt organization. A person may be a disqualified person with respect to more than one organization in the same transaction.

Excess Benefit Transaction

An *excess benefit transaction* is a transaction in which an economic benefit is provided by an applicable tax-exempt organization, directly or indirectly, to or for the use of any disqualified person, and the value of the economic benefit provided by the applicable tax-exempt organization exceeds the value of the consideration (including the performance of services) received for providing such benefit. An excess benefit transaction also can occur when a disqualified person embezzles from the exempt organization.

To determine whether an excess benefit transaction has occurred, all consideration and benefits exchanged between a disqualified person and the applicable tax exempt organization, and all entities it controls, are taken into account.

For purposes of determining the value of economic benefits, the value of property, including the right to use property, is the fair market value. Fair market value is 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.

Donor advised funds. For a donor advised fund, an excess benefit transaction 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 payment. For additional information see the Instructions for Form 4720.

Supporting organizations. For any supporting organization, defined in section 509(a)(3), an excess benefit transaction includes grants, loans, compensation, or similar payment provided by the supporting organization to a:

- Substantial contributor
- Family member of a substantial contributor
- 35% controlled entity of a substantial contributor
- 35% controlled entity of a family member of a substantial contributor

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)).

A substantial contributor is any person who contributed or bequeathed an aggregate of more than $5000 to the organization, if that amount is more than 2% of the total contributions and bequests received by the organization before the end of the tax year of the organization in which the contribution or bequest is received by the organization from such person. A substantial contributor includes the grantor of a trust.

The excess benefit for substantial contributors and parties related to those contributors includes the amount of the grant, loan, compensation, or similar payment. For additional information see the Instructions for Form 4720.

When does an excess benefit transaction usually occur? An excess benefit transaction occurs on the date the disqualified person receives the economic benefit from the organization for federal income tax purposes. However, when a single contractual arrangement provides for a series of compensation payments or other payments to a disqualified person during the disqualified person's tax year, any excess benefit transaction with respect to these payments occurs on the last day of the taxpayer's tax year.

In the case of the transfer of property subject to a substantial risk of forfeiture, or in the case of rights to future compensation or property, the transaction occurs on the date the property, or the rights to future compensation or property, is not subject to a substantial risk of forfeiture. Where the disqualified person elects to include an amount in gross income in the tax year of transfer under section 83(b), the excess benefit transaction occurs on the date the disqualified person receives the economic benefit for federal income tax purposes.

Section 4958 applies only to post-September 1995 transactions. Section 4958 applies to excess benefit transactions occurring on or after September 14, 1995. Section 4958 does not apply to any transaction occurring pursuant to a written contract that was binding on September 13, 1995, and at all times thereafter before the transaction occurs.

What is reasonable compensation?
Reasonable compensation is the valuation standard that is used to determine if there is an excess benefit in the exchange of a disqualified person's services for compensation. *Reasonable compensation* is the value that would ordinarily be paid for like services by like enterprises under like circumstances. This is the section 162 standard that will apply in

determining the reasonableness of compensation. The fact that a bonus or revenue-sharing arrangement is subject to a cap is a relevant factor in determining the reasonableness of compensation.

For determining the reasonableness of compensation, all items of compensation provided by an applicable tax-exempt organization in exchange for the performance of services are taken into account in determining the value of compensation (except for certain economic benefits that are disregarded, as discussed in *What benefits are disregarded?* later). Items of compensation include:

- All forms of cash and noncash compensation, including salary, fees, bonuses, severance payments, and deferred and noncash compensation.
- The payment of liability insurance premiums for, or the payment or reimbursement by the organization of taxes or certain expenses under section 4958, unless excludable from income as a *de minimis* fringe benefit under section 132(a)(4). (A similar rule applies in the private foundation area.) Inclusion in compensation for purposes of determining reasonableness under section 4958 does not control inclusion in income for income tax purposes.
- All other compensatory benefits, whether or not included in gross income for income tax purposes.
- Taxable and nontaxable fringe benefits, except fringe benefits described in section 132.
- Foregone interest on loans.

Written intent required to treat benefits as compensation. An economic benefit is not treated as consideration for the performance of services unless the organization providing the benefit clearly indicates its intent to treat the benefit as compensation when the benefit is paid.

An applicable tax-exempt organization (or entity that it controls) is treated as clearly indicating its intent to provide an economic benefit as compensation for services only if the organization provides written substantiation that is contemporaneous with the transfer of the economic benefits under consideration. Ways to provide contemporaneous written substantiation of its intent to provide an economic benefit as compensation include:

- The organization produces a signed written employment contract;
- The organization reports the benefit as compensation on an original Form W-2, Form 1099 or Form 990, or on an amended form filed prior to the start of an IRS examination; or
- The disqualified person reports the benefit as income on the person's original Form 1040 or on an amended form filed prior to the start of an IRS examination.

Exception. To the extent the economic benefit is excluded from the disqualified person's gross income for income tax purposes, the applicable tax-exempt organization is not required to indicate its intent to provide an economic benefit as compensation for services. (For example: employer provided health benefits, and contributions to qualified plans under section 401(a).)

What benefits are disregarded? The following economic benefits are disregarded for purposes of section 4958:

- Nontaxable fringe benefits. An economic benefit that is excluded from income under section 132.

- Benefits to volunteer. An economic benefit provided to a volunteer for the organization if the benefit is provided to the general public in exchange for a membership fee or contribution of $75 or less per year.
- Benefits to members or donors. An economic benefit provided to a member of an organization due to the payment of a membership fee, or to a donor as a result of a deductible contribution, if a significant number of nondisqualified persons make similar payments or contributions and are offered a similar economic benefit.
- Benefits to a charitable beneficiary. An economic benefit provided to a person solely as a member of a charitable class that the applicable tax-exempt organization intends to benefit as part of the accomplishment of its exempt purpose.
- Benefits to a governmental unit. A transfer of an economic benefit to or for the use of a governmental unit, as defined in section 170(c)(1), if exclusively for public purposes.

Is there an exception for initial contracts? Section 4958 does not apply to any fixed payment made to a person pursuant to an initial contract. This is a very important exception, since it would potentially apply, for example, to all initial contracts with new, previously unrelated officers and contractors.

An *initial contract* is 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.

A *fixed payment* is an amount of cash or other property specified in the contract, or determined by a fixed formula that is specified in the contract, which is to be paid or transferred in exchange for the provision of specified services or property.

A *fixed formula* may, in general, incorporate an amount that depends upon future specified events or contingencies, as long as no one has discretion when calculating the amount of a payment or deciding whether to make a payment (such as a bonus).

Treatment as new contract. A binding written contract providing that it may be terminated or cancelled by the applicable tax-exempt organization without the other party’s consent (except as a result of substantial non-performance) and without substantial penalty, is treated as a new contract, as of the earliest date that any termination or cancellation would be effective. Also, a contract in which there is a material change, which includes an extension or renewal of the contract (except for an extension or renewal resulting from the exercise of an option by the disqualified person), or a more than incidental change to the amount payable under the contract, is treated as a new contract as of the effective date of the material change. Treatment as a new contract may cause the contract to fall outside the initial contract exception, and it thus would be tested under the fair market value standards of section 4958.

Rebuttable Presumption of Reasonableness

Payments under a compensation arrangement are presumed to be reasonable and the transfer of property (or right to use property) is presumed to be at fair market value, if the following three conditions are met.

1. The transaction is approved by an authorized body of the organization (or an entity it controls) which is composed of individuals who do not have a conflict of interest concerning the transaction.
2. Prior to making its determination, the authorized body obtained and relied upon appropriate data as to comparability. There is a special safe harbor for small organizations. If the

organization has gross receipts of less than $1 million, appropriate comparability data includes data on compensation paid by three comparable organizations in the same or similar communities for similar services.

3. The authorized body adequately documents the basis for its determination concurrently with making that determination. The documentation should include:

a. The terms of the approved transaction and the date approved;
b. The members of the authorized body who were present during debate on the transaction that was approved and those who voted on it;
c. The comparability data obtained and relied upon by the authorized body and how the data was obtained;
d. Any actions by a member of the authorized body having a conflict of interest; and
e. Documentation of the basis for the determination before the later of the next meeting of the authorized body or 60 days after the final actions of the authorized body are taken, and approval of records as reasonable, accurate and complete within a reasonable time thereafter.

Special rebuttable presumption rule for nonfixed payments. As a general rule, in the case of a nonfixed payment, no rebuttable presumption arises until the exact amount of the payment is determined, or a fixed formula for calculating the payment is specified, and the three requirements creating the presumption have been satisfied. However, if the authorized body approves an employment contract with a disqualified person that includes a nonfixed payment (for example, discretionary bonus) with a specified cap on the amount, the authorized body may establish a rebuttable presumption as to the nonfixed payment when the employment contract is entered into by, in effect, assuming that the maximum amount payable under the contract will be paid, and satisfying the requirements giving rise to the rebuttable presumption for that maximum amount.

An IRS challenge to the presumption of reasonableness. The Internal Revenue Service may refute the presumption of reasonableness only if it develops sufficient contrary evidence to rebut the probative value of the comparability data relied upon by the authorized body. This provision gives taxpayers added protection if they faithfully find and use contemporaneous persuasive comparability data when they provide the benefits.

Organizations that do not establish a presumption of reasonableness. An organization may still comply with section 4958 even if it did not establish a presumption of reasonableness. In some cases, an organization may find it impossible or impracticable to fully implement each step of the rebuttable presumption process described above. In such cases, the organization should try to implement as many steps as possible, in whole or in part, in order to substantiate the reasonableness of benefits as timely and as well as possible. If an organization does not satisfy the requirements of the rebuttable presumption of reasonableness, a facts and circumstances approach will be followed, using established rules for determining reasonableness of compensation and benefit deductions in a manner similar to the established procedures for section 162 business expenses.

Section 4958 Taxes

Tax on disqualified persons. An excise tax equal to 25% of the excess benefit is imposed on each excess benefit transaction between an applicable tax-exempt organization and a disqualified person. The disqualified person who benefited from the transaction is liable for the tax. If the 25% tax is imposed and the excess benefit transaction is not corrected within the taxable period, an additional excise tax equal to 200% of the excess benefit is imposed.

If a disqualified person makes a payment of less than the full correction amount, the 200% tax is imposed only on the unpaid portion of the correction amount. If more than one disqualified person received an excess benefit from an excess benefit transaction, all such disqualified persons are jointly and severally liable for the taxes.

To avoid the imposition of the 200% tax, a disqualified person must correct the excess benefit transaction during the taxable period. The taxable period begins on the date the transaction occurs and ends on the earlier of the date the statutory notice of deficiency is issued or the section 4958 taxes are assessed. This 200% tax may be abated if the excess benefit transaction subsequently is corrected during a 90-day correction period.

Tax on organization managers. An excise tax equal to 10% of the excess benefit may be imposed on the participation of an organization manager in an excess benefit transaction between an applicable tax exempt organization and a disqualified person. This tax, which may not exceed $20,000 with respect to any single transaction, is only imposed if the 25% tax is imposed on the disqualified person, the organization manager knowingly participated in the transaction, and the manager's participation was willful and not due to reasonable cause. There is also joint and several liability for this tax. An organization manager may be liable for both the tax on disqualified persons and on organization managers in appropriate circumstances.

An *organization manager* is 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. An organization manager is not considered to have participated in an excess benefit transaction where the manager has opposed the transaction in a manner consistent with the fulfillment of the manager's responsibilities to the organization. For example, a director who votes against giving an excess benefit would ordinarily not be subject to this tax.

A person participates in a transaction knowingly if the person has actual knowledge of sufficient facts so that, based solely upon such facts, the transaction would be an excess benefit transaction. Knowing does not mean having reason to know. The organization manager ordinarily will not be considered knowing if, after full disclosure of the factual situation to an appropriate professional, the organization manager relied on the professional's reasoned written opinion on matters within the professional's expertise or if the manager relied on the fact that the requirements for the rebuttable presumption of reasonableness have been satisfied. Participation by an organization manager is willful if it is voluntary, conscious, and intentional. An organization manager's participation is due to reasonable cause if the manager has exercised responsibility on behalf of the organization with ordinary business care and prudence.

Correcting an Excess Benefit Transaction
A disqualified person corrects an excess benefit transaction by undoing the excess benefit to the extent possible, and by taking any additional measures necessary to place the organization in a financial position not worse than that in which it would be if the disqualified person were dealing under the highest fiduciary standards. The organization is not required to rescind the underlying agreement; however, the parties may need to modify an ongoing contract with respect to future payments.

A disqualified person corrects an excess benefit by making a payment in cash or cash equivalents equal to the correction amount to the applicable tax-exempt organization. The correction amount equals the excess benefit plus the interest on the excess benefit; the interest rate may be no lower than the applicable Federal rate. There is an anti-abuse rule to prevent the disqualified person from effectively transferring property other than cash or cash equivalents.

Exception. For a correction of an excess benefit transaction described in *Donor advised funds* (discussed earlier), no amount repaid in a manner prescribed by the Secretary may be held in a donor advised fund.

Property. With the agreement of the applicable tax-exempt organization, a disqualified person may make a payment by returning the specific property previously transferred in the excess benefit transaction. The return of the property is considered a payment of cash (or cash equivalent) equal to the lesser of:

- The fair market value of the property on the date the property is returned to the organization, or
- The fair market value of the property on the date the excess benefit transaction occurred.

Insufficient payment. If the payment resulting from the return of the property is less than the correction amount, the disqualified person must make an additional cash payment to the organization equal to the difference.

Excess payment. If the payment resulting from the return of the property exceeds the correction amount described above, the organization may make a cash payment to the disqualified person equal to the difference.

Churches and Section 4958

The regulations make it clear that the IRS will apply the procedures of section 7611 when initiating and conducting any inquiry or examination into whether an excess benefit transaction has occurred between a church and a disqualified person.

Revenue Sharing Transactions

Proposed intermediate sanction regulations were issued in 1998. The proposed regulations had special provisions covering ‘‘any transaction in which the amount of any economic benefit provided to or for the use of a disqualified person is determined in whole or in part by the revenues of one or more activities of the organization. . .’’ — so-called revenue-sharing transactions. Rather than setting forth additional rules on revenue-sharing transactions, the final regulations reserve this section. Consequently, until the Service issues new regulations for this reserved section on revenue-sharing transactions, these transactions will be evaluated under the general rules (for example, the fair market value standards) that apply to all contractual arrangements between applicable tax-exempt organizations and their disqualified persons.

Revocation of Exemption and Section 4958

Section 4958 does not affect the substantive standards for tax exemption under section 501(c)(3) or section 501(c)(4), including the requirements that the organization be organized and operated exclusively for exempt purposes, and that no part of its net earnings inure to the benefit of any private shareholder or individual. The legislative history indicates that in most instances, the imposition of this intermediate sanction will be in lieu of revocation. The IRS has indicated that the following four factors will be considered (among other facts and circumstances) in determining whether to revoke an applicable tax-exempt organization's exemption status where an excess benefit transaction has occurred:

- The size and scope of the organization's regular and ongoing activities that further exempt purposes before and after the excess benefit transaction or transactions occurred;
- The size and scope of the excess benefit transaction or transactions (collectively, if more than one) in relation to the size and scope of the organization's regular and ongoing activities that further exempt purposes;
- Whether the organization has been involved in multiple excess benefit transactions with one or more persons;
- Whether the organization has implemented safeguards that are reasonably calculated to prevent excess benefit transactions; and
- Whether the excess benefit transaction has been corrected, or the organization has made good faith efforts to seek correction from the disqualified person(s) who benefited from the excess benefit transaction.

Appendix H : Ownership in a Subchapter S Corporation (Reserved)

NOTES:	Words in italics 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.
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).
accumulated depreciation	The amount of depreciation accrued over a period of time.
activities conducted outside the United States	For purposes of Schedule F, include grantmaking, fundraising, unrelated trade or business, program services, or maintaining offices, employees, or agents (excluding volunteers) in particular regions outside the *United States* for the purpose of conducting program services.
affiliated groups	For purposes of Schedule C, Part II-A, members of an affiliated group are treated as a single organization to measure *lobbying expenditures* and permitted lobbying expenditures. Two organizations are affiliated if one is bound by the other organization's decisions on legislative issues (control) or if enough representatives of one belong to the other organization's governing board to cause or prevent action on legislative issues (interlocking directorate). If the organization is not sure whether its group is affiliated, it may ask the IRS for a ruling letter. There is a fee for this ruling. For information on requesting rulings, see annual revenue procedure. Members of an affiliated group measure both lobbying expenditures and permitted lobbying expenditures on the basis of the affiliated group's tax year. If all members of the affiliated group have the same tax year, that year is the tax year of the affiliated group. However, if the affiliated group's members have different tax years, the tax year of the affiliated group is the calendar year, unless all the members of the group elect otherwise. See Regulations section 56.4911-7(e)(3).
allowance for doubtful accounts	An account established to allow for accounts receivable that will not be paid.
applicable tax-exempt organization	A section 501(c)(3) or a section 501(c)(4) organization that is tax exempt under section 501(a), or was such an organization at any time during a 5-year period ending on the day of the *excess benefit transaction*.[IRC 4958(e)]
archeological artifact	Any object (other than a work of art, historical treasure, or historical artifact) that is over 250 years old, normally discovered as a result of scientific excavation, clandestine or accidental digging for exploration on land or under water. See also *ethnological artifacts*.
art	See *works of art.*
audit of financial statement	A formal explanation of an organization's financial records and practices 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, and oversee hiring and performance of any external auditors.

board-designated endowment
See *quasi-endowment.*

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. Certain consolation bingo games within a progressive bingo game may also qualify as Bingo.

bond issue
An issue of two or more bond denominations which 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 Treasury Regulations section 1.150-1(c).

business relationship
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, 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 $5000 in the aggregate during the 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, 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 may 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.

CEO, executive director, or top management official
A person who, regardless of title, has ultimate responsibility for implementing the decisions of the governing body or for supervising the management, administration, or operation of the organization. "CEO" stands for chief executive officer.

certified historic structure
Any building or structure listed in the National Register 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
Publication 1828, *Tax Guide for Churches and Religious Organizations*, provides the following description of a 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.

closely held stock — Shares of stock issued by a corporation that is not publicly traded.

collections of works of art and similar assets — Include *works of art*, *historical treasures*, and similar items.

collectibles — Include autographs, sports memorabilia, dolls, stamps, coins, books, gems, jewelry (other than costume jewelry reportable on line 5), sports memorabilia, and dolls, etc., but not *works of art* or *historical artifacts*.

communication with members — For purposes of Schedule C, Part II-A and section 4911, expenditures for certain communications between an organization and its members are treated more leniently than are communications to nonmembers. Expenditures for a communication that refers to, and reflects a view on, *specific legislation* are not *lobbying expenditures* if the communication satisfies the following requirements:

1. The communication is directed only to members of the organization,
2. The specific legislation the communication refers to, and reflects a view on, is of direct interest to the organization and its members,
3. The communication does not directly encourage the member to engage in *direct lobbying* (whether individually or through the organization), and
4. The communication does not directly encourage the member to engage in *grassroots lobbying* (whether individually or through the organization).

Expenditures for a communication directed only to members that refers to, and reflects a view on, specific legislation and that satisfies the requirements of paragraphs 1, 2, and 4, but does not satisfy the requirements of paragraph 3, are treated as expenditures for direct lobbying.

Expenditures for a communication directed only to members that refers to, and reflects a view on, specific legislation and satisfies the requirements of paragraphs 1 and 2, but does not satisfy the requirements of paragraph 4, are treated as *grassroots lobbying expenditures*, whether or not the communication satisfies the requirements of paragraph 3. See Regulations section 56.4911-5 for details.

There are special rules regarding certain paid mass media advertisements about highly publicized legislation; allocation of mixed purpose expenditures; certain transfers treated as lobbying expenditures and special rules regarding lobbying on referenda, ballot initiatives, and similar procedures (see Regulations sections 56.4911-2 and -3).

compensation — All forms of cash and non-cash 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. 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 owners of an organization and which has not been *reviewed* or *audited* by independent accountants.

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 may help identify conflicts of interest, and specifies procedures to be followed in managing conflicts of interest. A conflict of interest arises when a person is in a position of authority over an organization, such as an *officer*, director or manager, may 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.

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 501(c)(3) organizations 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. See also *qualified conservation contribution.*

contributions
See "cash contributions" and "noncash contributions."

control (for related organization test)
In the case of nonprofit organizations, whether taxable or tax-exempt, control means:

- power to remove and replace a majority of a nonprofit organization's directors or trustees, or
- management overlap where a majority of the controlled entity's directors or trustees are trustees, directors, officers, employees, or agents of the controlling organization.

In the case of stock corporations and other organizations with owners, whether taxable or tax-exempt, "control" means:

- ownership of more than 50% of the stock (by voting power or value) of a corporation,
- ownership of more than 50% of the profits or capital interest in a partnership,
- ownership of more than 50% of the profits or capital in a limited liability company, regardless of whether the entity is treated as a corporation or a partnership for federal tax purposes or the designation of the interests as stock, membership interests, or otherwise under state law,
- being a managing partner or managing member in 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),
- being a general partner in a limited partnership which has three or fewer general partners (regardless of which partner has the most actual control),

- being the sole member of a disregarded entity, or
- ownership of more than 50% of the beneficial interest in a trust.

See Regulations sections 301.7701-2, 3, and 4 for more information on classification of corporations, partnerships, disregarded entities, and trusts.

Control may be indirect. In other words, if the organization controls Organization A which in turn controls (under the definition of control above) Organization B, the organization will be treated as controlling Organization B. Rules similar to section 318 (relating to constructive ownership of stock) shall apply for purposes of determining constructive ownership of a corporation or other entity.

controlling organization under section 512(b)(13) An exempt organization that receives payments of interest, annuity, royalty, or rent from an organization that it controls. Section 512(b)(13) treats such payments as unrelated business taxable income under certain circumstances. For the definition of control in this context, see section 512(b)(13)(C) and Regulations section 1.512(c)-1(L)(4).

correction of excess benefit A *disqualified person* corrects an *excess benefit transaction* by undoing the excess benefit to the extent possible, and by taking any additional measures necessary to place the organization in a financial position not worse than that in which it would be in if the disqualified person were dealing under the highest fiduciary standards. The organization is not required to rescind the underlying agreement; however the parties may need to modify an ongoing contract with respect to future payments.

A disqualified person corrects an excess benefit by making a payment in cash or cash equivalents equal to the correction amount to the tax-exempt organization. The correction amount equals the excess benefit plus the interest on the excess benefit; the interest rate may be no lower than the applicable Federal rate.

Exception. For a correction of an excess benefit transaction described in *Donor Advised Funds*, no amount repaid in a manner proscribed by the Secretary may be held in a donor advised fund.

Property. With the agreement of the applicable tax-exempt organization, a disqualified person may make a payment by returning the specific property previously transferred in the excess benefit transaction. The return of the property is considered a payment of cash (or cash equivalent) equal to the lesser of:

- The fair market value of the property on the date the property is returned to the organization, or
- The fair market value of the property on the date the excess benefit transaction occurred.

covered executive branch official For purposes of Schedule C, Part III, the President, Vice-President, White House Office of the Executive Office of the President officers and employees, the two senior level officers of each of the other agencies in the Executive Office, individuals in level I positions of the Executive Schedule and their immediate deputies, and individuals designated as having Cabinet level status and their immediate deputies.

current year The tax year for which the Form 990 is being filed.

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).

deferred compensation Compensation that is earned or accrued in, or is attributable to, one year but deferred to a future year for any reason, whether or not funded, vested, or subject to a substantial risk of forfeiture. Deferred compensation may or may not be included in reportable compensation for the current year.

direct contact lobbying For purposes of Schedule C, Part III, a
- Meeting
- Telephone conversation,
- Letter, or
- Similar means of communication that is with a
  - Legislator (other than a local legislator), or
  - Covered executive branch official and that otherwise qualifies as a lobbying activity.

direct lobbying See *lobbying.*

direct lobbying communications (direct lobbying expenditures) For purposes of Schedule C, Part II-A, any attempt to influence any *legislation* through communication with any:
- Member or employee of a legislative or similar body, or
- Government official or employee (other than a member or employee of a legislative body) who may participate in the formulation of the legislation, but only if the principal purpose of the communication is to influence legislation.

A communication with a legislator or government official will be treated as a direct lobbying communication, if, but only if, the communication:
- Refers to *specific legislation*, and
- Reflects a view on such legislation.

director or trustee A member of the organization's *governing body,* but only if the member has any voting rights. Members of advisory boards that do not exercise any governance authority over the organization are not considered directors or trustees.

disqualified person Unless otherwise provided, any person 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. See Section 4958 and the related regulations for rules regarding the determination of who is a disqualified person.

A disqualified person includes:
- A disqualified person's *family member*.
- A 35% controlled entity of a disqualified person.
- A donor or donor advisor to a donor advised fund
- 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.

disregarded entity An entity wholly owned by the organization that is not a separate entity for Federal tax purposes. See Regulations sections 301.7701-2 and -3.

document retention and destruction policy	A policy that identifies the record retention and responsibilities of staff, volunteers, board members, and outsiders for maintaining and documenting the storage and destruction of the organization's documents and records.
doing business with	A person is doing business with another person if they have engaged in a commercial transaction, other than under an employment relationship, pursuant to which one of them transfers goods or provides services to the other in consideration for money, goods or services.
domestic organization	A corporation or partnership is domestic if created or organized in the U.S. or under the law of the U.S. or of any State or possession. A trust is domestic if a court within the U.S. 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 U.S.) have the authority to control all substantial decisions of the trust.
donor advised fund	Generally, 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; 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 sections 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 fund or account.
EIN	Employer identification number, a nine-digit number. Use Form SS-4 to apply for an EIN.
employment tax returns (Federal)	*IRS Form 940,* Employer's Federal Unemployment (FUTA) Tax Return*, and Form 941,* Employer's Quarterly Federal Tax Return.
endowment	See "term endowment," "permanent endowment," and "quasi endowment." See also SFAS 117.
ethnographical artifacts	Objects (other than works of art, historical treasures, or historical artifacts) which are

the product of a tribal or non-industrial society, and important to the cultural heritage of a people because of their distinctive characteristics, comparative rarity, or contribution to the knowledge of the origins, development or history of that people. See also *archeological artifacts.*

events For purposes of Schedule G, includes dinners/dances, door-to-door sales of merchandise, concerts, carnivals, sports events, auctions, and casino nights that are not regularly carried on. Events do not include sales of gifts or goods or services of only nominal value, sweepstakes, lotteries or raffles where the names of contributors or other respondents are entered in a drawing for prizes, raffle or lotteries where prizes have only nominal value or solicitation campaigns that generate only contributions.

exceptions to lobbying For purposes of Schedule C, Part II-A, in general, engaging in nonpartisan analysis, study, or research and making its results available to the general public or segment or members thereof, or to governmental bodies, officials, or employees is not considered either a *direct lobbying communication* or a *grassroots lobbying communication*. Nonpartisan analysis, study, or research may advocate a particular position or viewpoint as long as there is a sufficiently full and fair exposition of the pertinent facts to enable the public or an individual to form an independent opinion or conclusion.

A communication that responds to a governmental body's or committee's written request for technical advice is not a direct lobbying communication.

A communication is not a direct lobbying communication if the communication is an appearance before, or communication with, any legislative body concerning action by that body that might affect the organization's existence, its powers and duties, its tax-exempt status, or the deductibility of contributions to the organization, as opposed to affecting merely the scope of the organization's future activities.

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. Excess benefit means the excess of the economic benefit received from the applicable organization over the consideration given (including services) by a disqualified person. See the Appendix 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
- 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
- 35% controlled entity of a family member of a substantial contributor.

The excess benefit in this transaction is 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)).

For more information see the Instructions for Form 4720.

exempt bond See *tax-exempt bond.*

exempt purpose expenditures For purposes of Schedule C, Part II-A, the amount an electing public charity may spend on lobbying (without incurring tax) is a scaled percentage of the organization's exempt purpose expenditures. In general, an exempt purpose expenditure is paid or incurred by an electing public charity to accomplish the organization's exempt purpose.

In general, exempt purpose expenditures are:

1. The total amount paid or incurred for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, or to foster national or international amateur sports competition (not including providing athletic facilities or equipment, other than by qualified amateur sports organizations described in section 501(j)(2)),
2. The allocable portion of administrative expenses paid or incurred for the above purposes,
3. Amounts paid or incurred to try to influence legislation, whether or not for the purposes described in 1 above,
4. Allowance for depreciation or amortization, and
5. Fundraising expenditures, except that exempt purpose expenditures do not include amounts paid to or incurred for either the organization's separate fundraising unit or other organizations, if the amounts are primarily for fundraising.

See Regulations section 56.4911-4(c) for a discussion of excluded expenditures.

expenditure test For purposes of Schedule C, Part II-A, there are limits both upon the amount of the organization's *grassroots lobbying expenditures* and upon the total amount of its *direct lobbying* and grassroots lobbying expenditures. If the electing public charity does not meet this expenditure test, it will owe a section 4911 excise tax on its excess lobbying expenditures. Moreover, if over a 4-year averaging period the organization's average annual total lobbying or grassroots lobbying expenditures are more than 150% of its dollar limits, the organization will lose its exempt status.

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.

farm Land used for the production of crops, fruits, or other agricultural products or for the maintenance of livestock. A farm includes the improvements located on the farm property.

filing organization See *the organization*.

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 may be required to provide in Schedule D the text of the footnote to its financial statements regarding the organization's liability for uncertain tax positions under FIN 48.

financial statements The 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.*

fixed formula May generally incorporate an amount that depends upon future specified events or contingencies, as long as no one has discretion when calculating the amount of a payment or deciding whether to make a payment (such as a bonus).

fixed payment An amount of cash or other property specified in the contract, or determined by a *fixed formula* that is specified in the contract, which is to be paid or transferred in exchange for the provision of specified services or property.

foreign government A governmental unit or entity that is not classified as a *United States* government agency.

foreign individual A person who lives or resides outside the *United States*, including a U.S. citizen or resident.

foreign organization A foreign estate or trust, nonprofit or other non-governmental organization, partnership, corporation, or other business entity that is not created or organized in the United States or under the laws of the United States or of any State or U.S. territory or possession. A foreign organization includes an affiliate that is separately organized from the organization, but does not include any branch office, account, or employee of the organization located outside the United States.

fundraising activities 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; and conducting other activities involved with soliciting contributions from individuals, foundations, governments, and others. “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.

GAAP or generally accepted accounting principles 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 the accountants in reporting financial information and preparing audited *financial statements* for organizations.

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, 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.

gaming manager The person with overall supervision and management of the gaming operations. This person has responsibilities that may include record keeping, money counting, hiring and firing or workers and making the bank deposits for the gaming operation.

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 which issues a tax-exempt bond.

governmental unit A State, a possession of the United States, a *political subdivision* of a State or U.S. possession, the United States, or the District of Columbia. Section 170(c)(1).

grantmaking, or grants and other assistance For purposes of Schedule F and Schedule I, ncludes awards, prizes, 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.

grassroots lobbying See *lobbying.*

grassroots lobbying communication (grassroots expenditure) For purposes of Schedule C, Part II-A, any attempt to influence any *legislation* through an attempt to affect the opinions of the general public or any part of the general public.

A communication is generally not a grassroots lobbying communication unless (in addition to referring to *specific legislation* and reflecting a view on that legislation) it encourages recipients to take action about the specific legislation.

A communication encourages a recipient to take action when it:

1. States that the recipient should contact legislators;
2. States a legislator's address, phone number, etc.;
3. Provides a petition, tear-off postcard, or similar material for the recipient to send to a legislator; or
4. Specifically identifies one or more legislators who:
   a. Will vote on legislation;
   b. Opposes the communication's view on the legislation;
   c. Is undecided about the legislation;
   d. Is the recipient's representative in the legislature; or
   e. Is a member of the legislative committee that will consider the legislation.

A communication described in (4) above generally is grassroots lobbying only if, in addition to referring to and reflecting a view on specific legislation, it is a communication that cannot meet the full and fair exposition test as nonpartisan analysis, study, or research.

gross proceeds For purposes of Schedule K, generally any sale *proceeds*, investment proceeds, transferred proceeds, and replacement proceeds of an issue. See Regulations section 1.148-1(b),(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 (Section 501(c)(15) Organizations and Gross Receipts).

gross revenue For purposes of Schedule G, *gross receipts* less contributions.

group exemption Tax exemption of a group of organizations all exempt under the same Code section, applied for and obtained by a central or parent organization on behalf of the subordinate or local organizations under its general supervision or control. See Rev. Proc. 80-27 for more information.

group return — A Form 990 filed by the central or parent organization of a *group exemption* for two or more of the subordinate or local organizations that are in the group at the close of the central organization's tax year. See General Instruction I 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 officers or listed key employees. The five highest are determined by the amounts reported on box 5 of Forms W-2 for the calendar year ending with or within the organization's tax year.

historical artifact — Furniture, fixtures, textiles and household items of an historic nature, other than *works of art, historical treasures*, or *archeological artifacts*.

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 — A facility that is, or is required to be, licensed or certified as a hospital under state licensing or certification laws. This includes a hospital that is operated through a disregarded entity or a joint venture taxed as a partnership, but does not include a hospital that is located outside the United States or is operated by a separate organization that is tax-exempt or treated as an association taxable as a corporation for federal tax purposes.

hospital facility — A campus (or component thereof), building, structure or other physical location or address at which the organization provides medical or hospital care, including a hospital, outpatient facility, surgery center, urgent care clinic, or rehabilitation facility, whether operated directly by the filing organization or indirectly through a disregarded entity or joint venture taxed as a partnership.

household goods — Include furniture, furnishings, electronics, appliances, linens, and other similar items. They do not include (1) food, (2) paintings, antiques, and other objects of art, (3) jewelry and gems (other than costume jewelry reportable on this line), and other collectibles.

independent contractor — A person who provides services to the organization but who is not treated as an employee for employment tax purposes.

independent member of governing body — A member of the governing body, if all four 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 (except for the religious exception discussed below).
2. The member did not receive total compensation or other payments exceeding $10,000 for the year from the organization or from related organizations as an independent contractor, other than reimbursement of expenses or 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. The member did not otherwise receive, directly or indirectly, material financial benefits from the organization or from a related organization. Transactions reportable in Schedule L with respect to a member of the governing body, or which would be reportable but for the large board exception (see Schedule L

instructions), are deemed material financial benefits to the member for this purpose, except for a loan to the organization on arm's length or more favorable terms for the organization. In any case, a transaction with an amount greater than $50,000 is a per se material financial benefit for this purpose.

4. The member did not have a family member that received compensation or other material financial benefits from the organization or from a related organization.

A member of the governing body is not considered to lack independence merely because of the following circumstances:

1. The member is a major donor to the organization.
2. The member receives officer or employee compensation as an agent of a religious order or a 501(d) religious or apostolic organization and has taken a bona fide vow of poverty, but only under circumstances in which the member does not receive taxable income (see, e.g., Rev. Ruls. 77-290, 80-332).
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.

See Reg. 53.4958-6(c)(1)(iii).

in-house expenditures For purposes of Schedule C, Part III, include:

- Salaries, and
- Other expenses of the organization's officials and staff (including amounts paid or incurred for the planning of legislative activities).

In-house expenditures do not include:

- Any payments to other taxpayers engaged in lobbying or political activities as a trade or business.
- Any dues paid to another organization that are allocable to lobbying or political activities.

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.

intellectual property Any patent, copyright (other than a copyright described in section 1221(a)(3) or 1231(b)(1)(C)), trademark, trade name, trade secret, know-how, software (other than software described in section 197(e)(3)(A)(i)), or similar property. See also *qualified intellectual property.*

key employee For purposes of Form 990 reporting, a key employee is an employee of the organization (other than an *officer, director*, or *trustee*) who has responsibilities, powers or influence over the organization as a whole that is similar to those of officers, directors, or trustees; (2) manages a discrete segment or activity of the organization that represents 5% or more of the activities, assets, income, or expenses of the organization, as compared to the organization as a whole; or (3) has or shares authority to control or determine 5% or more of the organization's capital expenditures, operating budget, or compensation for employees. An individual that is not an employee of the organization (or of a disregarded entity of the organization) is treated as a key employee if he or she serves as a director or similar fiduciary of a *disregarded entity* of the organization and otherwise meets the standards of a key employee set forth above. See below for the treatment of certain employees of a disregarded entity as a key employee of the organization. Exclude any person whose reportable compensation from the organization and related organizations does not exceed $150,000. Management companies and similar entities that are independent contractors should not be reported as 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.

limited control For purposes of Schedule C, Part II-A, two organizations that are affiliated because their governing instruments provide that the decisions of one will control the other only on national legislation are subject to the following provisions:

- Charge the controlling organization with its own lobbying expenditures and the national legislation expenditures of the affiliated organizations.
- Do not charge the controlling organization with other lobbying expenditures (or other exempt-purpose expenditures) of the affiliated organizations, and
- Treat each local organization as though it were not a member of an affiliated group. For example, the local organization should account for its own expenditures only and not any of the national legislation expenditures deemed as incurred by the controlling organization.

lobbying 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).

lobbying and political expenditures For purposes of Schedule C, Part III, lobbying and political expenditures do not include direct lobbying expenditures made to influence local legislation. Nor do they include any political campaign expenditures for which the tax under section 527(f) was paid. (see Schedule C, Part I-C). They do include any expenditures for communications with a covered executive branch official in an attempt to influence the official actions or positions of that official.

lobbying expenditures For purposes of Schedule C, Part II-A, expenditures paid or incurred for the purpose of attempting to influence *legislation*:

- Through communication with any member or employee of a legislative or similar body, or with any government official or employee who may participate in the formulation of the legislation, and
- By attempting to affect the opinions of the general public.

To determine if an organization has spent excessive amounts on *lobbying*, the organization must know which expenditures are lobbying expenditures and which are not lobbying expenditures. An electing public charity's lobbying expenditures for a year are the sum of its expenditures during that year for (1) *direct lobbying communications (direct lobbying expenditures)* plus (2) *grassroots lobbying communications (grassroots expenditures)*.

Maintaining offices, employees or agents — For purposes of Schedule F, includes principal, regional, district, or branch offices, and such offices maintained by agents, and persons situated at those offices paid wages for services performed. "Agent" is defined under traditional agency principles (but excludes volunteers).

medical research — For purposes of a *medical research organization operated in conjunction with a hospital* (see Schedule A), *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, control.

medical research organization operated in conjunction with a hospital — For purposes of Schedule A, an organization whose principal purpose or function of which is to engage in *medical research*, and that is engaged in the continuous active conduct of *medical research* in conjunction with a *hospital* that is described in section 501(c)(3) or that is operated by the Federal government, a state or its political subdivision, a U.S. possession or its political subdivision, or the District of Columbia. If the organization primarily gives funds to other organizations (or grants and scholarships to individuals) for them to do the research, the organization is not a medical research organization.
The organization is not required to be an affiliate of the hospital, but there must be a joint effort by the organization and the *hospital* to maintain close and continuous cooperation in the active conduct of medical research.

Assets test/Expenditure test. An organization qualifies as a medical research organization if its principal purpose is medical research, and it devotes more than half its assets, or spends at least 3.5% of the fair market value of its endowment, in conducting medical research directly. Either test may be met based on a computation period consisting of the immediately preceding tax year or the immediately preceding four tax years.

If an organization does not satisfy either the assets test or the expenditure test, it may still qualify as a medical research organization, based on the circumstances involved.

These tests are discussed in Regulations sections 1.170A-9(c)(2)(v) and (vi). Value the organization's assets as of any day in its tax year but use the same day every year. Value the endowment at fair market value, using commonly accepted valuation methods. See Regulations section 20.2031.

member of governing body — A person who serves on the *governing body*, including a director, trustee, or co-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. Non-cash contributions do not include volunteer services performed for the reporting organization.

nonexempt charitable trust — A trust that meets the following conditions:

- it 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, 545(b)(2), 642(c), 2055, 2106(a)(2), or 2522, or amounts paid or permanently set aside by the trust under section 642(c).

A nonexempt charitable trust must file Form 990 if it is treated as a *public charity* rather than a *private foundation* and meets the threshold filing requirements.

nonqualified deferred compensation — *Deferred compensation* that is earned pursuant to a nonqualified plan or nongovernmental section 457(b) plan. Different rules may apply for purposes of identifying arrangements subject to section 409A. Earned but unpaid incentive compensation may be deferred pursuant to a nonqualified deferred compensation plan.

officer — An officer is a person elected or appointed to manage the organization's daily operations, such as a president, vice-president, secretary, or treasurer. The officers of an organization may be determined by reference to its organizing document, bylaws, or resolutions of its governing body, but in all cases include those officers required by applicable state law. For purposes of Form 990 reporting, treat the organization's top management official as an officer.

"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 finance a qualified purpose. See sections 150(d) and (e).

the organization — The organization filing the Form 990, listed on page 1, Item C of the Form 990, sometimes referred to as "the filing organization" for clarity. In the case of group returns, "the organization" refers to the group collectively, or to each of the subordinates individually, depending on the type of question. See General Instruction I.

organization manager — 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.

organization operated for the benefit of a college or university — An organization described in section 170(b)(1)(A)(iv) that receives and manages property for and expends funds to benefit a college or university that is owned or operated by one or more states or their political subdivisions. Expending funds to benefit a college or university includes acquiring and maintaining the campus, its buildings, and equipment, granting scholarships and student loans, and making any other payments in connection with the normal functions of colleges and universities. The organization must meet the same public support test as for 170(b)(1)(A)(vi) organizations. See Rev. Rul. 82-132, 1982-2 C.B. 107.

permanent (true) endowment — Endowment funds that are 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.

personal benefit contract — Any life insurance, annuity, or endowment contract that benefits, directly or indirectly, the transferor, a member of the transferor's family, or any other person designated by the transferor (other than an organization described in section 170(c)). A charitable organization is an organization described in section 170(c).

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 the 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 expenditure Any expenditure for *political campaign activities*. 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.

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.

principal officer Person who, regardless of title, has ultimate responsibility for implementing the decisions of the *governing body*, or for supervising the management, administration, or operation of the organization.

private business use For purposes of Schedule K, use by the organization or another 501(c)(3) organization in an unrelated trade or business as defined by section 513. Private business use also means any use by a nongovernmental person other than a 501(c)(3) organization.

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 501(c)(3) status is revoked.

proceeds For purposes of Schedule K, 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 (other than by an officer, director, or employee of the organization in his or her capacity as an officer, director, or employee) for the organization requiring the exercise of professional judgment or discretion consisting of planning, management, 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.

program service A major, usually ongoing, activity of an organization that accomplishes its exempt purpose. Examples of program services may include providing charity care under a hospital's charity care policy, providing higher education to students under a college's degree program, making grants or providing assistance to individuals who were victims of a natural disaster, and providing rehabilitation services to residents of a long-term care facility. A fundraising activity is not a program service unless substantially related to the accomplishment of the organization's exempt purposes (other than by raising funds).

program-related investment Investments made primarily to accomplish the organization's exempt purposes rather than to produce income. Common types 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.

progressive bingo See *pull-tabs.*

prohibited tax shelter transaction Any listed transaction, within the meaning of section 6707A(c)(2), and any prohibited reportable transactions. A *prohibited reportable transaction* is a confidential transaction within the meaning of Regulations section 1.6011-4(b)(3), and a transaction with contractual protection within the meaning of Regulations section 1.6011-4(b)(4).

public charity An organization described in section 501(c)(3) and section 509(a)(1) (which cross-references sections 170(b)(1)(A)(i) through (vi)), section 509(a)(2), section 509(a)(3), or section 509(a)(4).

publicly traded securities *Securities* for which (as of the date of the contribution) market quotations are readily available on an established securities market.

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 501(c)(3) organization in furtherance of its charitable purpose. Requirements applicable to a qualified 501(c)(3) bond under section 145 include:

1. all property financed by the bond issue is to be owned by a 501(c)(3) organization or a governmental unit; and
2. the bond issue would not consist of private activity bonds under section 141 if the 501(c)(3) organization were treated as a governmental unit with respect to its activities which do not constitute unrelated trades or businesses (determined by applying section 513) and the private activity bond definition was applied using a 5% of net proceeds threshold (instead of 10% of proceeds) for the private business tests.

qualified conservation contribution Any contribution of a qualified real property interest 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,
3. A restriction (e.g., 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, of 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 farmland 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 intellectual property

Any patent, copyright (other than certain self created copyrights), trademark, trade name, trade secret, know-how, software (other than certain “canned” or “off-the-shelf” software or self created software), or similar property, or applications or registrations of such property. See also *intellectual property.*

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:
- o 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;
- o 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
- o Any additional information specified in section 527(j)(3), if the 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

Funds functioning as an endowment but established by the organization itself, either from donor or institutional funds, and which retain the purpose and intent as specified by the donor or source of the original funds. See SFAS 117.

quid pro quo contribution

A payment made to the organization partly as a contribution and partly in consideration for goods or services provided to the payor by the organization.

reasonable compensation.

The value that would ordinarily be paid for like services by like enterprises under like circumstances.

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

For purposes of Schedule K, 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 section 1.150-1(d)(1),(3),(4).

regions

For purposes of Schedule F, include:
Central America and the Caribbean
East Asia and the Pacific
Europe (including Iceland and Greenland)
Middle East and North Africa
North America (which includes Canada and Mexico, but not the United States)
Russia and the newly Independent States
South America
South Asia
Sub-Saharan Africa

related organization

An organization that stands in one or more of the following relationships to the filing organization:

- 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), or (ii) a supported organization, if the filing organization is a supporting organization

reportable compensation

Compensation that is reported on Form W-2, box 5, or Form 1099-MISC, box 7, filed for the calendar year ending with or within the organization's tax year, and other taxable compensation if such forms are not required to be filed to report such taxable compensation to the recipient (such as payments to most independent contractors that are entities, and payments below the threshold reporting amount).

research

For purposes of research conducted by a *hospital* (see Schedule H), *research* means any study or investigation that receives funding from a tax-exempt or government entity of which the goal is to generate generalizable knowledge that is made available to the public, such as about underlying biological mechanisms of health and disease, natural processes or principles affecting health or illness; evaluation of safety and efficacy of interventions for disease such as clinical trials and studies of therapeutic protocols; laboratory-based studies; epidemiology, health outcomes and effectiveness; behavioral or sociological studies related to health, delivery of care, or prevention; studies related to changes in the health care delivery system; and communication of findings and observations (including publication in a medical journal).

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*.

Sarbanes-Oxley

The Sarbanes-Oxley Act of 2002 (Pub. L. No. 107-204, 116 Stat. 745, also known as the Public Company Accounting Reform and Investor Protection Act of 2002) and commonly called “SOX” or “Sarbox. The legislation established new or enhanced governance and accountability standards for certain companies.

security/securities Any bond, debenture, note, or certificate or other evidence of indebtedness, issued by a corporation or a 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 (June 1993)

SFAS 117 Statement of Financial Accounting Standards No. 117, Financial Statements of Not-for-Profit Organizations.

Scientific specimens Objects or materials that relate to, or exhibit, the methods or principles of science.

section 170(c) Refers to certain contributions or gifts to the following types of organizations:

1. A State, a possession of the United States, or any political subdivision of any of the foregoing, or the United States or the District of Columbia.
2. An organization described in section 501(c)(3) (other than an organization that tests for public safety), created or organized in the United States or in any possession thereof, or under the law of the United States, any State, the District of Columbia, or any possession of the United States.
3. A veterans’ organization, organized in the United States or any of its possessions, no part of the net earnings of which inures to the benefit of any private shareholder or individual, that meets the requirements to receive deductible contributions under section 170(c)(3). [See Rev. Rul. 84-140, 1984-2 C. B. 51.]
4. A domestic fraternal organization described in section 501(c)(8) or (10) that uses charitable contributions exclusively for charitable purposes.
5. A cemetery company described in section 501(c)(13).

section 527 exempt function activities All functions that influence or attempt to influence the selection, nomination, election, or appointment of any individual to any Federal, State, or local public office or 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.

short period An accounting period of less than 12 months, which exists when an organization changes its annual accounting period, and which may exist in its initial or final year of existence (see *tax year)*.

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 organization’s net assets to another organization during the year, regardless of whether the organization received full or adequate consideration. A significant disposition or substantial contraction of net assets involves:

1. More than 25% of the fair market value of the organization’s net assets at the beginning of the tax year; or

2. One of a series of related dispositions commenced in a prior year, that when combined comprise more than 25% of the net assets of the organization 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.

The types of sales or exchanges that are “a significant disposition of net assets” required to be reported in Schedule N, 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 other exempt organization selling assets 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 where the exempt partner has an ownership interest.
- transfers of assets pursuant to a reorganization in which the organization is a surviving entity.

special fundraising event Any *event* (other than an event conducted in the course of a trade or business that is regularly carried on) at which the organization sells donated goods or services, or for which the organization charges a fee (that may exceed the fair market value of comparable events) to attend or participate, including, but not limited to, a dinner; a spectator sports event; an entertainment or artistic performance (such as a concert) or display; a participatory athletic event, such as a “walk-a-thon,” golf tournament, or bike ride; a carnival; or a tour of one or more homes, gardens, or other places of interest. A “Special fundraising event” does not include the sale of merchandise that is not donated, even if the sale is conducted only annually.

specific legislation Includes (1) *legislation* that has already been introduced in a legislative body and (2) specific legislative proposals that an organization either supports or opposes.

sponsoring organization Any organization which:
- is described in section 170(c), except for governmental entities or organizations described in section 170(c)(1) and without regard to 170(c)(2)(A);
- is not a private foundation as defined in section 509(a); and
- maintains one or more donor advised funds.

state of legal domicile The state of formation or incorporation of the organization.

substantial contraction See *significant disposition of net assets.*

substantial contributor In general, a person that contributed or bequeathed an aggregate amount of more than $5000 to the organization, if such amount is more than 2% of the total contributions and bequests received by the organization before the close of the organization’s tax year in which the contribution or bequest is received by the organization from the person. The creator of a trust is also deemed a substantial contributor with respect to the trust. For special rules, see sections 507(d)(2) and 4958(c)(3) and Regulations section 1.507-6.

supported organization A *public charity* described in section 509(a)(1) or 509(a)(2)) that is supported by a *supporting organization* described within section 509(a)(3).

supporting organization A *public charity* described in section 509(a)(3). A supporting organization is organized and operated to support *supported organizations*. Supporting organizations are classified as either Type I (operated, supervised, or controlled by one or more supported organizations), Type II (supervised or controlled in connection with one or more supported organizations), Type III functionally integrated (operated in connection with one or more supported organizations, if the supporting organization is not required to make payments to supported organizations due to the activities of the supporting organization related to performing the functions, or carrying out the purposes, of such supported organizations), or Type III other (operated in connection with one or more supported organizations and not functionally integrated).

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 in 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 (e.g., from December 31 year-end to a June 30 year-end), and in its last year of existence, e.g., when it merges into another organization or dissolves. See also *fiscal year* and *short period.*

taxidermy 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.

term endowment An endowment fund maintained to provide a source of income for either a specified period of time or until a specific event occurs. See SFAS 117.

unit For gaming purposes, two or more organizations that are authorized under state law to conduct bingo or other gaming at the same location and that join together to account for and/or share revenues, authorized expenses, and inventory related to bingo and gaming operations.

United States For purposes of Schedule F, 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 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 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.[IRC 513] See Publication 598 and the Form 990-T Instructions for a discussion of what is an unrelated trade or business.

unusual grant A substantial grant, contribution, or bequest from a disinterested person that is:

1. attracted because of the organization's publicly supported nature,
2. unusual and unexpected because of the amount, and
3. large enough to endanger the organization's status as a publicly supported

organization under section 170(b)(1)(A)(iv) or (vi) or 509(a)(2) if taken into account.

A grant that meets these requirements may be treated as an unusual grant that is entirely excluded from the publicly supported computation even if the organization receives the funds over a period of years.

See Rev. Rul. 76-440, 1976-2 C.B. 58 and Regulations sections. 1.170A-9(e)(6)(ii) and 1.509(a)-3(c)(3) and (4) for details about unusual grants.

volunteer A person who serves the organization without compensation. "Compensation" includes tips and non-cash benefits, except for:

- reimbursement of expenses under an accountable plan,
- 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 become before the governing body (other than a conflict of interest that disqualifies the member from voting).

whistleblower policy A policy that encourages staff and volunteers to come forward with credible information on illegal practices or violations of adopted policies of the organization, specifies that the organization will protect the individual from retaliation, and identifies those staff or board members or outside parties to whom such information can be reported.

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 such as autographs, sports memorabilia, dolls, stamps, coins, phonographic records, gems, jewelry, sports memorabilia, dolls, etc.

year of formation The year in which the organization was created or formed under applicable state law (if a corporation, the year of incorporation).