FUNDAMENTALS

OF FORM 990

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LEARNING OBJECTIVES

- Assist accountants and exempt organizations* in meeting filing requirements for Forms 990 and Form 990-EZ.
- Describe the information required for Forms 990 and related schedules and how this information is useful to the IRS and the public.

*The term "organization" always refers to tax exempt organizations and those required to file Form 990.

OUTLINE/CONTENTS

INTRODUCTION

This course provides information to assist accountants and tax exempt organizations in filing Form 990 by improving their understanding of the information required by the return and how this information is used by the IRS and the public.

A proactive strategy for managing information return Form 990 is essential to protect the tax-exempt organization because most of the information reported in it has been deemed public by Congress. With most current and recently filed Form 990's easily accessible on the internet at www.guidestar.org, publicity revealing executive compensation, organizational activities, lobbying and fundraising expenses has become commonplace.

Many view the 990 return as more useful than financial statements because it provides the same information, in an unbiased format, year after year, for all reporting organizations. This allows direct comparisons for nonprofits and greater continuity for identifying industry trends. The National Center for Charitable Statistics (NCCS) www.nccs.urban.org also functions as a national clearinghouse for nonprofits by making Form 990 information available to researchers and the public. In addition, NCCS provides online forms for organizations to e-file, including all Form 990's, Request for Extension, Form 8868 and many state forms.

In the 1960's, Congress became concerned that tax-exempt organizations were established to promote the interests of a few people who controlled the organization and private foundation rules were introduced into the Internal Revenue Code.

All Section 501(c)(3) nonprofits are either private foundations or non-private foundations. The term "private foundation" relates to the kind of nonprofit an organization is and not to the fact it is a philanthropy. Generally, a non-private foundation is referred to as a "public charity." This distinction between private foundation and public charity is important because a private foundation may be limited in receiving contributions, is generally prohibited from lobbying activities and subject to a small excise tax on investments. Private foundations are more closely regulated than their 501(c)(3) cousins because they may be controlled by a small group rather than receiving support from the general public (NonProfit Coordinating Committee of New York, 2011).

CHAPTER 1
Exemption Requirements-Overview

To be a tax-exempt organization, often referred to as "charitable organization" described in IRC Section 501(c)(3), all of the following characteristics must apply:

- Must be a corporation, community chest, fund, or foundation. A charitable trust is a fund or foundation and can qualify.
- No part of the earnings may accrue to any individual or private shareholder.

- Be organized and operated exclusively for an exempt purpose such as: charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international sports competition, and the prevention of cruelty to children or animals.

  The term charitable includes the relief of the poor, the distressed, or the underprivileged, advancement of religion, advancement of education or science, erection or maintenance of public buildings, monuments, or works, lessening the burdens of government, lessening of neighborhood tensions, elimination of prejudice and discrimination, defense of human and civil rights secured by law, and combating community deterioration and juvenile delinquency.

- May not attempt to influence legislation as a substantial part of its activities.
- May use Form 5768, Election/Revocation of Election by an Eligible Section 501(c)(3) Organization to Make Expenditures to Influence Legislation, so as to be subject to a precise expenditure test regarding lobbying activities and covered under IRC 501(h).
- All charities are absolutely prohibited from intervening (including the publishing or distributing of statements) in any political campaign on behalf of (or in opposition to) any candidate for public office.

  If a charity intervenes in a political campaign, it could lose both its tax-exempt status and its eligibility to receive tax-deductible donations, with the organization's managers liable for a political expenditures tax.

{IRC Section 4955}

The IRS and state charity bureaus are the government agencies that provide regulatory oversight over nonprofits and tax-exempt organizations. Their primary concern is to insure that the organization's assets and income are used to further the organization's exempt purpose and not used to benefit private interests.

Filing Requirements

Most tax-exempt organizations are required to file Form 990, Return of Organization Exempt From Income Tax, Form 990-EZ, Short Form Return of Organization Exempt From Income Tax, or Form 990-N e-Postcard. An organization will automatically lose its tax exempt status if it fails to file for three consecutive years. The IRS publishes the "IRS Automatic Revocation List" of non-profits that had their tax exempt status revoked because of failure to file annual returns.

{IRC Section 501(a)}
{IRC Section 501(c)(3), (e), (f), (k), and (n)}

Form 990-N

Small tax-exempt organizations are required to file a Form 990-N or e-postcard unless they chose to file a form 990-EZ or Form 990. Eligibility restrictions for E-postcard filing are:

Gross receipts are normally less than or equal to $50,000* for tax years ending after December 31, 2010.

The E-Postcard is due by the 15th of the fifth month following the close of the tax year.

Penalties are not assessed for late filings.

Form 990-EZ

For tax years beginning in 2010, an organization can file Form 990-EZ if

* Gross receipts are less than $200,000 and
* Assets are less than $500,000

If an organization that is eligible to file a Form 990-EZ or Form 990-N chooses to file the Form 990, the entire form must be completed.

Form 990

For tax years beginning in 2010, an organization must file the full Form 990 if

* Gross receipts are equal to or greater than $200,000
* Total assets are equal to or greater than $500,000

Examples of Form 990 or Form 990-EZ Filers:

Colleges, universities, alumni associations, student groups, hospitals, health clinics, health system foundations, museums, United Ways, country clubs, YMCA's, YWCA's, evangelistic associations, credit unions, voluntary employees' beneficiary associations.

Some organizations are required to file forms other than the 990, for example:

Type of Organization
IRC Section Form to be Filed

Private Foundation
501(c)(3), 509(a) Form 990-PF Return of Private Foundation

Black Lung trusts 501(c)(21) Form 990-BL Information & Initial Excise Tax Return for Black Lung Benefit Trusts & Certain Related Persons

Stock bonus, pension, or profit–sharing trusts that qualify under 401 Form 5500, Annual Return/Report of Employee Benefit Plan
Religious or apostolic organization 501(d) Form 1065

Form 990-T

Form 990-T, Exempt Organization Business Income Tax Return, must be filed for organizations having $1,000 or more of unrelated trade or business income. Form 990-T must be filed in addition to the required Form 990-N, Form 990-EZ, or Form 990.

Even though churches are not required to file Form 990 or 1023, they are required to file Form 990-T with the IRS to report unrelated business income and therefore also required to make the form public (Guidance Regarding Public Inspection of Unrelated Business Income Tax Returns, 2007).

E-Filing

Organizations can file Form 990 electronically. However, IRS regulations REQUIRE tax-exempt organizations to file Form 990 electronically if both of the following criteria apply:

- Have $10 million or more in total assets AND
- File 250 or more returns during a calendar year (including income tax W-2's, Form 1099's, excise tax, employment tax, 941's, income tax and information returns)

Example

If a tax-exempt organization has 245 employees, it will have filed 250 returns because each form is considered as one return. There would be 245 W-2's, four 941's, and one Form 990.

Although corrected or amended returns are not counted, the IRS counts all original returns.
Private foundations and certain trusts are required to file Form 990-PF electronically if they file at least 250 returns.

Rejected Return

If the return is submitted electronically on or shortly before the due date and rejected, the IRS allows 10 days from the date it notified the organization to file a corrected return.

Penalties If the Organization is Required to File Electronically but Fails to Comply

If a tax exempt organization is required to file electronically but does not, the IRS deems it as a failure to file the return, even if a paper return is submitted. Penalties are the same as those for not filing. (For organizations with gross receipts exceeding $1 million, the penalty for non-filing is $100 per each day the failure continues, up to a maximum of $50,000 per return. The person responsible for not filing is also charged $10 per day up to a maximum of $5,000).

Request for Waiver from E-Filing

The IRS may grant a waiver from the e-file requirement if the organization shows reasonable cause. The request should be submitted in writing as soon as possible after it becomes apparent that an electronic filing cannot be done and notated in large letters at the top “Form 990 e-file Waiver Request.

Who Doesn’t Need to File

Many types of religious organizations and governmental units are not required to file Forms 990, for example:

- A church, an interchurch organization of local units of a church, a convention or association of churches, an integrated auxiliary association of churches, an integrated auxiliary of a church such as a men’s or women’s organization, religious school, mission society, or youth group.
- Church affiliated organizations that are exclusively engaged in managing funds or maintaining retirement programs and are described in Revenue Proclamation (Rev. Proc.) 96-10, 1996-1 Cumulative Bulletin (C. B.) 577.
- A school below college level affiliated with a church or operated by a religious order.
- A mission society sponsored by, or affiliated with a church or church denomination, if more than half of the society’s activities are conducted in, or directed at persons in foreign countries.
- An exclusively religious activity of any religious order.
- A state institution whose income is excluded from gross income under Section 115.
- Corporations organized under an Act of Congress that are
    - Instrumentalities of the United States AND
    - Exempt from federal income taxes AND
    - Described in Section 501(c)(1)

- A government unit or affiliate of a government unit described in Rev. Proc. 95-48, 1995-2 C.B. 418 is not required to file unless it is also a 509(a)(3) supporting organization.
- Foreign organizations and organizations located in the U.S. possessions that have annual gross receipts from sources within the US that are normally less than $50,000 and which did not engage in significant activity in the United States (other than investment activity).
- A political organization that meets certain qualifications including
    - 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 required to report under Federal Election Campaign Act of 1971 as a political committee

Qualified Political Organizations that are Required to File

A tax-exempt political organizations must file Form 990 or Form 990-EZ unless it meets the exceptions outlined above. Political organizations are not required to file Form 990-N. A *qualified* state or local political organization is required to file Form 990 only when gross receipts equal or exceed $100,000 and the political organization meets ALL the following requirements:

1. The organization's exempt functions are limited to the selection process relating to any state or local public office or office in a state or local political Organization
2. The organization is subject to state law that requires it to report the information that is similar to that required on Form 8872, Political Organization Report of Contributions and Expenditures
3. The organization files the required reports with the state.
4. The state makes such reports public and the organization makes them open to public inspection in the same manner that organizations must make Form 8872 available for public inspection.
5. 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.

Gross Receipts

For the purpose of determining if an organization must file Form 990 or is eligible to file Form 990-EZ or 990-N, gross receipts must be accurately determined. Gross receipts represent the total amount received by an organization from all sources during its annual accounting period, without subtracting any costs or expenses. Gross receipts are calculated by adding the total reported revenue and each line where expenses were deducted in the form's Total Revenue Section, Part VIII.

On Form 990 In Part VIII: add lines 6b(i), 6b(ii), 7b(i),7b(ii), 8b,9b, 10b, and 12
on Form 990-EZ: Add lines 5b, 6b, and 7b to Total Revenue reported on line 9, Part I.

Example

Organization XYZ filed Form 990 and reported $50,000 as Total Revenue (line 12 in Part VIII). XYX added back rental expenses it deducted on line 6b of ($1,000), direct expenses associated with fundraising reported on line 8b of ($2,000) and direct expenses associated with gaming reported on line 9b of
($5,000), and cost of goods sold on line 10b of ($3,000) in order to determine its gross receipts of $61,000.

Gross Receipts of a Newly Formed Organizations

In order to fall within the gross receipts test and file Form 990-N, new organizations can receive up to $75,000 during their first year. They can average $60,000 or less during their first two years.

After that, organizations can average no more than $50,000 per year for any preceding three years (including the year for which the return would be filed).

When to File

Form 990 is due on the 15th day of the 5th month after an organization's accounting period ends. For example, a calendar year organization's return is due May 15th whereas a organization with a fiscal year of July 1st through June 30 must file by November 15th.

Where to File

Paper returns must be sent to:
Department of the Treasury
Internal Revenue Service Center
Ogden, UT 84201-0027

The IRS has a list of companies that have passed IRS Assurance Testing and have been accepted to file Forms 990 electronically. This list is easily accessed at the official IRS site.

Extension of Time to File

Form 8868 can be filed to request an initial, automatic three month extension. Form 8868 is also used to request an additional three month extension, but the organization must show reasonable cause for this additional time. The initial filing of Form 8868 for certain organizations can be filed electronically.

Using Form 990 to Meet State Filing Requirements

Some states and local governments allow organizations to meet their filing and registration requirements with Form 990 or Form 990-EZ. All 990 reporting organizations should check with state and local officials to determine exact filing requirements because Form 990 may not fully comply with all state requirements. For example, some states require organizations to submit audited financial statements, in addition to Form 990. Other states require that certain items be reported under an accrual method of accounting. Monetary tests, such as the $50,000 gross receipts minimum that creates an obligation to file, may vary from state to state. Many states require that Forms 990 be filed with them if the reporting organization is soliciting funds within its borders.

Amended Return

If new information becomes available or the organization wants to revise its return for any year, the organization files an amended return that must include all filed attachments and schedules. Using the form applicable to the year being amended, the amended return must provide all information required by the instructions – not just the new or corrected information.

- Check the "Amended return" box in the heading of the return.

- An amended return can be filed at any time but must be made available for public inspection for 3 years. The original return must also be available for public inspection.
- Send a copy of the amended return to the state(s) where an original Form 990 or Form 990-EZ was filed.

Note:

Form 4506, Request for Copy of Tax Return, can be used to obtain a copy of a previously filed return.

Disclosure

Congress passed disclosure statutes mandating that the following two large categories of information for exempt organizations be “open for public inspection:

- Applications with supporting documents
- Annual information returns, i.e. Forms 990 and supporting schedules

This resulted in financial information, including salaries for directors, trustees, officers, and key employees, reported on Form 990 and related schedules, being available for public scrutiny. Although many Forms 990 are available on the internet, requests to inspect or obtain applications and Forms 990 can also be directed to the IRS or the organization.

The disclosure law affects organizations exempt from federal income tax under Section 501(a) and described in Section 501(c) (other than private foundations) and Section 501(d). Examples of the type of tax-exempt organization to which the this law applies are: public charities, schools, labor organizations, business leagues, fraternities, hospitals, universities, social clubs, veterans organizations, and voluntary employees' beneficiary associations.

Obtaining Copies from the Organization

The organization must make its exemption application and Forms 990, including Form 990-T for unrelated business income, for the last three years available for inspection at its principal, regional, and district offices during regular business hours. If the request for copies from the organization is made in-person, the organization is generally required to provide copies on the day of the request. In the case of written requests, (including faxes, e-mails, or private courier), the organization must mail the requested documents within 30 days of the request.

The organization may:

- Charge a reasonable fee, including the actual cost of postage
- Require payment before providing copies
- Must advise requesters of the total cost of the copies, if adequate payment is not included with the request. A reasonable charge is defined as the amount charged by the IRS for providing copies.

Obtaining Copies from the IRS

Requests to inspect applications, notices, reports, and returns can be obtained from the Service by filling out Form 4506-A and sending it to the address in the instructions.

Information that can be Withheld

While Schedule B, Schedule of Contributors, is open for public inspection for Section 527 political organizations and organizations filing Form 990-PF, names and addresses of contributors or information that identifies contributors can be withheld for other Form 990 reporting organizations. In addition, trade secrets will not be disclosed if the organization establishes in advance that something is a protected trade secret.

Possible Harassment Campaign

A tax-exempt organization is not required to comply with requests for copies that it reasonably believes are part of a harassment campaign. A sudden increase in requests or an extraordinary number of requests may constitute harassment. The organization would apply to the Director Exempt Organization (EO) Examination for the area in where its principal office is located for a determination.

Penalties

Against the Organization

The penalties against the organization for failing to file, filing an incomplete return, filing a return with incorrect information, or failing to file electronically when required to do so are two-tiered depending upon the level of gross receipts:

For organizations with annual gross receipts of less than $1 million:

> The penalty is $20 per day, not to exceed the smaller of $10,000 or 5% of annual gross receipts

For organizations with annual gross receipts exceeding $1 million:

> $100 for each day the failure continues with a maximum penalty (for one return) of $50,000 The penalty begins on the due date of the return.

{IRC Section 6652(c)(1)(A)}

Against Responsible Persons

If the organization does not file a complete return, files a return with incorrect information, or is required to file electronically and fails to do so, the IRS will send the organization a letter that includes a fixed time to fulfill these requirements. After that time expires, the person failing to comply will be charged $10 per day. The maximum penalty on ALL persons for failures with respect to any one return is $5,000.

{IRC Section 6652(c)(1)(B)(ii)}

Penalties against Responsible Persons for Not Complying with Public Inspection Requirements

Persons failing to comply with public inspection requirements will be fined $20 for each day that the inspection was not permitted up to a maximum of $10,000 for each return (Guidance Regarding Public Inspection of Unrelated Business Income Tax Returns, 2009).

Persons failing to comply with public inspection requirements for applications is the same as those for annual returns, except that the $10,000 limitation does not apply.

{IRC Section 6652(c)(1)(C) and (D)}

Any person who willfully fails to comply with public inspection requirements for annual returns or exemption applications can be fined an additional $5,000.

{IRC Section 6685}

If the organization makes its Forms 990 or application "widely available", then it need not comply with a request for a copy. Widely available generally refers to availability on the internet.

Note:

Failing to file a For 990 could affect an organization's contributions. Potential contributors often verify that an organization is eligible to receive tax deductible contributions by checking the IRS's online Publication 78, which has a search function to easily verify an organization's eligibility. The Publication 78 site lists organizations that have had their eligibility to receive tax deductible donations revoked along with separate lists of organizations that have been recently added, deleted, or suspended. Organizations, which are required to file annual informational returns but have not done so for three years, will be excluded from the list of eligible organizations in Publication 78.

CHAPTER 2
Preparation of Form 990

Heading

Form 990's heading requires the organization's general information to be entered for Items A through M. Item G requires the total amount of gross receipts without subtracting any expenses, as calculated based on the data entered in Form 990's Part VIII, Statement of Revenue.

How to Complete – Sequence of Forms

Part I should be completed as the last and final step using information gathered from other parts of the return. Each line item on the form indicates where to pull the information from and what amounts must match. Because certain parts placed later in the form need to be completed first, use the following sequence to prepare the form:

1. Complete lines A through F and H(a) through M in the Heading, page 1.
2. Determine if there are related organizations that must be listed. Review the definition of related organizations in the glossary.
3. Determine the organization's officers, directors, trustees, key employees, and five highest compensated employees. Report this on Form 990, Part VII, Section A.
4. Complete Parts VIII (Statement of Revenue), IX (Statement of Functional Expenses), and X (Balance Sheet) of Form 990.
5. Complete line G, Gross Receipts, in the Heading section of Form 990
6. Complete Part III, Statement of Program Service Accomplishments.
7. Complete Part V, Statement Regarding Other IRS Filings and Tax Compliance
8. Finish Part VII
9. Complete Part XI, Reconciliation of Net Assets
10. Complete Part XII, Financial Statements & Reporting
11. Read the instructions for Schedule L, Transactions with Interested Persons, and complete if required (Form 990 and 990-EZ)
12. Complete Part VI, Governance, Management, and Disclosure, of Form 990
13. Complete Part I, Summary, based on information from other parts of Form 990.
14. Complete Part IV, Checklist of Required Schedules, to determine which schedules must be completed. If a "yes" box is checked in Part IV, a schedule will need to be completed.
15. Complete Schedule O and any other applicable schedules in alphabetical order.

Summary – Part I

Care should be exercised in assuring that all of the information on the first page is accurate and presents a positive image of the organization. Describe the mission and the significant activities the organization wishes to highlight on Line 1. Keep in mind that this part is "above the fold" and will be most noticeable when the return is inspected.

The remainder of Part I gathers subtotals and totals from other sections of the form or the previous year to provide an "executive summary" financial picture of the organization.

When reporting prior year amounts, the exact same amounts that were reported previously for revenues and expenses from the same lines must be reported. Leave prior year amounts blank if this is an initial return or if a Form 990-EZ or other Form 990 was filed.

Below is a table which shows the line number in Part I, the description, and the specific section and line item where the amount was extracted from and to which it must match for Form 990.

Part I	Description	Matching Amount
Activities & Governance		
Line 2	**Check this box if the organization discontinued operations or disposed of more than 25% of its net assets**	
Line 3	**Number of voting members on the board**	**Part VI, Line 1a**
Line 4	**Number of voting members who are independent**	**Part VI, line 1b**
Line 5	**Total number of employees**	**Must match W-3** **Part V, Line 2a**
Line 6	**Number of volunteers**	**Can be estimated**
Line 7a	**Total gross unrelated business revenue**	**Part VIII, column C, line 12.**
Line 7b	**Unrelated business taxable income**	**Form 990-T, line 34**
Revenues		
Line 8	**Contributions and grants.** **All contributions, including noncash items, grants, and fundraiser amounts must be reported**	**Part VIII, Statement of Revenue, line 1h**
Line 9	**Program service revenue**	**Part VIII, Line 2g**
Line 10	**Investment Income**	**Part VIII, column A, lines 3,4, and 7d**
Line 11	**Other revenue**	**Part VIII, Add column A totals in lines 5, 6d, 8c, 9c,10c, and 11e**
Line 12	**Total revenue**	**Part VIII, column A, line 12**
Expense Summary		
Line 13	**Grants and similar amounts paid**	**Part IX, column A, lines 1 through 3 from Statement of Functional Expenses**
Line 14	**Benefits paid to or for members**	**Part IX, column A, line 4**
Line 15	**Salaries, other compensation, employee benefits**	**Part IX, column A, lines 5-10**

Line 16a	**Professional fundraising fees** **If professional fundraising fees exceed $15,000, complete Schedule G**	**Part IX, column A, line 11e**
Line 16b	**Total fundraising expenses**	**Part IX, column D, line 25**
Line 17	**Other Expenses-Report the total expended for service fees for non-employee costs such as those for contracts (less fundraising).**	**Part IX, column A, lines 11a-11d and 11f-24f. Omit line 11e, fundraising.**
Line 18	**Total Expenses - Add lines 13 through 17**	**Part IX, column A, line 25**
Line 19	**Revenue less Expenses - Subtract line 18 from 12**	
Net Assets or Fund Balances		
Line 20	**Total assets**	**Part X, line 16**
Line 21	**Total liabilities**	**Part X, line 26**
Line 22	**Net assets or fund balances - Subtract line 21 from line 20**	

Signature Block - Part II

The return must be signed by an authorized signer such as a corporate officer and anyone who was paid to prepare the return. All paid preparers must enter their Preparer Taxpayer Identification Number (PTIN).

Statement of Program Service Accomplishments - Part III

Part III requires descriptive information regarding the reporting organization’s primary exempt purpose along with major programs, accomplishments, and activities. A university may report “instruction” as its primary exempt purpose, for example, with instruction, research, academic support, public service, scholarships, auxiliary enterprises, loan funds, and student services as broad areas of achievements.

Program Services are activities that accomplish the organization’s exempt purpose and program service revenue is income derived from these activities forming the basis of exemption. For example, exempt income for hospitals would include all charges for patient services, rooms, medical services, Medicare payments, Medicaid payments, third party reimbursements, parking

lot fees, cafeteria sales, and charges for hospital services. Program service revenues for acollege or university include tuition and fees, revenue from performing arts, registration fees received for conferences, auxiliary enterprises including sales of books to faculty, staff and students, football ticket sales, vending machines, athletic concession sales, game machines, and food service for staff and students. The facts surrounding each revenue stream need to be evaluated to determine whether an activity makes an important contribution to the organization's exempt function.

Other Examples of Program Service Revenue

- Income from providing government agencies with goods or services
- Interest income on loans made by a credit union
- Income from program related investments such as scholarship loans and low interest loans to charities
- Rents received from program related investments, such as those received from an exempt organization that is being charged less than fair market value because the lessee is assisting the tenant in accomplishing its exempt purpose.
- Rent income from affiliated organizations

The organization's mission must be described on Line 1. New or significant program service changes are noted on Form 990, here, rather than in separate correspondence. If significant program service changes occurred, answer yes to questions 2 and 3 and use Schedule O provide supplemental information.

The organization's three largest program services and achievements, as measured by total expenses, must be described in a concise and thorough manner on Lines 4a through 4c. Highlight achievements with measurable or numerical outcomes such as:

- Number of clients served
- Days of care provided
- Number of publications
- Full time equivalencies

If measurable outcomes are intangible such as with research or development, describe the activity's objectives or goals.

Total program service expenses, reported on Line 4e, must match the amount reported on the Statement of Functional Expenses, Line 25, Part IX, Column B.

Use estimates if actual numbers are not available, but indicate the information is estimated.

Donated services, materials, equipment, facilities, etc. are not to be included in this section despite generally accepted accounting principles treatment of these in-kind resources.

Additional activities of a significant nature but less costly can be summarized on Line 4d and reported in Schedule O. Although a detailed description is unnecessary, 501(c)3),501(c)4) organizations, and 4947(a)(1) trusts must report the following:

- Total revenues which are also reported on Part VIII, Column A, Line 2

- ❖ Total expenses, including grants, which are also reported in Part IX, column B
- ❖ Grants and allocations to others

Checklist of Required Schedules - Part IV

Part IV consists of a series of questions which determine which schedules the organization is required to file. For each "yes" answer, the related Schedule must be completed. "No" answers do not require a schedule.

The "General Rule" to follow to determine whether an organization is required to complete Schedule B, List of Contributors (referred to on Line 2), is if the organization received one or more contributions totaling $5,000 or more from any one contributor during the tax year.

Schedule C – Political Campaign and Lobbying Activities

Some Section 501(c)(4),(5) or (6) organizations are required to notify their members of that portion of their membership dues expended on political or lobbying activities. Organizations are required to send timely notices to their members informing them of the nondeductible portion of their dues, i.e. that portion allocable to lobbying expenses. If the organization notified it members of the full amount of nondeductible dues, then it need not pay a proxy tax. The amount of proxy tax is reportable on Form 990-T. Organizations that are subject to the lobbying disclosure rules must use a reasonable allocation method, such as the ratio method to determine total lobbying costs.

If the organization answers yes to Lines 3 or 4 or 5 in Part IV, Statement of Expenses, indicating they engaged in lobbying and political activities, Schedule C must be completed. If almost all dues of an organization are nondeductible by its members *or* the organization made only inhouse lobbying expenses of $2,000 or less, the organization need not complete Part III-B of Schedule C, whereby the taxable amount of lobbying expenses is calculated.

Excess Benefit Transactions

The net effect of excess benefit transactions is improper transferring of tax-exempt assets to private concerns via improper payments or unreasonably high compensation to insiders such as executives, key employees, or board members.

Questions 25a and 25b are intended to uncover "self dealing" transactions which involve persons of influence who are essentially dealing with themselves. These transactions must be reported on Schedule L. If the benefit to the "disqualified person" exceeds the market value of the property bought or sold or the service
provided, this is an 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 a disqualified person, and the value of the economic benefit provided by

the organization exceeds the value of the consideration received by the organization" (www.irs.gov, Intermediate Sanctions-Excess Benefit Transactions, 5/9/2011)

Questions 25 through 28 provide the means for an applicable tax exempt organization to self report if it engaged in any transactions with a "disqualified person." These questions must be answered by 501(c)3's and (c)4's
and can be skipped by others. Schedule L, Transactions with Interested Persons must also be completed as it provides more detail including names of disqualified persons, descriptions of transactions, and if corrections have been made. Each transaction should be reported separately. Facts, thresholds and instructions for Schedule L (Form 990 and Form 990-EZ) should be carefully reviewed before answering questions on Lines 26-28 relating to financial transactions with disqualified persons.

A disqualified person is one who was in a position, within five years prior to the date of a transaction, to exercise substantial influence over the affairs of the organization. An "interested person" refers to a disqualified person and also to those individuals reported as officers, trustees, key employees, and highest compensated persons. These generally include:

- Presidents, CEO's, and chief operating officers
- Treasurers and CFO's
- Voting members of the governing body, trustees, directors,
- Certain family members of a disqualified person
- 35% controlled entities of a disqualified person
- Large donors
- Officers and creators
- Key employees
- A taxable organization with which one of these persons is affiliated

Reportable Transactions

Reporting applies to both sides of a transaction and is required whether the organization is a buyer or seller, payer or payee, lender or borrower. Reportable transactions with disqualified persons include:

- Sale, exchange, or leasing property
- Loans
- Furnishing goods, services, or facilities
- Payments, compensation, or reimbursements exceeding $1,000
- Transfer of any income or assets

Other specific examples:

- A board member sells property he or she owns to the tax-exempt organization.
- An attorney sits on the board of directors and also provides legal services to the organization

Beginning in the mid 1990's, the IRS introduced the "intermediate sanctions" rule of §4958, which taxes excess benefit transactions and those who approve them. Prior to this ruling, the only sanction the IRS could impose on an organization was revoking an organization's exemption.

The initial tax on the disqualified person is 25% of the amount of the excess benefit. If it is not corrected before the IRS mails a notice of deficiency for the tax or the date which the tax is assessed, the disqualified person could be subject to an additional fine of 200% of the excess. Board members who approve excess benefit transactions can also be taxed provided they knew the amount was excessive.

Example

If a §501(c)(3) organization paid its executive director $600,000 when comparable compensation is $300,000, the executive director received an excess benefit of $300,000. A tax of 25% or $75,000 would be imposed on the executive director who must return $300,000 to the organization immediately upon notification of the tax. If the $300,000 is not returned, the executive director would be liable for a second-tier tax of 200% or $600,000. Each board member who approved the transaction knowing it was excessive would be liable for a tax of 10% or $30,000.

Treasury regulations define reasonable compensation for services as the amount that would ordinarily be paid for like services by like enterprises under like circumstances (whether taxable or tax-exempt).

These regulations define compensation as reasonable if the following conditions are met:

- A board or board committee composed of individuals who have no conflict of interest concerning the transaction, has approved the compensation in advance.
- The governing body awarding the compensation relied upon comparable salary information
- The board adequately documented the basis for its compensation award. The documentation should include the data that was relied for comparability and how the data was obtained, terms of the compensation, date it was approved, board members who were present and voted along with any who had a conflict of interest.

Increased public and IRS scrutiny directed toward executive compensation compels board members to consider other factors when determining compensation packages including area compensation averages, hours worked, job description, number of staff being supervised, and the overall budget and financial condition of the organization.

Schedule O – Supplemental Information to Form 990 and Form 990-EZ

Rather than attaching separate documents, Schedule O is used to provide narrative explanations to specific questions or supplement reported information. It must be completed by all organizations that file Form 990 or 990-EZ because all filers must provide a narrative response for Part VI, lines 11b and 19 where descriptions must be provided of the processes that are used:

- For board members to review Form 990 (Line 11b)

- If and how governing documents, financial statements, and conflict of interest policy are made publicly available (Line 19)

Most parts of Form 990 and Form 990-EZ, including Parts V, VI, VII, XI, and XII, require the box in the heading be checked if Schedule O contains additional related information related to that Part. Schedule O consists of blank lines and a space for the EIN.

Depending on the filer's status, the following questions also require narrative responses:

- Other Program Services (Part III, Line 4d)
- Explanation if Form 990- T was not filed (Part V, Line 3b)
- Governance Issues (Part VI, Lines 2-7b, 9,12c, and 15a-b for "Yes" responses and Part VI Lines 8a-b and 10b for "No" responses)
- If an A-133 was required but not performed (Part XII, Line 3b for "No" response)

All filers may add additional pertinent information to supplement their responses to other Form 990 questions in Schedule O.

Statements Regarding Other IRS Filings and Tax Compliance - Part V

In addition to providing assurances about tax compliance, Part V provides information about other forms and schedules that the organization must file with the IRS. Although each question requires a yes or no answer, many questions also have space where a dollar amount or the total number of forms must be reported.

Information that must be provided reflecting organizational size includes:

- Total number of paper and electronic Forms 1099, 1098, 5498, and W-2G that were reported in Box 3 of Form 1096. For example, payments to independent contractors are reported on Form 1099 and IRA contributions are reported on Form 5498. Both quantities of forms are reported on Form 1096 (Question 1a)

- Total number of organizational employees, as reported on Form W-3 (Line 2a)

Unrelated Business Income

Line 3a and 3b ask if the organization had unrelated business gross income of $1,000 or more during the year and if a Form 990-T was filed. Generally, organizations with gross income of

$1,000 or more from an unrelated business activity must file Form 990-T and pay the tax. Gross income is defined as gross receipts less expenses directly connected with producing the income, such as cost of goods sold. Form 990-T is in addition to Form 990 and never to be filed in place of it.

Unrelated business income arises from a trade or business that is regularly carried on by the organization but is not substantially related to its exempt purpose. IRS definitions include the following:

> The term "trade or business" includes any activity carried on for the production of income from selling goods or performing services. An activity does not lose its identity as a trade or business merely because it is carried on within a larger group of similar activities that may or may not be related to the exempt purpose of the organization (Tax on Unrelated Business Income of Exempt Organizations, Publication, 598, 2010, p.3)

Examples of unrelated business income:

- Rent income from property, such as a home or other structure, that may have been donated to the organization and is unrelated to its exempt purpose
- Income from mail order, catalogue, or internet sales of merchandise to the public by a university
- Income from hall rentals to the public for banquets, wedding receptions, parties, etc. on college campuses

All tax-exempt organizations are required to pay estimated unrelated business income taxes (UBIT) if the tax liability is expected to be $500 or more using Form 990-W.

Social & Recreation Clubs

Social and recreation clubs, Section 501(c)(7) organizations, may receive up to 35% of gross receipts from sources other than its membership and remain tax-exempt. Up to 15% of gross receipts may be from public use or other unrelated activities. If a social club member pays for a guest's expenses, that income is not considered nonmember income that must be reported on Form 990-T. If the guest pays for his or her own recreation or food, the income received from the guest must be reported as unrelated.

Gross receipts represent income from the club's usual activities such as:

- Charges
- Admissions
- Membership fees

- Dues
- Assessments
- Investment income

Gross receipts, for the purpose of maintaining a tax exempt status for a Section 501(c)(7) club do not include:

- Initiation fees
- Unusual amounts of income (such as the sale of the clubhouse)

Gross receipts for public use of club facilities by Section 501(c)(7) organizations are reported on Line 10b. Line 10a asks for total initiation fees and capital contributions.

Investment income earned by a Section 501(c)(7) club is generally not tax-exempt unless it is specifically set aside for a charitable purpose. Therefore, investment income must be reported as unrelated business income.

In addition, the organization will not qualify for exempt status if it has written policies which discriminate on the basis of race, color, or religion.

Governance, Management, and Disclosure - Part VI

Part VI provides additional information regarding an organization's management, governance, and disclosure policies by requiring yes and no answers to a series of questions.

Although federal tax law does not require this information, the IRS believes that good policy improves tax compliance and reduces the likelihood of excess benefit transactions, operating for non-exempt purposes, or other activities inconsistent with exempt status.

Every organization is required to answer every question in Part VI.

Section A. Governing Body and Management

Report the number of members of the governing body at the end of the organization's tax year on Line 1a and the number of independent voting members on Line 1b. A member of the governing board is considered independent only if all four of the following circumstances applied throughout the entire tax year.

1. The member was not compensated:
    a. As an officer or employee of the organization or
    b. By a related organization, unrelated organization, or individual for services provided to the organization or related organization if compensation is reported in VII, Section A.

2. The member did not receive compensation exceeding $10,000 during the organization's tax year as an independent contractor.

3. Neither the member nor any family member was involved in any transaction (either directly or indirectly) that is required to be reported on Schedule L.

4. Neither the member nor a family member was involved in a transaction with a taxable or tax-exempt related organization of a type and amount that would be reportable on Schedule L of a related organization

The member is not considered to lack independence merely because he or she is a contributor to the organization, regardless of the amount.

The organization is required to report significant changes to either of the following documents on Line 4:

- ❖ Organizing document that created it, such as the articles of incorporation, constitution or other document

- ❖ Bylaws or similar documents governing its affairs

Report changes made since the previous Form 990 was filed or that have not yet been reported but were enacted prior to end of the tax year.

Some examples of significant changes are:

- Organization's exempt purpose
- Name of organization
- Governing board changes including number, composition, qualifications, authority, duties
- Number, composition, qualifications, authority, or duties of key employees or officers
- Quorum, voting rights, or voting approval requirements of governing board
- Policies or procedures within the bylaws and resolutions regarding compensation of officers, directors, trustees, key employees, conflicts of interest, document retention

Changes to a governing body that do not result in a change to the filing organization need not be reported.

Section B. Policies

The Policies section asks if the organization has written policies covering conflict of interest, whistleblowers, record retention and destruction, and determination of executive compensation.

Answer yes to questions in this section only if the organization's governing board (not a department or committee) adopted the policy prior to the end of its tax year.

Section C. Disclosure

The Disclosure section asks questions relating to the disclosure of Form 990 and how the organization complies with public disclosure requirements. Schedule O can be used if more space is needed for any of the questions.

Check “Own Website” or “Another’s Website” only if an exact reproduction of its Form 990 and Form 990-T is posted (excepting names and addresses of contributors).

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

Section A, Part VII

Because Part VII includes the names of all board members, officers, and certain key employees along
with their compensation packages, this section must be carefully and accurately completed in order to withstand public and IRS scrutiny.
Names and compensation packages must be reported for all board members, trustees, officers, and certain key employees who served at any time during the year even if they received no compensation. Form 990’s inherent consistency in presentation of compensation packages facilitates comparison of executive salaries with those of similar organizations across the spectrum of tax-exempt organizations.

Compensation information is reported for the calendar year ending with or within the organization’s tax year. The reportable compensation amount is the same as that reported on Form W-2, Box 5 (Medicare Wages & Tips), and Form 1099-MISC, Box 7, “non-employee compensation. Compensation from “related organizations” must also be reported.

The organization’s top management official and top financial official are deemed officers rather than key employees. Report officers, directors, trustees, and employees whose “reportable compensation” from the organization and related organizations exceed the following income thresholds:

Persons/Position	**Income Threshold**
Officers, directors, trustees (current)	**No minimum**
Key employees (current)	**Over $150,000 of reportable compensation**
Five highest compensated employees other than those listed above (current)	**Over $100,000 of reportable compensation**
Former officers, key employees, and highest compensated employees	**Over $100,000 of reportable compensation**
Former directors and trustees	**Over $10,000 in capacity as director/trustee**

Board Members, Directors or Trustees

A director or trustee is a member of the governing board who has voting rights. Advisory board members with no governance authority should not be reported.

Because many board members of nonprofit organizations receive no compensation, zeros may be entered in columns D, E, or F, but their names must be reported. Failure to provide this information can subject the organization and persons responsible to penalties for incomplete filing. For example, entering the phrase "Information available upon Request" is unacceptable. Although the IRS requires an address where the person can be contacted, most organizations report the filing organization's address rather than the person's home address.

Officers

The officers of an organization are determined by the bylaws or resolutions of the governing body and usually include the president, vice-president, secretary, and treasurer. An officer that served at any time during the year is deemed current and must be reported.

For purposes of Form 990, treat the following as officers regardless of their title:

- Top management official - The person who has ultimate responsibility for implementing the decisions of the governing body or for supervising the management, administration, or operation of the organization such as the Chief Executive Officer or executive director.

- Top financial official - The person who has ultimate responsibility for managing the organization's finances, such as the Chief Financial Officer.

The names of these individuals along with their compensation packages must be reported, even if responsibility is shared such as when there are "co-presidents."

Key employees

Key employees can include presidents, chancellors, officers, such as chief financial officers and administrative officials who have authority over the entire organization (its activities, finances, or both.) Heads of separate departments, such as the radiology department of a hospital or the English department at a university, would not be considered key employees because their responsibility does not extend across at least 10% of the organization.

A key employee meets all of the following tests, applied in the following order:

1. Income test - $150,000. Receives reportable compensation from the organization and all related organizations in excess of $$150,000 for the calendar year.

2. Responsibility Test - Has responsibilities, powers, or influence over the organization as a whole similar to officers and directors.

a. Manages a segment or activity of the organization that represents 10% or more of activities, assets, income, or expenses; or

b. Has or shares authority to control or determine 10% or more of capital expenditures, operating budget, or compensation for employees.

3. Top 20 Test – A key employee is one of 20 individuals, other than officers, directors, and trustees, who meet the income and responsibility tests, with the highest reportable income.

If there are more than 20 employees who meet the income and responsibility test, the organization need only report the top 20 with the highest compensation.

Five Highest Compensated Employees

Report the five highest compensated employees with incomes greater than $100,000. Do not duplicate the names reported as key employees who met the three tests or those as officers and directors. These five highest compensation employees need not meet the three tests.

Former Officers, Directors, Trustees & Key Employees

Former employees who should have been reported but were not can be reported here, in Part VII, and Schedule J, if applicable. Do not check former if the individual served the organization at any time during the tax year. Check former only if both of the following conditions apply:

1. The organization reported (or should have reported applying the instructions in effect for the applicable year), on any of the Forms 990, 990-EZ or 990-PF for any of the prior five years as an officer, director, trustee, or key employee.

2. The individual received reportable compensation in excess of the threshold.

How to Report

Average Hours per Week, Column B: Average hours worked per week requires a numeric estimate of the
hours worked per week and imprecise phrases such as "as needed" or "40+" are unacceptable.

Reportable Compensation, Column D (W-2 and 1099-MISC) includes taxable deferred compensation, and all amounts reported on Form W-2, Box 5 and 1099-Misc, boxes 5 and 7. Also include both taxable and nontaxable fringe benefits such as reportable expense allowances and reimbursements, the value of personal housing, vehicles, or other assets owned by the organization that are used without charge, payments made under indemnification arrangements, unaccounted-for expenses and allowances that were more than the payee spent, and social club dues.

Compensation received from “related organizations” by officers and key employees is reported separately in Column E using the same guidelines for reporting compensation from the filing organization.

Remember:

- Use the calendar year ending with or within the organization’s tax year.

- Do not report management companies or management company staff as key employees.

- The organization’s top management official and top financial official are deemed officers rather than key employees.

- Reportable compensation includes compensation from the organization and related organizations.

- All forms of cash and noncash compensation must be reported, even if deferred.

Column F, Other Compensation refers to compensation from either the organization or related organizations that was not reported on W-2 Box 5, or 1099-MISC Box 7. If the amount was reported in Column E, do not include in Column F.

Some examples include:

1. The value of health benefits provided by the employer or paid by the employee with pre-tax dollars that are not includable in reportable compensation. These include payments of health insurance premiums, medical reimbursement and flexible spending programs, value of health coverage (rather than amount paid) for self-insurance or self-funded programs, coverage for dental, optical, drug, or medical equipment.

2. Tax deferred contributions by the employer to a qualified defined benefit retirement plan.

3. Tax-deferred contributions by the employer and employee to non-qualified defined contribution plan, whether funded, vested, or subject to substantial risk.

4. The annual increase in actuarial value of a qualified defined benefit plan, whether funded or vested.

5. The annual increase in actuarial value of a non-qualified defined benefit plan, whether funded or vested.

This column includes all forms of nontaxable deferred compensation, future severance payments (whether or not funded or vested, and whether or not part of a qualified 401(a) plan. Payments on behalf of others, such as spouses, and benefit plans such as medical, dental, life insurance, must be reported, too.

The IRS requires that reasonable estimates be used if exact costs are unavailable.

Exclusions

The following benefits can be excluded from reporting in this section:

- Disability or long-term care insurance premiums.

- Any single item, other than those required as listed above, 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 per item exception applies separately to each item of compensation from the organization and from each related organization.

- Items valued below $10,000 when determining if an individual's reportable compensation exceeds the thresholds for highly compensated employees.

If the individual's total compensation exceeds the relevant threshold, the amounts excluded under the $10,000 exception are to be included on Schedule J. Therefore, the individual's total compensation as reported on Schedule J could be higher than the amount reported on Section A, Part VII.

Schedule J - Compensation Information for Certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

Schedule J is designed to reveal a taxpayer's entire compensation package and those individuals listed here and also in Part VII must report this compensation on their individual returns.

Schedule J is completed if the organization:

- ❖ Lists any **former** officer, director, trustee, key employee, or highest compensated employee.
- ❖ Lists an individual on Line 1a with compensation exceeding $150,000
- ❖ Lists an individual on Line 1a who received or accrued compensation from an unrelated organization or individual for providing services to the filing organization.

If any of the these statements apply, the organization would answer yes to questions 3, 4, or 5 in Part VII which in turn triggers a "yes" to Line 23 in Part IV.

Section B, Section VII

This section asks for information on the five highest paid independent contractors (whether individuals or firms) who were paid in excess of $100,000 for professional services. Independent

contractors include accounting firms, professional fundraisers, law firms, management companies, and investment management companies, among others. Only the fee portion of payments to contractors is reported, not expense reimbursements or amounts paid to public utilities. Because exempt organizations can provide excess benefits directly and indirectly through third parties, this information can be useful to the IRS
in identifying private benefit transactions and excess benefit transactions (Chasin, et al.,2003).

Statement of Revenue, Part VIII

All organizations must report their gross receipts from all sources in Column A, Total Revenue. Columns B through D must be completed by all organizations, except section 527 political organizations, and allocated according to revenue columns:

- ❖ Related or Exempt Function Revenue (Column B) - Report all revenue substantially related to the exempt purpose
- ❖ Unrelated Business Revenue (Column C) - Report all unrelated business revenue received during the tax year from an unrelated trade or business.
- ❖ Revenue Excluded from Tax under Sections 412, 513, or 514 (Column D) -Report income excluded from unrelated business income such as receipts from sales of donated items and bingo games.

Revenue Line Items

Contributions, Grants, Gifts, and Other Similar Amounts – Lines 1a -1h

All donated items and gross amounts of contributions, including portions of donations, from the general public, government units, foundations, and other exempt organizations are reported as gross receipts without deducting any expenses on Lines 1a through 1h. Grants that are equivalent to contributions because the donor does not receive goods or services from the organization are also reported on Line 1e. However, when there is no benefit to the public and the grant requires the recipient to provide a service, facility or product to the grantor, this is considered a payment, not a contribution, and would be reported on Line 2 as program service revenue.

Federated Campaigns, Line 1a: Report total contributions received indirectly from the general public through federated fundraising agencies. Federated fundraising agencies, such as United Way, generally conduct a campaign within a geographic area and allocate a portion of the net proceeds to participating exempt organizations.

Example

A 501(c)(4) civic league made a “grant” to a tax exempt organization to conduct a survey to determine voter attitudes. The league planned to use the results of the survey to strategize its own operations in its five year master plan. The tax exempt organization should not report this “grant” on Line 1 because the survey is intended to benefit the grantor, not the general public. This is not a true “grant” represents a payment for a service and would be reported as program service revenue on Line 2.

Membership Dues, Line 1b: Report membership dues and assessments that represent contributions rather than payments for benefits, goods or services.

Fundraising Events, Line 1c. Report the total amount of contributions, only, received from fundraising events, such as dinners, auctions, and other events. Contributions received from gaming activities must be reported on line 11, not 1c. Receipts from contributors must be allocated according to the amount donated and the retail value of the goods or services.

Example

ABC Nonprofit sponsors a dinner, charging $100 per person. The dinner has a retail value of $20. The participant is really paying $20 for the dinner and contributing $80 to ABC. The difference between the amount paid and the retail value is $80 which represents the contribution and is reported on Line 1c and again on 8a (within the parentheses). The revenue received of $20 is reported in the right hand column of on Line 8a, Gross Income from Fundraising Events. Direct expenses for the dinner are deducted on Line 8b to arrive at the Net Income (or loss) from Fundraising Events. The income is not substantially related to the exempt function and must be reported as Unrelated Business Revenue in Column C or Column D.

Fundraising expenses are not deducted to arrive at gross contributions. Fundraising expenses must be reported in the Fundraising column (D), Part IX, with professional fundraising fees isolated on Line 11e. If special events give rise to contributions whereby donations are received in excess of the retail value of the event, the excess amount or donation portion should be reported both on Line 1a and also in parentheses on line 8a. Direct expenses (excluding fundraising expenses) are deducted on Line 8b.

Organizations reporting more than $15,000 on line 1c and 8a must:

- Answer yes to Part IV, line 18, which asks if the organization reported more than $15,000 of fundraising event gross income and
- Complete Part II of Schedule G, Supplemental Information about Fundraising or Gaming Activities.

Note:

Organizations must notify contributors of tax-deductible amounts when donations are received.

Report the amount donated by related organizations on Line 1d:

Government Grants (contributions), Line 1e: Report the total of grants received from federal, state, and local sources. Grants are reported here if the primary purpose is to serve the public rather than the needs of the governmental unit.

Examples include:

- Subsidies to child day care facilities which enable better day care for children in the community

- Federal grants to a university to construct a library or other building used for learning

- State grants to upgrade senior centers

All other Contributions, Gifts, Grants, and Similar Amounts not Included Above, Line 1f: Report contributions, gifts, and similar amounts not previously reported on lines 1a through 1e, such as contributions from gaming activities, and donor advised funds, unless the sponsoring organization is a related organization.

Noncash Contributions, Line 1g: Report the value of noncash contributions, such as cars, antiques, and securities that were included on lines 1a through 1f. If this amount exceeds $25,000, answer “yes” on Line 29, Part IV, and complete Schedule M, Noncash Contributions.

Lines 2a through 2e: Report the organization’s five largest sources of program service revenue. Program services are those activities that form the basis of the organization’s exemption from tax. Although unrelated business activities can be included here, but fundraising should not. Some examples of program service revenue are:

- Tuition received by a college
- Medicare/Medicaid and other payments for medical services to a hospital
- Fees and contracts from governmental agencies that benefit the government agency
- Interest income on loans made by a credit union
- Income from program related investments, such as low interest loans to victims of a natural disaster
- Fees charged by a social club to its members
- Fees charged by a social club to nonmembers for use of its facilities

Hospitals, colleges, and universities can report sales of inventory items, otherwise reportable on line 10a as program service revenue. The applicable cost of goods sold, as a program service expense, must then be entered in Column B, Part IX.

A corresponding Business Activity Code must be entered for each activity reported on lines 2a through 2e. Use codes that describe the activity not the organization.

Investment Income, Line 3: Enter the amount of interest, dividends, and investment income, but do not include capital gains or losses for securities carried at market value.

Income from Investment of Tax-Exempt Bond Proceeds, Line 4: Report all investment income received from investing the proceeds of tax-exempt bonds which are under the control of the organization.

Royalties, Line 5: Report royalties received from licensing the ongoing use of property to others, such as patents and payments for the right to exploit natural resources such as gas or oil.

Gross Rents, Expenses, Net Income or Loss, Lines 6a-6d: Report rental income received from investment property by allocating between real and personal as per the columns on the form. If the rental income is related to the organization’s exempt purpose, report the income as Program Service Revenue on Line 2. Generally, rental income from real property is not reported as unrelated business income, but rent from personal property is.

Allocate and report expenses that are on the organization’s books that are associated with the real and personal rental income such as interest and depreciation.

Sales of Assets other than Inventories, Cost or other Basis, Gains or Losses, Net Gain or Loss, Lines 7a - 7d: Report sales of all types of investments such as securities, real estate, fixed assets, and non-inventoried assets, here. The total gross sales price must be reported on Line 7a while its cost basis minus depreciation plus selling expense is reported on Line 7b.

Capital gains dividends and distributions must be entered on Line 7a with losses reported on Line 7c. Again, unrealized gains or losses on securities carried at market value are not reported.

Gross Income from Fundraising Events, Direct Expenses, Net Income or Loss, Lines 8a – 8c. Report gross income from fundraising events, such as dinners, dances, merchandise sales, and sports events, on Line 8a. Exclude the amount of contributions reported on Line 1c which are to be recorded in parentheses.

If the total on the amounts reported on Line 1c and 8a exceeds $15,000, Schedule G must be completed along with answering “yes” to Part IV, line 18.

Report direct costs associated with the production of fundraising revenue on Line 8b. Indirect fundraising expenses such as advertising costs would be reported in Part IX, Statement of Functional Expenses, column D, not here.

Do not include activities that substantially further the organization’s exempt purpose as fundraising events even if they also generate funds. If gaming is conducted at an event, income and expenses must be allocated between gaming and fundraising, with gaming amounts recorded separately on Lines 9a through 9c.

Net income or loss from fundraising events is calculated as the difference between 8a and 8b and entered on Line 8c. Report net income from unrelated fundraising events as unrelated business income in Column C or Column D, if excluded from tax under sections 512, 513, or 514.

Section 512b of the Code applies to certain types of passive or investment income. It states that income from dividends, interest, rents from real property need not be categorized as unrelated business income. Social clubs are an exception to this because all investment income for social clubs must be classed as unrelated.

Section 513 describes the activities that constitute a trade or business for unrelated business income tax rules. A trade or business is generally an activity that is engaged in for the primary purpose of generating income or profit. The existence of a profit motive is considered one of the most important factors in determining if the activity is a trade or business subject to unrelated business income tax. The IRS is continuing to examine why organizations claim continuing net operating losses for unrelated business activity resulting little or no taxable income and how losses from one activity are used to offset income from another (McGuireWoods, 2011).

Section 514 refers to income from debt-financed property with a proportion of income to be included as unrelated business income with certain allowable deductions according to a prescribed formula.

Gross Income from Gaming Activities, Line 9a: Report gross income from gaming but do not include contributions that should be reported on Line 1f. As noted previously, reporting more than $15,000 on Line 9a triggers the need for Schedule G.

Less: Direct Expenses, Line 9b. Report and deduct expenses directly related to gaming such as cost of prizes or compensation to workers.

Net Income (Loss) from Gaming Activities, Line 9c: Many gaming activities are unrelated business income. Bingo income is generally not taxable as long as the game meets the legal definition of bingo.

Gross Sales of Inventory, less Returns & Allowances, Line 10a: Report gross income from sales of inventoried items, less returns and allowances. Inventory includes donated items, items made for resale, or items purchased for resale. All sales revenue must be reported whether it is unrelated or related to the exempt function. Examples of reportable sales include college bookstore sales and clothing at a second-hand resale store.

Less: Cost of Goods Sold, Line 10b: Deduct cost of goods sold. Cost of goods sold include direct and indirect labor, materials and supplies consumed, freight-in, and an allocation of overhead. Marketing and distribution costs are not included in cost of good sold but reported in Part IX, column B as program service expense.

Net Income or Loss, Line 10c: Total the income in Column A then allocate as appropriate across Columns B through D as related or unrelated business income.

Miscellaneous Income, Line 11: All revenues not reported previously are entered in this section. The three largest revenue sources should be listed on lines 11a, 11b, and 11c along with the corresponding Business Activity Code. If none of the codes accurately describe the activity, enter code “900099.”

Total Revenue, Line 12: Total the columns and verify that Line 12 Columns B, C, and D plus Line 1h equal Line 12 column A.

Statement of Functional Expenses - Part IX

Part IX requires expenses to be classified longitudinally according to object codes such as grants, salaries, pension plan, 401(k) and 403(b) contributions, other benefits, payroll taxes, and office expenses, then, laterally among program services, management and general, and fundraising.

All organizations are required to complete column A which represents lateral totals, but only the following organizations are required to also complete columns B, C, and D:

- Section 501(c)(3)
- Section 501(c)(4)
- Section 4947(a)(1)Non-exempt charitable trusts

Other organizations should check state requirements to determine if these create a need to allocate expenses among the columns. Filers have the option of providing this additional information if they choose.

Program services, reported in Column B, are those activities that form the basis of the organization's exemption from tax. Expenses associated with most grants and unrelated business income activities are also reported in this column.

Management and general, Column C, includes expenses related to the management and overall operations such as salaries of the executive director and his or her staff, board expenses, insurance, professional fees (except fundraising), legal, human resources, investment expenses, accounting, and other centralized services.

All fundraising expenses including those for special meetings, soliciting donations, grants, and gifts, fundraising campaigns and appropriately allocated overhead must be reported in Column D.

Readers can examine the totals for these three broad categories of
expenses to ascertain that the organization is spending the majority of its resources on mission driven activities and not fundraising or managing.

The organization's accounting system should be used to allocate expenses among the categories. If the system lacks that capability, a reasonable method of allocation can be used as long as the method is documented in the organization's records and the results are accurate.

Direct Expenses

Organizations should report grant amounts and other assistance on lines 1 through 3. If amounts on lines 1 or 2 exceed $5,000, Parts I and II of Schedule I, Grants and Other Assistance to Organizations, Governments, and Individuals in the US must be completed. If line 3 exceeds $5,000, Parts II and Part III of Schedule F, Statement of Activities outside of the US may need to be completed.

Grants paid to governmental units or other organizations in the USA are reported on Line 1. United Way grants to participating organizations would be reported on Line 1 along with voluntary grants to state or local affiliates for restricted purposes.

Grants and assistance paid to individuals such as scholarships by a university and stipends are reported on Line 2.

Grants and other assistance for foreign activity are reportable on Line 3 such as financial assistance to foreign governments, foreign organizations, and foreign individuals outside of the USA.

Benefits paid to or for members on Line 4, refer not to employee benefits but to costs for benefits to members, such as insurance.

Salaries are reportable in three major categories:

- Compensation for current officers, directors, trustees, and key employees
- Compensation for disqualified persons
- Other salaries and wages

Total compensation to current officers, directors, trustees, and key employees for the organization’s tax year must be reported on Line 5. Compensation includes all forms of income and benefits including pension plan contributions and fringe benefits.

Note that this section requires compensation based on the filing organization’s tax year and accounting method, but Part VII and Schedule J require reporting compensation on the calendar year.

Vehicle expenses, including the cost of purchasing, leasing, operating, or repairing automobiles are normally included as a Travel expense. If the vehicles are leased on behalf of an executive as part of an executive compensation program, then the leasing costs are considered compensation and reported on lines 5 through 7.

Organizational expenses such as office expenses, information technology, depreciation, and insurance should be itemized. Service fees for professional accounting and especially fundraising must be broken out and reported separately.

Other significant expenses for which there is no separate line for recording are to be reported on Line 24, Other Expenses. Although miscellaneous expenses should be grouped as one total and reported on Line 24f, other expense categories that comprise the five largest dollar amounts should be reported on lines 24a through 24e. All unrelated business income taxes that were paid or accrued must be separately reported on Line 24.

Allocating Indirect Expenses

Many organizations, including colleges, universities, and hospitals allocate indirect expenses to other functional areas from cost centers, such as physical plant operations, telephone and internet. These expenses may be reported the following way for Form 990:

1. Report the indirect cost center expenses on lines 5 through 24 of column (C), Management and General, in addition to the expenses that normally belong in that column.

2. Allocate total expenses for each indirect cost center to Program Services, Management and General, and Fundraising columns (B), (C), and (D) (), as a separate line item entry on line 24. The description should read “Allocation of Expenses” naming the cost center.

- If some indirect costs should be allocated to Part VIII, Statement of Revenue, expenses, such as fundraising events or gaming, report these as negative numbers in Columns (A) and (C) – to prevent double reporting of the same amounts in both Parts VIII and IX.

- If any indirect expenses should be allocated to Program Services, column (B), or Fundraising, (D), report these as positive amounts in these columns and as negative amounts in column (C), Management and General. The Total in column (A) should be zero because these are all offsetting entries.

Example

The following example illustrates how to report allocations:

A college incurred $100,000 of actual Management and General expense, reported in column (C) and $200,000 related to operating the physical plant. The physical plant expenses were accumulated as indirect expenses in the Plant Operations cost center then allocated to Program Services and other functional areas. The total of lines 5 through 24 of column (C) would be $300,000 before allocating indirect costs to the other columns. Of the $200,000 physical plant expenses, $20,000 should be allocated to Fundraising; $140,000 to program services, $30,000 to Management and General, and $10,000 to special events. Using this method, report expenses as follows:

1. Indicate the original indirect cost center, whose costs are being allocated, on Line 24, as “Allocation of Physical Plant Expenses”
2. Report a decrease of $10,000 on the same line in column (A), Total Expenses, representing a fundraising event expense already reported on line 8b in Part VIII.
3. Report $140,000 on the same line in column (B), Program Services.
4. Report $20,000 on the same line in column (D), Fundraising.
5. Enter a decrease of $170,000 on the same line in column (C), Management and General to represent the allocations to functional area other than management and general.

The following table illustrates how this example would play out when reporting on Form

990:

Line (A) (B) (C) (D)
Total Program
Services
Manage &
General
Fundraising
Line 4-24a $ 300,000 $ --$
300,000 $
Line 24b-Allocating indirect costs of
$300,000 reported in Management &
General
(10,000) 140,000 (170,000) 20,000
Line 25 $ 290,000 $ 140,000 $ 130,000 $ 20,000

After allocating indirect expenses, Line 24 - Column (C), Management and General will reflect $100,000 of original expense and $30,000 allocation of aggregate physical plant expenses totaling $130,000.

IRS regulations do not permit allocating Management and General Expenses to other classifications when using this method.

Line 24, Other Expenses would include all other expenses that were not reported on previous lines such as unrelated business income taxes, penalties, fines, settlements, or judgments resulting from legal actions, and miscellaneous expenses. If the amount on Line 24f exceeds 10% of the amount of Total Functional Expenses, Line 25, the organization must list the amount and description of each expense line item on Schedule O.

Balance Sheet - Part X

Balance Sheet information, Part X, requires beginning and end-of-year amounts for assets, liabilities, and net assets with net assets allocated among unrestricted, temporarily restricted, and permanently restricted. Beginning of year amounts are to be lifted exactly from last year's Form 990. If total assets
are less than $500,000 on Line 16, Form 990-EZ can be filed, provided gross receipts are less than $200,000. Balance sheet amounts are condensed to three lines on Form 990-EZ, while Form 990 requires detailed line items mirroring audited financial statements and supporting schedules.

Reporting Assets and Liabilities

Assets

Cash, Line 1: Report the organization's total cash, including petty cash and amounts held in non-interest bearing accounts.

Savings & Temporary Cash investments, Line 2: Report the combined total of amounts held in interest bearing checking and savings accounts including commercial paper, certificates of deposit, US Treasury bills and other obligations that mature in less than one year.

Pledges & Grants Receivable, Net, Line 3: Report the total of all pledges and grants receivable less the estimated uncollectible amount.

Accounts Receivable, Net, Line 4: Report the organization's combined total of accounts receivable less what is reported on Lines 5 and 6 and reduced by the allowance for doubtful accounts.

Receivables from Officers, Directors, Trustees, Key Employees & Highest Compensated Employees, Line 5: The total of all receivables due from these individuals must be reported on Line 5. If receivables are reported here, the organization must also answer "Yes" to Part IV, Line 26, and also complete Part II of Schedule L, Transactions with Interested Persons.

Receivables from Other Disqualified Persons, Line 6: If receivables are reported on this line, Schedule L must be attached with Part II completed to report on loans with interested persons such as transactions, salary advances, and receivables. Groups of receivables having the same terms and conditions, such as travel advances, can be reported as a single total for each individual.

Notes and Loans Receivable, net, Line 7: Record the total of all notes and receivables that are not investments and not listed on another line.

Land, Buildings & Equipment, Less Accumulated Depreciation, Line 10a through 10b: Report accumulated depreciation on Line 10b for those assets reported on line 10a. If an amount is reported here, the organization must complete Schedule D with the amounts reported on line 10b matching up to the amounts on Schedule D's Part VI. End of year accumulated depreciation reported on Line 10b, Column B, must match the corresponding total on Schedule D

Types of investments must be grouped and reported separately as follows:

Investments, Line 11: Report the total value of publicly traded securities that are held as investments, including stocks, bonds, Treasury Bills, and government bonds.

Investments, Line 12: Report the total amount of securities that are not publicly traded such as stocks in a closely held company and publicly traded stock for which the organizations holds 5% or more of outstanding shares of the same class.

Investments, Line 13: Report the book value of program related investments defined as those investments made to accomplish the organization's exempt purpose rather than to produce income such as student loans provided by a college or university.

Intangible Assets, Line 14: Intangible assets include the book value of non-monetary, nonphysical assets such as copyrights, patents, trademarks, mailing lists, and goodwill.

Other Assets, Line 15: All assets not specifically listed on Lines 1 through 14, such as Construction in Progress, are recorded here at book value. If this amount is 5% or more of Total Assets as reported on Line 16, answer "yes" to Part IV, line 11d, and complete Part IX of Schedule D,. The amount reported on Schedule D must equal the amount reported for other assets at the end of the year, Column B, Line 15.

Liabilities

Accounts Payable & Accrued Expense, Line 17: Lump together all general payables and accruals, including for example, those to suppliers and independent contractors, along with accrued salaries payable, accrued payroll taxes, and interest payable.

Grants Payable, Line, 18: Report the unpaid portion of grants and awards to organizations or individuals, such as scholarships, whether commitments have been communicated to recipients or not.

Deferred Revenue, Line 19: Report revenue that has been received but not earned such as a university's paid room deposits or reservation fees.

Tax-Exempt Bond Liabilities, Line 20: Report tax exempt bonds for which the reporting organization has direct or indirect liability. Include bonds issued by the organization and tax-exempt mortgage obligations. Schedule K may be required depending upon the date of issuance, amount, and response to Line 24 in Part IV.

The organization's remaining liabilities must be reported appropriately on Lines 21 through 25, with amounts reported as Other Liabilities detailed on Schedule D. Federal income taxes payable and payables to related organizations are recorded as Other Liabilities on Line 25 and Schedule D, Supplemental Financial Statements.

Total Liabilities, Line 26: Total the recorded liabilities and enter the dollar amount. A zero must be entered for those organizations with no liabilities.

Net Assets or Fund Balances

Conformity with SFAS 117 is acceptable reporting, but not required when recording net assets.

The balance per books of unrestricted assets is reported on Line 27 and includes all funds that are not donor restricted, including those funds which may be called "restricted" because of board designations or policies. Report funds that are temporarily restricted by donors, i.e. contributions with written restrictions regarding timing or purpose, on Line 28. Permanently restricted assets, including assets donated with a written stipulation that they neither be sold nor liquidated, are reported on Line 29. For example, permanent endowments and assets such as land or works of art with written stipulations that they cannot be sold would be reported on Line 29.

For organizations that do not follow SFAS 117, capital stock, paid-in or capital surplus, and retained earnings are reported on Lines 30, 31, and 32, respectively.

Total Net Assets or Fund Balances, Line 33: For organizations that follow SFAS 117, enter the total of Lines 27 through 29. Other filers are to enter the total of Lines 30 through 32.

Total Liabilities & Net Assets/Fund Balances, Line 34: Total Liabilities and Total Net Assets must equal Total Assets as reported on Line 16.

Reconciliation of Net Assets - Part XI

This section of the return is used to verify that net assets reported at the beginning of the year plus changes in net assets or fund balances equal net assets reported at the end of the year.

Total Revenues, Line 1: Record total revenues that were reported in Part VIII, Column A, Line 12
Total Expenses, Line 2: Record total expenses as reported in Part IX, Column A, line 25.
Revenues Less Expenses, Line 3: Subtract line 2 from line 1 for net income.
Net Assets or Fund Balances at the Beginning of the Year, Line 4: Must match the amount reported previously in Part X, Line 33, Column A.
Other Changes in Net Assets or Fund Balances, Line 5: Report the total of any other changes that are recorded in Schedule O. Some examples of changes include adjustments to earlier years' activity or unrealized gains or losses on investments carried at market value.
Net Assets or Fund Balance at End of Year, Line 6: Total lines 3, 4, and 5 which must equal Part X, line 33, Column B.

Financial Statements and Reporting - Part XII

The final section of Form 990 contains three multi-faceted questions relating to the organization's accounting processes, including:

- Accounting method
- Use of independent accountants
- The existence of an oversight committee
- If an A-133 audit was required

The A-133 audit is required by the Single Audit Act if the organization expended $500,000 or more of federal awards during the year.

All questions require a yes or no answer other than:

- Question 1 which requires a checkmark beside cash or accrual to report the accounting method used to prepare Form 990
- Question 2d which requires a checkmark to indicate whether the financial statements were issued on a separate or consolidated basis or both

Schedule A – Public Charity Status and Public Support

Schedule A is used by an organization that files Form 990 or Form 990-EZ to provide the required information about public charity status and public support.

Organizations exempt under the following Internal Revenue Code sections that are required to file Form 990 or Form 990-EZ must also file and attach Schedule A:

Section 501(c)(3) (Except Private Foundations)
Section 501(e) Cooperative Hospital Service Organizations
Section 501(f) Cooperative Service Organizations of Operating Educational Organizations
Section 501(k) Child Care Organizations
Section 501(n) Charitable Risk Pools
Section 4947(a)(1) Nonexempt Charitable Trusts that are Form 990 reporting organizations

Reason for Non-Private Foundation Status – Part I

Because 990 returns are filed by tax-exempt organizations that are *not* private foundations, the IRS wants to know the basis for the reporting organization's claim for this status. The organization must check a box indicating their reason, which is stated on the organization's exemption letter.

A medical research organization qualifies as a non-private foundation if the following conditions are met:
□□Operates in cooperation with a 501(c)(3) hospital
□□Its principal purpose is medical research
□□Devotes more than half of its assets or spends at least 3.5% of the endowment's FMV in direct medical research

The following organizations qualify for non-private foundation status because of the amount of support they receive from the public:
□□Organizations that benefit colleges and universities that are owned or operated by a government unit.
□□Organizations that receive a substantial part of their support from the general public or from a government unit.
□□Organizations that normally receive:
o more than 1/3 of their support from contributions, membership fees and gross receipts *and* o no more than 1/3 their support from investment income and unrelated business taxable income.
□□A community trust

If they have checked one of these reasons in their return, a support test (Part II of Schedule A) must be completed to substantiate this. Because non-private foundation status is based on a four year history, these organizations are required to provide four years of financial information to support their claim. Generally, an organization has satisfied the support test for the current tax year and the tax year immediately following if the organization satisfies the support test for the four tax years immediately preceding the current tax year.

Amounts reported in Form 990 and Schedule A may not be comparable. Although the organization must use the same accounting method to calculate all amounts in Schedule A as it used in Form 990, other differences may arise. The Support Schedule in Schedule A's Part II requires the reporting of "Tax revenues levied for the organization's benefit and either paid to it or expended on its behalf" as an amount that is used to calculate support on Line 2. Line 3 asks for the value of services or facilities furnished by a governmental unit without charge. These amounts must be included on Schedule A whether or not they are reported as revenue or elsewhere in Form 990.

Schedule B – Schedule of Contributors

Schedule B provides additional information on contributions (both tax deductible and non-tax deductible) reportable on Line 1, Part VIII , "Contributions, gifts, grants, and Other Similar Amounts"" of Form 990. It is used by all organizations required to file Form 990, 990-EZ and Form 990-PF. The purpose of Schedule B is threefold:

- Part I: to report names and addresses of contributors of $5,000 or more
- Part II: to provide descriptions, fair market values and dates received of donated noncash property
- Part III: to provide information about gifts to Section 501(c)(7), (8), or (10) Organizations

The General Rule

Generally, an organization filing Form 990, 990-EZ or Form 990-PF must also file Schedule B if it receives $5,000 or more (in cash or property) from any one contributor. Both Part I, which asks for donor names, addresses, and amounts, and Part II, which asks for descriptions of noncash donations, must be completed by the organization covered by the General Rule. If a contributor made multiple gifts, the reporting organization need only add gifts of $1,000 or more to determine if the total is $5,000.

The general rule applies to Section 501(c)(7),(8), or (10) organizations for contributions not exclusively for charitable purpose (i.e. religious, charitable, scientific, literary, or educational purposes, or the prevention of cruelty to children or animals). Schedule B must be completed and contributions of $5,000 or more must be reported in Part I and Part II (whether cash or noncash).

Special Rules

Section 501(c)(3) organizations that meet the 33 1/3% support test must complete Schedule B only when they receive the greater of $5,000 or 2% of the organization's total support (total support is on line 1d of Form 990) for the year from any one contributor.

Special rules apply to Section 501(c)(7),(8), or (10) organizations for contributions exclusively for charitable purposes. Schedule B, including Parts I, II (if applicable), and Part III must be completed for contributions of more-than $1,000 during the year. Part III is used to provide further information on contributions and show the total of contributions that were $1,000 or less.

If the organization did not receive a contribution of more than $1,000 for exclusively charitable purposes, they need only check the applicable Special Rules box (first page of Schedule B) and report the total amount of contributions received.

Only 501(7), (8), and (9) organizations can be covered by both the General Rule and the Special Rule

Requirements for Tax-Deductible Contributions

Organizations must:

- Keep records that show which portion of a contribution is tax deductible and which is not if a portion of the payment covers the cost of goods or services received by the donor.
- Keep sample copies of fundraising materials.
- Provide acknowledgments of donations of $250 or more because donors cannot take a deduction unless they obtain written confirmation for the donation
- Must provide a written "disclosure statement" to the donor for a quid pro quo (i.e. something in return for another) donation of more than $75. The disclosure statement requirement is in addition to the written acknowledgment needed for deductibility purposes. No disclosure statement is required if the organization gave something of "insubstantial" value, certain membership benefits, or an intangible religious benefit.

Examples

Mr. Taxpayer made a donation to a charity and received a booklet valued at $7 in return. No disclosure statement is required because the booklet is of an insubstantial value.

Mr. Theatregoer paid $150 for theater tickets that have a retail value of $75. Only $75 is tax deductible because this is a quid pro quo transaction and he received something of value in return.

Note:

If the donee received a benefit in return for a donation, the amount of the benefit is not tax deductible. For example, the right to purchase tickets to an athletic event is generally valued at 20% of the payment (IRS Publication 526, 2011)

Example:

If Mr. Footballfan donates $400 to his alma mater which then enables him to purchase football tickets, 20% or $80 is not deductible. The tax deductible amount of his donation is limited to $320.

Solicitations of Nondeductible Contributions

Fundraising solicitations by organizations that are not eligible to receive tax-deductible contributions must include a statement that clearly indicates that contributions are not deductible for federal income purposes. The statement must be easily recognizable whether the solicitation is made in writing, on the radio or television, or by telephone.

Summary

The IRS has clear, concise, and detailed online instructions for all forms and schedules related to Form 990 and is subjecting tax exempt organizations to greater scrutiny and accountability than in the past. Many tax exempt organizations or "nonprofits" generate substantial surpluses which are exempt from income tax. Form 990 is the IRS's method of collecting financial data on the organizations which contribute so much to our society

END

APPENDIX 1
GLOSSARY

Affiliated With – closely related to. Two organizations are affiliated if one is bound by the other's decisions on legislative issues (control) or if enough representatives of one belong to the other's governing board to cause or prevent action on legislative issues
Charitable organization – organization described in section 170(c)
Conformed Copy – one that agrees with the original document and all amendments to it
Contribution Amount – the excess of the amount paid over the retail value of the goods or services received by the payer
Direct Lobbying – attempt to influence legislation through communications with government officials or their staff
Direct Public Support – contributions, gifts, grants, and bequests received directly from the public including funds received from individuals, trusts, corporations, estates, foundations, public charities, or raised by a professional fund raiser.
Disclosure Statement – donee's written statement for quid pro quo contributions in excess of $75
Disqualified Person – any person who was in a position to exercise substantial influence over the affairs of a tax-exempt organization during a 5 year period ending on the date of the transaction; also includes family members of disqualified persons.
Donee – organization that receives a donation
Employer Identification Number – a nine digit number assigned by the IRS to organizations, including all tax-exempt nonprofits
EO – Exempt Organization -organization that is exempt from federal income tax
Excess Benefit Transaction – a transaction whereby an economic benefit is provided by a tax-exempt organization, directly or indirectly, to a disqualified person and the value of the economic benefit exceeds the value of the goods or services provided by the disqualified person.
Fair Market Value or FMV – the price at which property, including the right to use property, would change hands between knowledgeable buyers and sellers in an arm's length transaction. Regulations section 20.2031-2 describe commonly accepted valuation methods.
Form 990-T – business income tax return for exempt organizations which is filed independently for organizations with gross income of $1,000 or more from ongoing business that is unrelated to its exempt purpose.
Grants That Are Equivalent To Contributions – grants that encourage the receiving organization to carry on activities or programs that further its exempt purpose
Grassroots Lobbying -any attempt to influence legislation through an attempt to affect the opinions of the general public usually by encouraging recipients of communications to take action about specific legislation
Gross Income – gross receipts less cost of goods sold
Gross Receipts For Filing Purposes– The total amount received from all sources during the annual accounting period without subtracting any costs or expenses.
Gross Receipts Test – test to determine if a section 501(c)(7) clubs qualify for tax-exempt status. Gross receipts includes only that income from usual activities
Indirect Public Support – contributions received indirectly from the public through (1)

solicitation campaigns conducted by fundraising organizations such as those of the United Way

(2) amount contributed by other organizations closely associated with the filer including parent organization, sister organization or subsidiary
Lobbying activities -An organization is engaging in lobbying activities if it contacts or urges the public to contact legislators (or their staff) with the purpose of influencing the adoption or rejection of legislation
Major Disposition of Assets – at least 25% of the fair market value of the organization's net assets at the beginning of the tax year or one of a series of related dispositions begun in earlier years that add up to at least 25% of the organization's net assets at the beginning of the tax year when the first disposition occurred.
Management & General Expense – Expenses for overall functioning and management, rather than those for fundraising or program services, includes the chief officers and officer staff salaries and expenses. If part of their time is on fundraising activities, this should appropriately allocated. Some other costs to include are: board meetings, legal services, accounting, liability insurance, personnel, auditing, annual report costs, and investment income not related to program or rental income.
Membership Dues & Fees – Members' dues and fees that are not contributions
Net Income from Special Events – Income earned from all special fund-rising events less expenses
Non charitable exempt organization – is an organization exempt under §501(c) that is not exempt under §501(c)(3) or a political organization described in §527
Not Substantially Related to – means that the activity that produces the income does not contribute importantly to the exempt purpose other than the need for income. Whether an activity contributes importantly depends on the facts involved in each case
Owns – holding 50% or more of the voting membership rights, voting stock, profits, or interest
Political Organization – a party, committee, association, fund, or other organization (whether or not incorporated) that is organized primarily to accept contributions and make expenditures in order to attempt to influence the nomination or election of an individual to federal, state, or local public office. A political organization need not be separately chartered. The opening of a bank account where political campaign funds are deposited and disbursed qualifies an organization as a political organization.
Political Expenditure – an attempt intended to influence the selection, nomination, election, or appointment of anyone to a federal, state, or local public office whether successful or not.
Personal Benefit Contract – generally, a life insurance, annuity, or endowment contract that benefits, directly or indirectly, the transferor, a member of the transferor's family, or other person designated by the transferor (other than a § 70(c) organization)
Program Services – program services represent major objectives of an organization and form the basis of an organization's exemption from tax
Program Service Revenue – revenue received for those services for which an organization received tax exemption
Proxy Tax – tax reportable on Form 990-T that must be paid if an organization fails to inform its members of the portion of their dues that are allocable to lobbying activities
Quid Pro Quo – something given or received for something else.
Quid Pro Quo Contribution – a payment that is given both as a contribution and as a

payment for goods or services rendered by the donee.
Reasonable Compensation – the valuation standard that is used to determine if there is an excess benefit transaction with a disqualified person.

Related Organization – any entity (whether tax-exempt or taxable) that the reporting organization directly or indirectly owns or controls or vice versa. Also, includes organizations that share some element of common control or where an historic and continuing relationship exists between the two.
Substantial Contraction – partial liquidation or other major disposition of assets except transfers for full consideration or distributions from current income.
Substantiation – donee's written acknowledgment substantiating a donation which is needed by the donor for deductibility purposes.
Tax-Exempt Organization – any organization that is described in §501(c) or (d) and is exempt from taxation under §501(a). The term also includes §4947(a)(1) nonexempt charitable trust or nonexempt private foundation that is subject to the reporting requirements of section 6033
Trade or Business – any activity that is carried on for the purpose of producing income from selling goods or performing services. An activity does not lose its identity as a trade or business because it is carried on within a larger group of similar activities that may or may not be related to the exempt purpose
Transfer – Any transaction or arrangement whereby one organization transfers something of value (cash, other assets, services, use of property, etc.) to another organization without receiving something of more than nominal value in return. Contributions, gifts, and grants are examples of transfers
Unrelated Business Income – gross income derived from any trade or business that is regularly carried on, and not substantially related to the organization's exempt purpose or function, aside from the need for additional income or profits
UBIT – unrelated business income tax

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