

Chapter 7

What Can You Tell From Net Assets?

We turn now to Part X (Balance Sheet) on page 11, one of the two principal financial statements contained in the Form 990. (Accountants sometimes refer to the Balance Sheet as the Statement of Financial Position.) The other principal part is comprised of Part VIII (Statement of Revenue) on page 9 and Part IX (Statement of Functional Expenses) on page 10, which together in effect comprise the Statement of Activities. See Chapters 4 and 5.

In assessing an organization's ability to meet its financial exigencies in future years¹ you can tell a lot from the Balance Sheet. Sometimes balance sheets can be complicated to analyze and unfortunately space restraints do not permit more than a quick overview. However, where the balance sheet is straightforward, which will fairly often be the case, you do not have to be an expert in accountancy to learn some significant things about the filer whose Form 990 you are examining.

To begin with, Line 16 reports total assets and Line 26 total liabilities and so right away you can see at glance whether their filer's liabilities exceed its assets in which case it may be concluded that the filer is in bad financial shape. There may be a reason for the deficit but its presence surely suggests further inquiry. However, it will rarely be the case that total liabilities will exceed total assets.

To get a quick sense of the filer's financial condition, we recommend you look at Line 27 – Unrestricted net assets. Line 27 Column B - unrestricted net assets at the end of the year – provides you with some idea of the level of unrestricted resources the filer has to start the following year with to help support its activities in the future. If it appears that the filer ended the year with relatively few liabilities needing to be satisfied in the near future, then a sizeable amount

¹ We believe that evaluating a filer's ability to meet future financial conditions – will it have sufficient income to cover estimated expenses – is one of the main purposes of analyzing financial statements, such as the balance sheet.

reported at Line 27 Column B means that the filer will likely go into the next year with a cushion. If an analysis of Part VIII (Statement of Revenue) on page 9 suggests that income for the ensuing year is likely to be strong, or at least adequate to meet predicted expenses² – a fair idea of which can be derived from Part IX (Statement of Functional Expenses)³ on page 10 – then one may conclude that in terms of financial health things look good for the filer in the near term.

What should always be of interest is whether the filer ran a surplus or deficit for the year. A filer may operate at a deficit for a particular year and still have its assets exceed its liabilities at the end of that year. Because it is on the first page of the Form 990, a reader looking to see whether the filer ran a surplus or a deficit for the year being reported on may look at the second column of Line 19 of Part I on page 1. This line reports total revenues less total expenses for the year being reported on. If revenues exceeded expenses it will mean that the filer operated at a surplus for the year, but, as explained in more detail in the next paragraph, the surplus may be accounted for in part by the receipt of what might be thought of as unusual sources of income such as multi-year grants or gifts to permanent endowments and thus may not give as reliable an indication of the filer's ability to proceed financially in the near future as can be gained by looking at Line 27 of the Balance Sheet at Part X⁴ on page 11.

By comparing Line 27 Column A - unrestricted net assets at the beginning of the year and Line 27 B - unrestricted net assets at the end of the year, one can determine what the filer's surplus or deficit was for the year uninfluenced by sources of income which may be unusual. We have in mind the receipt of multi-year grants, the whole amount of which is reported as income in the year received, although only a part of the grant may be used in that year, or the release of income from multi-year grants received in prior years which amounts are not reported in income for the year being reported on.⁵ Also in

² See Chapter 4 and Expansion on Part VIII.

³ See Chapter 5.

⁴ For example, if expenses exceeded revenues it will mean that the filer operated at a deficit for the year, but the deficit may be accounted for in part by the release of income from multi-year grants received in the past which income is not taken into account for the year being reported on and so, as suggested above, Line 19 may not give as reliable an indication of the filer's financial condition as can be gained by looking at Line 27 of the balance sheet.

⁵ Multi-year grants are included on Line 12 of Part I on page 1 and so, as suggested above, the surplus or deficit shown at Line 19 on page 1 will reflect these receipts and may give a somewhat misleading idea of the filer's financial condition.

some cases the filer may have received assets for a permanent endowment in the year being reported on. This amount will also be included in income in the year the gift is made.⁶ If the receipt of these kinds of income are considered unusual and thus as possibly giving a somewhat skewed income picture for the year being reported on,⁷ at least in terms of the filer's near-term ability to proceed in a financially secure fashion,⁸ by looking at Line 27 alone you in effect remove such income from the equation.⁹

If Line 27 Column B is greater than Line 27 Column A, it means the filer ran a surplus for the year. And a deficit if it goes the other way. If the surplus is sizable that may be taken as a sign of financial health. If you have access to the three latest Forms 990 and each year a surplus was achieved, that may be taken as more good news. Of course, deficits (where Line 27 Column A is larger than Line 27 Column B) point in the other direction. If the reader has access to the last three years of the filer's Forms 990 and observes such deficits each year, or worse, increasing deficits each year, that is likely to be reason for alarm. As mentioned, surpluses or deficits determined on the basis of Line 27 reflect how the filer ended the year without the affect of unusual sources of income and thus may be considered a more reliable predictor of the future.

In terms of assessing a filer's financial condition, it will surely be of interest if the filer reports multi-year grants at Line 28. (Line 28 also reports non-time restricted grants that were made to support specific purposes, e.g., to a produce a report). Despite the fact that such

⁶ Gifts to a permanent endowment are included on Line 12 of Part I on page 1 and so, as suggested above, the surplus or deficit shown at Line 19 on page 1 will reflect these receipts and may give a somewhat misleading idea of the filer's financial condition.

⁷ For example, if the filer received \$700,000 in what might be thought of as ordinary or usual income (representing the kind of income the filer receives year in/year out), a multi-year grant of \$300,000 (only \$100,000 of which is to be spent in the year being reported on) and a gift of \$1,000,000 for a permanent endowment, total income will equal \$2,000,000 but of this amount only \$700,000 would be what we have referred to as ordinary or unusual income. Line 12, however, would report \$2,000,000. As suggested below, for some filers multi-year grants will not be unusual.

⁸ For example as suggested in note 6 above, a large gift to a permanent endowment may cause Line 12 on Part I on page 1 to report an unusually large amount which will not be available for meeting expenses for near-term ensuing years.

⁹ Many filers will not have multi-year grants which are reported at Line 28 as temporarily restricted net assets or permanent endowments which are reported at Line 29 as permanently restricted net assets. In these cases, Line 27 tells the whole story.

income may be unusual, their presence can only be considered a good thing. Furthermore some filers may receive frequent multi-year grants. This can be told by examining the filer's Forms 990 for the past three years. These circumstances may also be taken as reflecting favorably on the filer's financial health. If multi-year grants are usual for the filer, they might well be taken into account in assessing the filer's year-end surplus or deficit as reflecting on its ability to proceed in the future in a financially secure way.

Finally, some filers have permanent endowments, reported at Line 29 as permanently restricted net assets.¹⁰ If this is so, it may be supposed that the permanent endowment is generating income which helps support some part or all of the filer's activities. And this is usually a good thing.

Net Assets or Fund Balances section from Part X of page 11:

Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.			
	27	Unrestricted net assets	27	
	28	Temporarily restricted net assets	28	
	29	Permanently restricted net assets	29	
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.			
	30	Capital stock or trust principal, or current funds	30	
	31	Paid-in or capital surplus, or land, building, or equipment fund	31	
	32	Retained earnings, endowment, accumulated income, or other funds	32	
	33	Total net assets or fund balances	33	
	34	Total liabilities and net assets/fund balances	34	

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If the filer reports endowments on Lines 28 or 29 of Part X, Part V of Schedule D may contain some interesting information. See Expansion on Endowments.

What has just been suggested should, as noted, be taken as a very general first approach. It is often the case that some of the net assets on hand at the end of the year may not be easily drawn down to meet a filer's needs or obligations. In talking about meeting the filer's needs, as suggested, we primarily refer to its near-term needs and by this we have in mind its needs for the next year or so. Obviously, in the longer-term future, if the filer became financially destitute and needed to liquidate any assets to satisfy its creditors, most of the

¹⁰ Permanently restricted assets are assets that have been given with restrictions that they be preserved and not sold. One example would be an endowment gift that stipulates that the principal of the gift is to be permanently held and that only the income that the principal generates may be currently used. Another example would be a gift of a work of art or real estate with a restriction that it be held permanently and not sold. These permanently restricted assets therefore cannot be used to meet the general near-term needs of the filer.

assets that we are suggesting are not available to meet near-term needs might well be accessible to satisfy creditor demands. These points are elaborated on below.

To conduct the more searching analysis, it is necessary to look more closely at Part X (Balance Sheet) of the filer's Form 990. Part X is divided into three sections: Assets (Lines 1 – 16), Liabilities (Lines 17 – 26) and Net Assets (Lines 27 – 34).

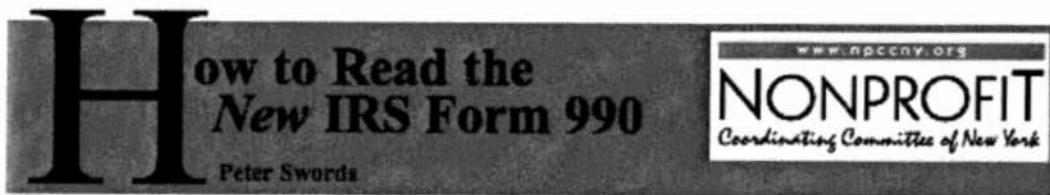
As just mentioned above, a careful reader of the Form 990 will want to look at the Assets section of Part X to find out whether any of the assets held by the filer might be difficult to readily convert to cash (i.e., might not be easily liquidated). The Assets section of Part X lists various types of assets (Lines 1 – 15) roughly in order of their relative availability for use. For example, Line 1 reports cash (immediately available to pay expenses) and Line 10 reports the value of buildings and similar assets held by the filer. A building, whether it is a permanently restricted asset or an unrestricted asset, may as a practical matter be difficult to liquidate. The same may be said about certain assets the filer holds, such as intangible assets (reported at Line 14). So in assessing a filer's net assets to determine their availability to meet near-term needs, it may be desirable to review the kinds and relative amounts of assets that the filer reports in the Assets section (Lines 1 - 15) of Part X.¹¹

Attention should also be paid to the Liabilities section of the Balance Sheet (Lines 17-26). Similar to the way assets are reported, liabilities are listed roughly in order of when they are to be paid. If the filer reports a large amount of accounts payable at the end of the year (Line 17 Column B), this may mean difficulty in the ensuing year when at least some of these debts are required to be paid. Long-term loans may be less troubling. More generally, if the filer reports large amounts of liabilities and if a comparison of several years of a filer's Forms 990 show increasing liabilities, this may reflect an unhealthy

¹¹ Line 15 reports Other assets. If the amount reported at Line 15 is 5% or more of total assets reported at Line 16, the filer is required to complete Part IX of Schedule D (Supplemental Financial Statements) where the assets are described and their book value is reported. If a sizeable amount of assets (5% or more of total assets) is reported at Line 15, to adequately understand the balance sheet, Part IX of Schedule D should be carefully reviewed.

financial situation and be taken as a reason for making further inquiry.¹²

¹² Line 25 reports Other liabilities. If an amount is reported at Line 25, regardless of the percent of total liabilities, the filer is required to complete Part X of Schedule D where the liabilities are described and their amount is reported. If a sizeable amount of liabilities is reported at Line 25, to adequately understand the balance sheet, Part X of Schedule D should be carefully reviewed.



Chapter 8

Did the Filer Engage in any Self-Dealing or Excess Benefit Transactions During the Year?

The IRS and state charity bureaus are the government agencies that provide general regulatory oversight over the nonprofit and tax-exempt sector. A primary concern of these agencies is to assure that nonprofit organizations are not used by those who control them to improperly transfer their assets to private interests in circumstances in which these assets should have been used to further the exempt purposes of the organizations. An example of such a transaction might be the sale by a board member of property he owns to the nonprofit organization on whose board he sits at a price in excess of its fair market value or the furnishing of services by the filer to a board member without charge or at a price below their market value.

These transactions may be generally described as self-dealing. (Thus, a board member in effect deals with himself when his board buys from him.) It is likely that an interested reader might be as concerned about these transactions as regulators.

These self-dealing transactions are also called excess benefit transactions and, as will be discussed below, include the payment of compensation to a key employee (say, the executive director) far in excess of what others in like positions are being paid.

Before proceeding it should be kept in mind that many self-dealing transactions may be advantageous to the filer. For example, rather than the sale by a board member of property he owns to the nonprofit organization on whose board he sits at a price in excess of its fair market value (which might be called a "malign" self-dealing transaction), the sale might be *below* fair market value to the advantage of the filer (which might be called a "benign" self-dealing transaction).

To begin an inquiry into this topic, one looks to Questions 25 a and b, 26, 27 and 28 of Part IV (Checklist of Required Schedules) at page 4 of the Form 990 proper. If any of these questions are answered "Yes," attention should be paid. (If they are all answered "No," then one may assume that probably there are no problems relating to self-dealing or excessive compensation.) When any of these questions are answered "Yes," the filer is required to complete some part of Schedule L.

Question 28 (on page 4) is the most general. Question 28a asks whether during the period covered any current (or former¹) officer, director or key employee² had a business relationship with the filer (other than as an officer, director or key employee).³ If the question is answered "Yes," the filer is required to complete Part IV of Schedule L.

Part IV of Schedule L elicits the following information:

- The name of the officer, director or key employee (referred to as the "interested person") is set out at Column a.
- The relationship between the interested person and the filer (e.g., director of the organization) is reported at Column b.
- The amount of the transaction is set out at Column c. The amount needs to be fairly substantial to be reported. Generally all payments during the year from a single transaction between an interested person and the filer need to be reported only if they exceed the greater of \$10,000 or 1% of the filer's total revenues. And in the case of multiple transactions with an interested person (all less than \$10,000) the amount must be reported only if the aggregate exceeds \$100,000.
- A description of the transaction is reported at Column d. The Instructions to Schedule L give as examples of such transactions the rental of property or the sale of assets. Recently a new Part V has been added to Schedule L where

¹ See Chapter 6 on the relevance of inquiries about former directors, etc.

² Generally the term "key employee" is defined as those who are not officers (or directors) who make over \$150,000 a year and have significant management responsibilities. See Chapter 6 for a further definition of the term "key employee."

³ Question 28b asks whether during the period covered any current (or former) officer, director or key employee had a family member who had a direct or indirect business relationship with the filer. If the question is answered "Yes," the filer is required to complete Part IV of Schedule L. Question 28c asks whether during the period covered any current (or former) officer, director or key employee served as an officer, director, trustee, key employee, partner, or member of an entity (or a shareholder of a professional corporation) doing business with the filer. If the question is answered "Yes," the filer is required to complete Part IV of Schedule L.

the filer can provide additional information to questions on Schedule L.⁴ It is here that the filer is given the opportunity to explain whether a transaction was advantageous or disadvantageous to the filer. For example, a sale by an interested person (e.g., a director) might have been below market value and thus advantageous to the filer and this would be obvious interest to the reader. Of course, the filer may not have explained the transaction. Doing so is optional. If the amount reported at Column c is large, and nothing is reported at Part V, it may motivate the reader to make further inquiry to find out whether the transaction was favorable (benign) or unfavorable (malign)⁵ to the filer.

- Finally Column e of Part IV asks whether part or all of the consideration paid by the filer to an interested person was based on a percentage of revenues of the organization. The Instructions give an example of a management fee based on a percentage of revenues of the filer. While arrangements where consideration is based on a percentage of the filer's revenues can be entirely acceptable, this is an area where abuse can occur and the reader may want to seek further information.

We now consider the other questions mentioned above. Question 25a of Part IV on page 4 asks whether the filer engaged in an excess benefit transaction with a disqualified person and if the answer is "Yes" requires the filer to complete Part I of Schedule L. "Disqualified persons" are persons like directors, officers and key employees or persons with substantial influence over the filer. An excess benefit transaction, generally, is one where a disqualified person receives more from the filer (say, compensation) than the worth of what s/he gave back in return (say, services). These transactions are addressed under section 4958 of the Code. See the Expansion on Section 4958. Question 25b asks whether the filer became aware that it had engaged in an excess benefit transaction with a disqualified person in a prior year. As excess benefit transactions are impermissible and reflect abuse, if either of these sub-questions is answered "Yes," the reader

⁴ Here is what the Instructions to Part V say in part: "Use Part V if the organization needs additional space to explain a transaction or provide additional information."

⁵ If the transaction was unfavorable to the filer, it may have been an excess business transaction and reported at Part I. See Expansion on section 4958 where excess business transactions are explained. It may, however, be doubted that a filer would report a transaction as an excess benefit transaction as such transactions are penalized and are in some sense unlawful and so the transaction would likely be reported at Part IV and nothing would be said about it at Part V.

should take note. And if either of these sub-questions is answered "Yes," the filer must complete Part I of Schedule L. Line 1 Column a of Part I on Schedule L lists the name of the disqualified person and Column b elicits the description of the excess benefit transaction. Column c asks whether the excess benefit transaction has been corrected (a yes and no box are provided). If an excess benefit transaction has occurred, the disqualified person, to avoid a very large tax, must correct the transaction by, in effect, giving the excess amount back to the filer. Line 2 reports the tax imposed on the disqualified person and Line 3 reports the amount of tax, if any, reimbursed by the filer.⁶

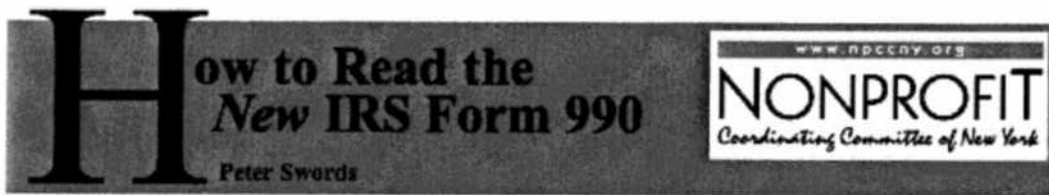
Question 26 asks whether a loan was made to or by the filer to or by a current (or former) officer, director, key employee, highly compensated employee⁷ or disqualified person⁸ as of the end of the filer's tax year. If so, Part II of Schedule L, eliciting information about the loan, is to be completed. Some states prohibit loans to directors and employees (e.g., NY) and others do not. In any event, the reader may raise an eyebrow if the question is answered "Yes."⁹

⁶ The reimbursement of a section 4958 tax is itself an excess benefit transaction.

⁷ Generally highly compensated employees are those employees (other than directors, officers, or key employees) who are among the five highest paid employees who received reportable compensation of more than \$100,000 from the filer or related organizations. See Chapter 6 for a more complete definition of "highly compensated employee."

⁸ See discussion above regarding Question 25 and excess benefit transaction for the definition of "disqualified person."

⁹ Question 27 asks whether the filer provided a grant or other assistance regardless of amount to an officer, director, or key employee or substantial contributor during the filer's tax year. Other assistance includes the provision of goods, services or the use of facilities. A substantial contributor generally is one who contributed at least \$5,000 during the filer's tax year. If Question 27 is answered "Yes," the filer is to complete Schedule L, Part III.



Chapter 9

Is the Filer a Public Charity or Private Foundation?

All section 501(c)(3) nonprofits are either private foundations or non-private foundations. The term "private foundation" is a technical term and relates to the kind of nonprofit an organization is and the nature of its support and not to the fact it is a philanthropy. (We will refer to a non-private foundation as a "public charity.") This distinction between private foundation and public charity is important since, from a nonprofit's standpoint, it is usually undesirable to be a private foundation. For example, as noted below, there are some significant limits on making contributions to private foundations, and private foundations are generally prohibited from doing any lobbying and must pay a small excise tax on net assets.

The distinction can also be significant for those who wish to find out about nonprofits. For most 501(c)(3) nonprofits, the fact that they have qualified as public charities means that they receive support (mostly financial) from a wide, or at least fairly wide, range of private sources and government agencies. And, groups that receive financial support from many sources are usually thought well of by many people and this is surely something important to know about a nonprofit that one is evaluating. Furthermore, the fact that many support a group usually means that a good number are to some degree monitoring its activities and this may provide comfort to those considering supporting the organization.

Thus, a reader of the Form 990 may want to know whether the filer is a private foundation or public charity. Question 1 of Part IV of the core Form 990 on page 3 asks, in effect, whether the filer is a public charity and if so directs the filer to complete Schedule A. Part I of Schedule A shows whether the filer is a private foundation. It provides a number of lines (Lines 1-11) with brief descriptions of different kinds of entities, each of which is not a private foundation. The filer is instructed to check the box that applies to it. By reviewing Part I, one

can determine whether the filer is a public charity, and, if so, what kind of public charity it is.

Schedule A, Part I:

SCHEDULE A (Form 990 or 990-EZ)	Public Charity Status and Public Support Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust. ▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.	OMB No. 1545-0047 <div style="border: 1px solid black; padding: 5px; text-align: center;"> 2010 Open to Public Inspection </div>
Department of the Treasury Internal Revenue Service	Name of the organization	Employer identification number

Part I Reason for Public Charity Status (All organizations must complete this part.) See instructions.

- The organization is not a private foundation because it is: (For lines 1 through 11, check only one box.)
- 1 A church, convention of churches, or association of churches described in section 170(b)(1)(A)(i).
 - 2 A school described in section 170(b)(1)(A)(ii). (Attach Schedule E.)
 - 3 A hospital or a cooperative hospital service organization described in section 170(b)(1)(A)(iii).
 - 4 A medical research organization operated in conjunction with a hospital described in section 170(b)(1)(A)(iii). Enter the hospital's name, city, and state:
 - 5 An organization operated for the benefit of a college or university owned or operated by a governmental unit described in section 170(b)(1)(A)(iv). (Complete Part II.)
 - 6 A federal, state, or local government or governmental unit described in section 170(b)(1)(A)(v).
 - 7 An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in section 170(b)(1)(A)(vi). (Complete Part II.)
 - 8 A community trust described in section 170(b)(1)(A)(vii). (Complete Part II.)
 - 9 An organization that normally receives: (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975. See section 509(a)(2). (Complete Part III.)
 - 10 An organization organized and operated exclusively to test for public safety. See section 500(a)(4).
 - 11 An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2). See section 509(a)(3). Check the box that describes the type of supporting organization and complete lines 11e through 11h.

a <input type="checkbox"/> Type I	b <input type="checkbox"/> Type II	c <input type="checkbox"/> Type III—Functionally integrated	d <input type="checkbox"/> Type III—Other
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 - e By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2).
 - f If the organization received a written determination from the IRS that it is a Type I, Type II, or Type III supporting organization, check this box
 - g Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?

(i) A person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the supported organization?	Yes	No
(ii) A family member of a person described in (i) above?	11g(ii)	
(iii) A 35% controlled entity of a person described in (i) or (ii) above?	11g(iii)	

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1-9 above or IRC section (see instructions))	(iv) Is the organization in col. (i) listed in your governing document?		(v) Did you notify the organization in col. (i) of your support?		(vi) Is the organization in col. (i) organized in the U.S.?		(vii) Amount of support
			Yes	No	Yes	No	Yes	No	
(A)									
(B)									

Generally, there are three types of public charities (i.e., non-private foundations). First, there are those entities that are *per se* public charities because of their very nature and that do not have to show a wide base of public support (a specially defined term explained below), such as churches (Line 1), schools (Line 2) and hospitals (Line 3). Second, there are those groups that are not *per se* public charities but

are public charities because they do receive broad public support (Lines 7 and 9). Finally, there are those groups that may not receive wide public support but are supporting organizations to groups that are public charities (Line 11). (Part I also lists (Lines 4, 5, 6 and 10) several other kinds of groups (e.g., a government unit, community trust, etc.) that are not private foundations. Because they are fairly uncommon, to save time we will not cover them. Information can be found about these groups in the Instructions to Schedule A's Part I.)

Most filers are the second type of public charity, namely, those that receive broad public support and check the box at either Line 7 or Line 9. For a group to so qualify as a public charity, a fair amount of its support must be "public support." The question of what constitutes public support is quite complicated in its details. For our purposes, a general idea of what the term means will suffice. There are two kinds of public charities that qualify under this category. For one kind (which is described under section 509(a)(2) of the Code), public support includes contributions from individuals, grants from government agencies and exempt function income. (Exempt function income includes such items as tuition or ticket sales). For the other kind (which is described under section 509(a)(1) of the Code), public support includes contributions from individuals and grants from government agencies, but not exempt function income. In both cases, for contributions to qualify as public support, they cannot be too large. These rules are elaborated upon later in this chapter.

Part II of Schedule A on page 2 is where a filer shows the nature and amount of its support. It does so for the past five years. The key line to look at is Line 14 that shows the public support fraction based on an average for the past five years. The public support fraction is the percentage of a filer's total support made up by public support. Generally, the public support fraction must be more than one-third for a group to qualify as a public charity (although in some cases it can be lower). Obviously, the higher the public support fraction or percentage, the broader the support the filer has received and, consistent with what was said above about the depth of an organization's support, this fraction may be of real interest to the reader of the Form 990. (For those who want to derive more information and insight on Part II, the Instructions provide a good guide.)

More about Private Foundations

Some of what follows repeats what has been said above but provides

more detail for the interested reader.

In the late 1960s, Congress introduced the private foundation rules into the Internal Revenue Code. Congress was concerned that some charities were controlled by only a few people who were using these groups to improperly advance their private interests. In these circumstances, such charities were abusing their exempt status. Generally, under the private foundation rules, section 501(c)(3) groups that receive support from relatively few sources are deemed to be private foundations, and private foundations are more closely regulated than those 501(c)(3) groups that are not private foundations. Usually, these latter groups, which we call public charities in this text, are 501(c)(3) groups which receive broad public support.

Generally, if a group is deemed to be a private foundation, philanthropies will be less likely to make grants to it. Furthermore, individuals are less likely to contribute to private foundations real and tangible property and securities not listed on a public market. In addition, private foundations must pay a small excise tax on their investment income. Private foundations are also subject to strict self-dealing rules and subject to a virtual prohibition on lobbying activities. All charities that are exempt from federal income taxation under section 501(c)(3) of the Code are then *classified* as public charities or private foundations pursuant to section 509 of the Code. As just noted, classification as a public charity or private foundation may be of critical importance to donors of every kind. 501(c)(3) groups that qualify under subsection 509(a)(1), (2) or (3) of the Code are not private foundations.¹ (Otherwise stated, they are public charities.)

509(a)(1) groups are divided into (1) what we refer to as *per se* organizations, namely, schools, churches, and hospitals, and (2) those organizations which normally receive a substantial part of their support from what is referred to as public support. For the latter group, public support consists of support from governmental agencies and community foundations and contributions from the general public to the extent that they do not exceed 2% of total support. In effect a fraction is set up, called the public support fraction, and if the public support fraction is 1/3rd or more, the group passes the "mechanical" public support test and needs show no more. If, however, the group has a public support fraction of more than 10% but less than 33 1/3%,

¹ A 501(c)(3) group that qualifies as a public charity under subsection 509(a)(1), (2) or (3) is still a 501(c)(3).

and it can show sufficient "facts and circumstances" pointing to its public nature, such as conducting a program to garner broader public support, having a board made up of governmental officials and letting its facilities be used by the public, it will pass the public support test and qualify as a 509(a)(1) group. Note that for 509(a)(1) groups, exempt function income (e.g., income from tuition or ticket sales) and capital gains are excluded from both the numerator and denominator of the public support fraction. Unusual grants, such as a one-time start-up grant, are also excluded from the numerator and denominator of the public support fraction. As noted above, organizations that are public charities under 509(a)(1) check the box at Line 7 of Schedule A's Part I.

509(a)(2) groups are organizations that normally receive a substantial part of their support from exempt function income, grants from governmental agencies and contributions from the public. Here are some of the ways a 509(a)(2) differs from a 509(a)(1) group: For a 509(a)(2) group, the numerator of the public support fraction includes gross receipts from exempt function income in both the numerator and denominator. Note, however, that if any such exempt function receipt exceeds \$5,000 or 1% of total support for the year, it will not be included in the numerator to the extent of such excess. (Exempt function income refers to income a filer receives for performing its exempt function, such as a school charging tuition or a theatre selling tickets, or a social service group charging fees for its services.) Furthermore, the public support fraction must equal at least 33 1/3%, i.e., no 10% "facts and circumstances" test is available. In addition, investment income plus certain net unrelated business income for a 509(a)(2) group cannot exceed 33 1/3% of support. Finally, for a 509(a)(2) group, contributions from "disqualified persons" are not included in the numerator. Disqualified persons include directors and officers or family of such persons and "substantial contributors." A substantial contributor is anyone who has contributed an aggregate amount of more than \$5,000 if such amount is more than 2% of total contributions received by the organization before the close of its fiscal year. Note that it is 2%, etc., of all contributions ever received by the organization rather than 2% total of support received during the taxable year, as is the case under 509(a)(1). As noted, organizations that are public charities under 509(a)(2) check the box at Line 9 of Schedule A.

We have noted that so long as an organization *normally* receives the right amount of public support, it will qualify as a public charity. An organization will be considered as normally receiving such support for

its current year and the next one if, for the five years immediately preceding the current year, it met the applicable public support test.

Schedule A Part II:

Part II Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)
 (Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support

Calendar year (or fiscal year beginning in) ▶	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
1 Gifts, grants, contributions, and membership fees received. (Do not include any "unusual grants.")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 Total. Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 Public support. Subtract line 5 from line 4.						

Section B. Total Support

Calendar year (or fiscal year beginning in) ▶	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
11 Total support. Add lines 7 through 10						
12 Gross receipts from related activities, etc. (see instructions)					12	
13 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and stop here ▶ <input type="checkbox"/>						

Section C. Computation of Public Support Percentage

14 Public support percentage for 2010 (line 6, column (f) divided by line 11, column (f))	14		%
15 Public support percentage from 2009 Schedule A, Part II, line 14	15		%
16a 33 1/3% support test—2010. If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ▶ <input type="checkbox"/>			
b 33 1/3% support test—2009. If the organization did not check a box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ▶ <input type="checkbox"/>			
17a 10%-facts-and-circumstances test—2010. If the organization did not check a box on line 13, 16a, or 16b, and line 14 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts-and-circumstances" test. The organization qualifies as a publicly supported organization ▶ <input type="checkbox"/>			
b 10%-facts-and-circumstances test—2009. If the organization did not check a box on line 13, 16a, 16b, or 17a, and line 15 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts-and-circumstances" test. The organization qualifies as a publicly supported organization ▶ <input type="checkbox"/>			
18 Private foundation. If the organization did not check a box on line 13, 16a, 16b, 17a, or 17b, check this box and see instructions ▶ <input type="checkbox"/>			

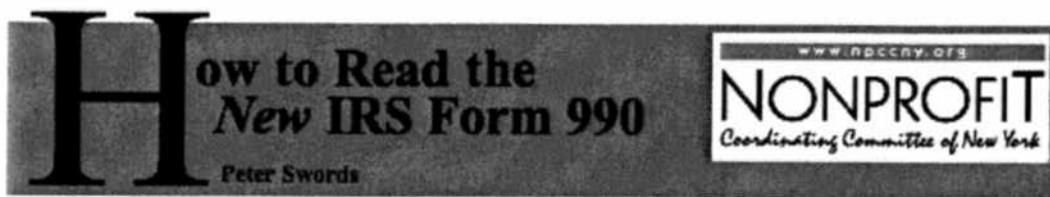
Part II of Schedule A by columns and rows shows the nature of support the filer qualifying under 509(a)(1) has received for the past five years. Line 14 reports the filer's public support fraction (percentage). If it is 33 1/3% or higher, the filer can be assured of being a public charity for the next two years. If the filer's public support fraction is 10% or more but less than 33 1/3%, but claims to have passed the "facts and circumstances" test, it will mark the box at Line 17 and explain in Part IV of Schedule A how it met the "facts and circumstances" test. In these circumstances the filer can also be assured of being a public charity for the next two years.

Similar to Part II of Schedule A, Part III by columns and rows shows the nature of support the filer qualifying under 509(a)(2) has received for the past five years. Line 14 reports the filer's public support fraction (percentage). If it is 33 1/3% or higher the filer can be assured of being a public charity for the next two years. Recall that for the 509(a)(2) there is no "facts and circumstances" test.

As noted above, a high public support fraction means that the filer receives support from a wide variety of public sources and a reader may take this as an indication of broad support for the group.

In terms of avoiding private foundation status, it doesn't really matter whether a 501(c)(3) qualifies as a 509(a)(1) or a 509(a)(2). 509(a)(1) has the advantage of not having to meet the 33 1/3% public support test. Since, if a group has a public support fraction of at least 10% and meets the facts and circumstances test, it will qualify as a public charity. On the other hand, if a group with a good amount of exempt function income, such as a theater will receive from ticket sales, it might qualify under 509(a)(2), since 509(a)(2) takes into account exempt function income into the equation.

509(a)(3) groups, called supporting organizations, are attached to 509(a)(1) or (a)(2) groups. Generally, these groups must be set up to benefit and must be controlled by the supported organization, i.e., the 509(a)(1) or (a)(2) groups to which they are attached. 509(a)(3) groups do not need to meet any public support test and at the same time enjoy all the advantages of a public charity.



Chapter 10

Does the Filer Lobby? & About the 501(h) Election

A number of nonprofit groups advocate for changes in public policy and as part of their advocacy efforts engage in lobbying. The term "lobbying" refers to attempts to influence legislators (or those who work with them) or to support or oppose the enactment of some legislation. It may be done by directly contacting legislators (direct lobbying) or by asking others to contact them (grassroots lobbying). Organizations exempt under section 501(c)(3) are permitted to engage in some lobbying, but if they do too much they may jeopardize their tax-exemption. Line 4 of Part IV (Checklist of Required Schedules) page 3 asks whether the filer engaged in lobbying activities. If the filer answers "Yes," it must complete Schedule C, Part II.

Thus, if a reader of a filer's Form 990 wanted to know more about the filer's lobbying activity, she could do so by reviewing Part II of Schedule C. There are several reasons why a reader may be interested in learning whether a filer has engaged in lobbying activity. The reader may think, for example, that groups like the filer ought not only help people but in addition should advocate for changes that will address the problems that caused its clients to need help. Or a reader might have different ideas and believe that groups like the filer ought to stay completely clear of the political process and thus not engage in lobbying activity. In some cases a filer may be a group that advocates for a position or positions with which the reader disagrees. She may then want to know the extent of its lobbying activity.

Organizations complete Part II-A of Schedule C if they have chosen, under section 501(h), to have the question of whether they have engaged in a permissible amount of lobbying decided by how much they spend on lobbying. Groups who have not so chosen the 501(h) election must complete Part II-B. (See below for more about the section 501(h) election.) For those filers who have completed Part II-A, a reader, by examining this part, can learn the total amount the

filer spent on lobbying (Line 1c) and of this total amount, how much was spent on grassroots lobbying (Line 1a) and how much on direct lobbying (Line 1b). Lines 2c and f of Part II-A also report these amounts for the past four years. By subtracting the amount reported at Line 2f (grassroots lobbying expenditures) from the amount reported at Line 2c (total lobbying expenditures) you determine the amount of direct lobbying expenditures for the year in question.

As noted, those organizations that have not chosen to have the question of whether they have engaged in a permissible amount of lobbying decided by how much they spend on lobbying must complete Part II-B of Schedule C. By examining this part a reader can learn a fair amount about the filer's lobbying activities, including whether it used volunteers, paid staff, media advertisements and the like.

Organizations exempt under section 501(c)(3) are prohibited from participating or intervening in any campaign on behalf of, or in opposition to, any candidate for political office, and, if they do so, a 10% tax is imposed on such activities. Part I-B of Schedule C reports the amount of such tax paid, if any.

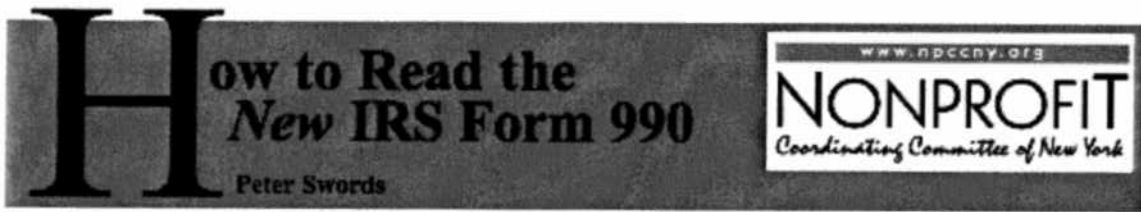
More about Section 501(h) Election

For an organization to remain eligible for tax-exempt status under section 501(c)(3), it must not engage in too much lobbying activity. Section 501(c)(3) provides in relevant part that an organization shall be eligible for tax-exemption so long as "... no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in subsection (h))...". Since under the "no substantial part" test there is very little guidance to help section 501(c)(3) organizations know what is too much lobbying, in 1976 the Congress added subsection (h) to section 501. Subsection (h) generally allows section 501(c)(3) organizations to elect to have the question of whether they are engaging in too much lobbying decided on the basis of how much money they spend on lobbying, i.e., the level of their lobbying expenditures. We will refer to this election as the "(h) election." Generally, section 501(c)(3) organizations are permitted under the (h) election to spend up to 20% of the first \$500,000 of their budget on lobbying and reduced percentages of budget amounts above \$500,000 with an overall cap of \$1 million. Of the permissible amounts, only 25% may be spent on grassroots lobbying. Generally, grassroots lobbying involves contacting members of the general public and urging them to,

in turn, contact legislators to urge the legislator to act favorably or unfavorably on some proposed legislation.

The (h) election provides very clear guidance as to what is and is not lobbying. Its rules are liberal in the sense of characterizing activity which might be considered lobbying if a group has not made the election, as not constituting lobbying.

Many close observers of the nonprofit sector think that groups that do lobbying at any significant level are well advised to make the election. It appears, however, that few have done so.



Expansion: Section 4958 (the "Intermediate Sanctions" Rule)

Since the mid-1990s, an Internal Revenue Service rule addressing the problem of improper payments to certain individuals has been in effect. This rule is sometimes referred to as the "intermediate sanctions" rule. Before this rule about the only sanction the IRS had when a section 501(c)(3) improperly transferred assets to a private interest was to revoke its exemption. In many cases this was believed to be too extreme. The new rule provides a sanction between doing nothing and revoking an organization's tax-exemption.

This rule, prescribed under section 4958 of the Code, imposes a tax on "disqualified persons" on the "excess benefit" they have received from an "excess benefit transaction." A tax is also imposed upon board members who approved the transaction knowing it was an excess benefit transaction. An excess benefit transaction is one in which a disqualified person receives more from a section 501(c)(3) organization than she provides to the organization.

Thus, if a 501(c)(3) nonprofit organization provides its executive director with a compensation package that is far higher than that received by other persons in comparable organizations in the same geographical area who are performing services comparable to those performed by the executive director, it may be found that the executive director has been paid an unreasonable or excessive compensation and a tax may be imposed on the executive director under section 4958 of the Code. Generally the tax will be on the amount of the compensation package that was excessive. In some cases a tax will also be imposed upon members of the board of the nonprofit who approved the compensation package. An excessive compensation payment is called an "excess benefit transaction" under 4958.

As will be explained below, a payment of excessive compensation is just one kind of excess benefit transaction. For anyone reviewing a filer's Form 990 to determine what it reveals about the filer's performance, it will be of obvious interest to learn that the filer has engaged in an excess benefit transaction. Line 25a in Part IV on page 4 asks whether the filer engaged in

any excess benefit transaction during the year and Line 25b asks whether it became aware of any excess benefit transaction for a prior year. If the filer answers either of these questions "Yes," it must complete Schedule L. (Schedule L is discussed in Chapter 8.)

Here is a hypothetical example. Suppose a 501(c)(3) organization pays its executive director \$500,000 when the compensation for persons in comparable positions in the same geographical area is \$300,000. The executive director would be a disqualified person, and if the IRS determined that an excess benefit transaction had occurred, a tax of 25% on the excess benefit (viz., \$50,000) would be imposed on the executive director. If the executive director did not return the \$200,000 to her organization on the earliest of the date she was notified of the tax or the date when the 25% tax was assessed, she would be subject to a second-tier tax of 200% (viz., \$400,000). Each board member who approved the compensation knowing it was an excess benefit transaction would be subject to a tax of 10% (\$20,000). There would be no second-tier tax on board members.

A "disqualified person" is defined as any person who is in a position to exercise substantial influence over the affairs of the organization. The Treasury Regulations under section 4958 define disqualified persons as including (1) board members, (2) presidents, chief executive officers or chief operating officers, (3) treasurers and chief financial officers, and (4) those others whose facts and circumstances tend to show have substantial influence over the affairs of the organization.

What constitutes excessive or unreasonable compensation? For this question the Treasury Regulations under section 4958 are helpful. Here is what they say about reasonable compensation:

The value of services is the amount that would ordinarily be paid for like services by like enterprises (whether taxable or tax-exempt) under like circumstances (i.e., reasonable compensation). Treas. Regs. §53.4958-4(b)(1)(ii).

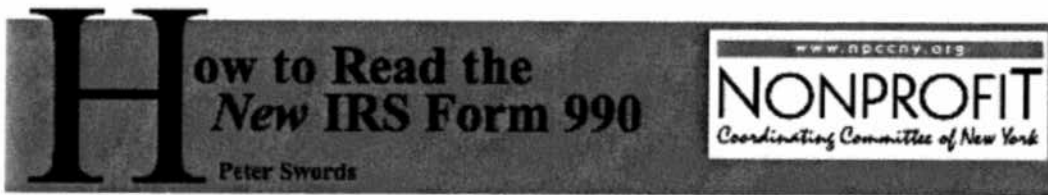
Thus, generally speaking, to determine whether someone's compensation is reasonable, a comparison should be made of the compensation being paid to persons doing similar jobs in similar enterprises in the same geographical area.

If compensation is listed at Part VII of the Form 990 on page 7 which appears to a reader to be so high as to raise some question as to whether it might be excessive, it is likely that the filer may have developed some documentation supporting the compensation's reasonableness in order to

comply with safe-harbor provisions (mentioned immediately below) of the 4958 regulations. A reader could request to see this documentation. It may be that the organization would comply with her request. It would not be legally required to. But such failure to comply in itself may be significant to the reader. Under the section 4958 Treasury Regulations, compensation arrangements between an organization and a disqualified person are presumed to be reasonable if the following conditions are satisfied. First, the board or a committee of the board has approved in advance the compensation without the disqualified person taking part in the vote. Second, the governing body awarding the compensation relied upon data as to comparable salaries. And third, the board adequately and contemporaneously with its decision documented the basis for its compensation award. Thus, as suggested, documentation supporting the compensation's reasonableness may be available.

A reader of the Form 990 may be interested in compensation information generally not to determine whether a filer has paid anyone excessively. For example, a nonprofit may be canvassing a number of similar organizations to learn what they are paying their respective executive directors. This has become an easy task now that organizations' Forms 990 are available on the internet. Furthermore, if any one or more of these organizations had prepared the documentation just described and were willing to share it with others, it would be very helpful for this inquiry.

The payment of excessive compensation is not the only type of excess benefit transaction. Any payment by a 501(c)(3) nonprofit to a disqualified person in which the nonprofit organization gets back from the disqualified person less in value than it paid the disqualified person would be an excess business transaction. Thus, many self-dealing transactions between board members and the nonprofits on whose board they sit may be excess benefit transactions. For example, if a board member sells a building to his nonprofit for \$700,000 whose fair market value at the time of sale was only \$400,000, this would be an excess benefit transaction and presumably a tax would be imposed on the \$300,000 excess benefit. Self-dealing transactions are discussed at Chapter 8.



Expansion: Endowments

Part V (Endowment Funds) of Schedule D (Supplemental Financial Statements) includes information on the filer's endowments. As shown in Chapter 7, Part X (Balance Sheet) contains some information on endowments. Schedule D's Part V provides additional information on endowments – information that was not elicited in Forms 990 before its expansion in 2008.

Part V of Schedule D:

Part V Endowment Funds. Complete if the organization answered "Yes" to Form 990, Part IV, line 10.						
	(a) Current year	(b) Prior year	(c) Two years back	(d) Three years back	(e) Four years back	
1a Beginning of year balance						
b Contributions						
c Net investment earnings, gains, and losses						
d Grants or scholarships						
e Other expenditures for facilities and programs						
f Administrative expenses						
g End of year balance						
2 Provide the estimated percentage of the year end balance held as:						
a Board designated or quasi-endowment ▶ _____ %						
b Permanent endowment ▶ _____ %						
c Term endowment ▶ _____ %						
3a Are there endowment funds not in the possession of the organization that are held and administered for the organization by:						
(i) unrelated organizations					Yes	No
(ii) related organizations					3a(i)	3a(ii)
b If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?					3b	
4 Describe in Part XIV the intended uses of the organization's endowment funds.						

Generally, endowments are funds set aside to generate income that will be used to support the filer. Schedule D reports on three types of endowments: (1) permanent endowments, (2) term endowments and (3) quasi-endowments or board-restricted endowments.

Permanent endowments – Permanent endowments are the funds that are set aside (the principal) to be held in perpetuity with the income generated from the principal being used to support the filer.¹

¹ Here is how the Instructions to Schedule D define the term permanent endowment: "Permanent (true) endowments are funds maintained to provide a permanent source of income, with the stipulation that principal must be invested and kept intact in perpetuity. While only the income generated can be used by the organization." The Glossary to the Instructions defines the term this way: "Endowment funds that are

What constitutes income is a vexing and complicated question. For these purposes (and this goes for what will be said about term endowments below) income refers at least to the income generated by investing the principal, such as interest and dividend payments. It may also include the gains (realized or unrealized) on the principal's underlying investments. What income means depends, of course, on what the donor of the endowment specified in the gift instrument and it may also depend on state law. Where the gift instrument is silent on the subject, some states now allow boards to appropriate from an endowment fund whatever portion of the fund they deem prudent where for these purposes the duration and the goal of preservation of the endowment fund is a principal constituent of prudence. Permanent endowments can be established to provide the filer (in perpetuity) with general support or for some specific purpose, such as to help (in perpetuity) to provide financing for a scholarship. As noted in Chapter 7, permanent endowments are reported at Line 29 (permanently restricted net assets) of the Balance sheet at Part X of the core Form 990.

Generally a permanent endowment is a good thing. It may supply a steady source of income year after year. If the permanent endowment is large, it may generate a fair amount of income. You can ascertain the size of a permanent endowment by looking at the amount reported at Line 29(B) of Part X of the core Form 990.² There is no way of telling for what purposes the income from the permanent endowment is to be used, for example, whether the income is to be used for general support or to support a specific component of the filer's activities, such as a scholarship. Of course, if the income is to be used to support a specific component of the filer's activities, to the extent of that support, general support income need not be allocated to the component and is thus presumably available for general support.

Term endowments – Term endowments are funds that are set aside (the principal) to be held for a period of time (determined by the

maintained to provide a permanent source of income with the stipulation that the principal be invested and kept in tact in perpetuity while only the income generated can be used by the organization. See SFAS 117.” Here is SFAS 117's definition: “Endowment funds generally are established by donor-restricted gifts and bequests to provide a permanent endowment, which is to provide a permanent source of income The principal of a permanent endowment must be maintained permanently – not used up, expended or otherwise exhausted – and is classified as permanently restricted net assets.”

² You can also determine the size of a permanent endowment by multiplying the percent reported at Line 2b of Part V of Schedule D by the amount reported at Line 1g of Part V.

donor) with the income generated from the principal being used to support the filer.³ For example, a term endowment might involve a gift that provides that the endowment be maintained for the life of the donor with the income being spent to provide general support to the filer and that the principal revert to the filer as unrestricted assets on the donor's death. Or a term endowment might be a gift to an endowment stipulating that the income generated by the endowment be used to support a building project. Typically the gift will further stipulate that on the completion of the project the principal of the term endowment becomes available to the filer to be used in accordance with the gift's terms. Term endowments are reported at Line 28 (temporarily restricted net assets) at Part X of the core Form 990.

Quasi-endowments or board-designated endowments - Quasi-endowments or board-designated endowments are funds set aside in a special fund by the filer's board pursuant to a board resolution. They are like endowments since it is only the income they generate that can be spent. They are unlike permanent and term endowments as the board can for any reason end its restriction and remove any funds from the quasi-endowment at any time it chooses.⁴ There is no

³ Here is how the Instructions to Schedule D define the term term endowment: "Term endowments are endowment funds ... maintained to provide a source of income for either a specified period of time or until a specific event occurs." The Glossary to the Instructions defines the term this way: "An endowment fund ... maintained to provide a source of income for either a specified period of time or until a specified event occurs. See SFAS 117." Here is SFAS 117's definition: "Endowment funds generally are established by donor-restricted gifts and bequests to provide a ... term endowment, which is to provide income for a specified period. ... The principal of a term endowment must be maintained for a specified period and is classified as temporarily restricted net assets." It may be noted that the IRS definition is couched in terms of "either a specified period of time or until a specific event occurs." An example of the latter might be that the endowment be maintained to pay income to support visiting scholars until their work is done and they return home. It will be seen that although this latter stipulation is phrased in terms of the happening of a specified event (the scholars' work is finished), it is in fact for a specified period.

⁴ Here is how the Instructions to Schedule D define the term quasi-endowment: "Board-designated endowments, or quasi-endowments, are endowments established by the organization itself, either from unrestricted donor or organizational funds, over which the organization itself imposes restrictions on their use, and which restrictions can be temporary or permanent in nature. See SFAS 117 (ASC 958-205-45)." The Glossary to the Instructions defines the term quasi-endowment this way: "An endowment fund established by the organization itself, either from unrestricted donor or organizational funds, over which the organization itself imposes restrictions on their use, and which restrictions can be temporary or permanent in nature. These funds are sometimes referred to as board-designated endowments. See SFAS 117 (ASC 958-205-45)." Here is SFAS 117's definition: "An organization's governing board may earmark a portion of its unrestricted net assets as a board-designated

special line on Part X (Balance Sheet) of the core Form 990 for quasi- or board-designated endowments. They are reported at Line 27 (unrestricted net assets) at Part X of the core Form 990, included along with a lot of other funds, as unrestricted assets. The expanded Form 990 in Schedule D marks the first time information has been collected on board-restricted endowments.

The presence of a board-designated endowment may mean a couple of things. First, that the board concluded that the filer had sufficient revenues for operating purposes to justify setting aside some unrestricted assets in a board-designated fund. This may be taken to reflect positively on the filer's financial condition and on the prudence of the board. It might also mean that the board has set funds aside for a future project(s) or some special expenditure(s). It might be of interest to the reader to find out which of these alternatives is the case and, if the latter, what the project is. This would require contacting the filer.

In considering Part V of Schedule D, perhaps the first thing to determine is what kinds or types of endowments the filer has. This can be done by looking at Line 2 of Part V where the filer reports its estimate of the percentage (if any) of each kind of endowment. Thus, at Line 2a the filer reports the percentage of the balance of all endowments at the end of the year made up by board-designated or quasi-endowments and at Line 2b a similar percentage for permanent endowments and at Line 2c a similar percentage for term endowments. So this tells you what types of endowments the filer has. Line 1g reports the balance of all endowments at the end of the year, so by multiplying the percentage estimate at Line 2 of a particular type of endowment by the amount reported at Line 1g you can determine the size of that endowment. For example, if the filer reported \$500,000 at Line 1g and 80% at Line 2b, you could deduce that the filer held \$400,000 in permanent endowments at the end of year.⁵

It may be of interest to know whether the amount of an endowment has increased or decreased during the year. If you have access to the

endowment (sometimes called funds functioning as endowment or quasi-endowment) to be invested to provide income for a long but unspecified period. The principal of a board-designated endowment, which results from an internal designation, is not donor restricted and is classified as unrestricted net assets."

⁵ Presumably this would be the same or similar to the amount reported at Line 29(B) of Part X of the core Form 990. Line 29(B) of Part X reports the amount of permanently restricted net assets at hand at the end of the year.

filer's Form 990 for the year before the one you are examining, you can determine the estimates of the amount the filer had on hand at the end of the earlier year of the various kinds of endowments. To save space we will refer to the earlier year as Year 1 and the year of the year of the Form 990 you are examining as Year 2. (Before proceeding keep in mind that a filer may only have one kind of endowment and if so only one percentage will be listed.⁶) So by multiplying Lines 2 a, b and c (assuming the filer holds all three types of endowments) by the amount reported at Line 1g of Schedule D of the Filer's Year 1 Form 990, you derive the amounts held by the filer of each type of endowment at the end of Year 1 which will be the amounts held by the filer at the beginning of Year 2. And by comparing the amounts so determined with the similar amounts determined for Year 2,⁷ you can ascertain whether the amounts held by the endowments grew or diminished or remained constant. Of course, payments such as those to support the program for which the endowment was established may have been made during the year so the amount reported at Line 1g will be the net of additions to and subtractions from the endowments. This will become clearer below.

It may be that the filer will report a different number of kinds of endowments in the two separate years being examined. If, for example, Year 1 reported only two kinds of endowments and Year 2 reported three kinds, then you could conclude that the filer had added a new kind of endowment (the kind that was not reported on in Year 1) during the year (Year 2) being reported on.⁸

It should be kept in mind, however, that having determined that an endowment has increased or decreased during the course of the year does not tell you whether the increase (or decrease) has come about because of further contributions to (or withdrawals from) the

⁶ If it has two kinds of endowments, say permanent and term endowments, then two percentages will be reported at Lines 2b and c. And, of course, if the filer held all three kinds of endowments, amounts will be reported at Lines 2a, b, and c. Below we will show that it is possible to find out certain things when the filer reports only one kind of endowment that is not possible when it reports more than one.

⁷ As suggested this would be done by multiplying Lines 2a, b and c reported at Year 2's Part V by the amount reported at Line 1g of Year 2's Part V.

⁸ And there are a number of different permutations that work by the same logic. Thus, if Year 1 reported three different kinds of endowments and Year 2 reported two, you could conclude that one kind of endowment terminated during the year (the one for which no percentage is reported in Year 2). Or if Year 1 reported one kind of endowment and Year 2 reported two kinds of endowments, you could conclude that the filer added a new kind of endowment in Year 2 (the one for which a percentage is reported in Year 2 but not in Year 1). And so on.

endowment or from investment earnings or losses. This information can be derived from Part V in the case where only one type of endowment is reported. This may not be an unusual circumstance. We will explain why this cannot be done if more than one kind of endowment is reported, after we go through an example involving just one kind of endowment. If, for example, Part V shows that filer held only a board-designated or quasi-endowment at the end of the year (i.e., Line 2a reports 100%) and if Part V of the previous year's Part V also shows that the filer only held a board-designated endowment, then any contributions reported at Line 1b will necessarily have been to that endowment. By like token, if investment earnings (or losses) are reported at Line 1c, one may assume that those changes are attributable to the board-designated endowment.⁹ In the case where the filer reports more than one kind of endowment, this analysis cannot be made since there is no way of telling, for example, how much of the contribution amount reported at Line 1b is to be attributed to which of the two or three kinds of endowments. A similar analysis to that just made for the case where the filer holds only a board-designated endowment can be made if the filer holds just a permanent endowment or just a term endowment.¹⁰

It may be taken as a positive sign if contributions have been made to any of the filer's endowments. If a contribution has been made to a board-designated endowment, it suggests that the filer has available to it additional funds that can be set aside and this portends financial health. Contributions to a permanent endowment may also be taken as an encouraging sign, as is usually the case with contributions to a term endowment.

To close, we consider the spending side of the endowment equation. Line 1d of Part V reports the amounts spent from endowment income on scholarships or grants. As we are not considering the Forms 990 file by philanthropies – such entities usually file a Form 990 PF – it will presumably be scholarships that are reported at Line 1d, and this would more likely be the case if the filer were an educational institution. (In some cases, however, non-philanthropy 501(c)(3) nonprofits may make grants.) If the filer reports only one type of

⁹ It may be that a filer has more than one board-designated endowment. In such case, Part V would only provide information on the aggregate of such endowments. We believe, however, that it is very rare that a filer would have more than one board-designated endowment.

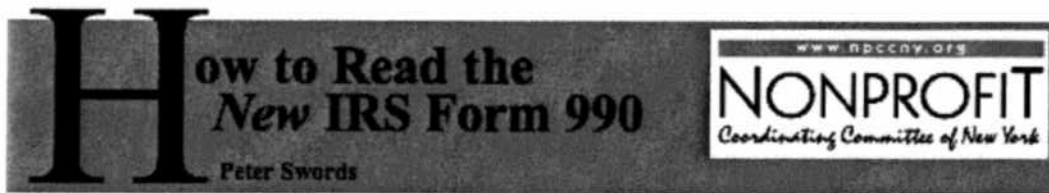
¹⁰ Unlike board-designated endowments, however, it may be that the filer holds more than one permanent or term endowment.

endowment at Part V, one may deduce that the payments reported at Line 1d were from that endowment.¹¹

Line 1e reports the amount spent from endowment income during the year on facilities and programs. It also reports the amount that a board has taken out (divested) of the principal from a board-designated endowment. In the case of permanent and term endowments this refers to the objects that the gift instrument that set up the endowments specified what the income should be used to support, e.g., the conduct of a particular program or the construction or support of a facility. In the case of a board-designated endowment the amount reported would either be the income from the endowment spent on the endowment's object or the amount of principal withdrawn (divested) by the board. If more than one kind of endowment is reported, there is no way of knowing how the amount reported at Line 1e should be allocated among the endowments. If only one endowment is reported, obviously the amount can be attributed to that endowment. In the case where only a board-designated endowment is reported, there is no way of knowing whether the amount reported relates to income expenditures or divestment of principal.¹²

¹¹ If the filer reported two or more kinds of endowments, say a term and a permanent endowment, there would be no way of telling whether the payments were made from one or more endowments and, if from more than one, how the amount reported at Line 1d should be allocated between the endowments.

¹² Line f reports administrative expenses charged to the income of endowments. This relates to such things as accounting and financial management expenses. In most cases the amount will be small or nothing will be reported. If the amount is large, perhaps it bears attention. Again, if more than one endowment is reported, there is no way of knowing how much of the reported expenses are to be attributed to which endowment.



Expansion: Part VIII (Statement of Revenue)

As noted in Chapter 4, Part VIII (Statement of Revenue) on page 9 breaks down the revenue information reported in the Revenue subpart of Part I on page 1. Below we suggest how to read Part VIII.

Line 1 (Contributions, gifts, grants and other similar amounts) divides the amount reported at Line 8 of Part I into six categories.

Line 1a (Federated campaigns) reports income received indirectly from the public via federated campaigns (e.g., United Way campaigns).¹

Line 1b (Membership dues) reports dues paid by members for which the member receives no goods or services in return and which are generally deductible by the members as charitable contribution deductions. The fact that the filer receives contributions from members does not necessarily mean it is a membership nonprofit organization (i.e., one where the members annually elect the board of directors). If the filer answers "Yes" to Line 6 of Section A of Part VI on page 6 (see Chapter 3), asking whether the filer has members, it may be assumed that it is such a membership organization.² If the filer answers "No" it will usually be the case that the membership program is being used to raise contributions for the filer. If the filer reports a significant amount on this line, it might be inferred that it has a large membership base (which in itself may suggest it is doing something of value) that provides a

¹ As explained in Chapter 9, federated campaign money, because it generally goes into the numerator of the public support fraction, is useful for helping produce a high public support fraction that helps the filer qualify as a public charity rather than a private foundation. Furthermore, if the reader has access to several Forms 990 of the filer and they all reported income on this line, it might be concluded that this will be a reliable source of income in the future.

² Even if the filer is such a membership organization, it does not mean that the members who pay annual dues (as well as electing the filer's board of directors each year) receive something of value back from the filer so that their dues payments would not be considered charitable contributions but rather program service revenue (see discussion of Line 2 below).

reliable source of income each year. These conclusions would be reinforced if the reader had access to several Forms 990 of the filer and they all reported significant amounts on this line. As noted below in our discussion of Line 2, if a member receives something back from the filer in return for his or her or its dues, the revenue will be considered program service revenue.

Line 1c (Fundraising events) reports the amount of money raised at fundraising events that generally was eligible for the charitable contribution deduction by those who contributed the money, that is, money contributed for which the contributor received nothing back in return. It may be that the contributor did receive something of value back in return from the filer (e.g., a dinner). That amount would be subtracted from the total amount paid and what was left could be taken as a deduction and reported on this line.

Nondeductible amounts would be reported on Line 8. See material on Line 8 below. If the filer reports a significant amount on this line, it might be inferred that the filer through the holding of fundraising events has developed a reliable source of income (as well as suggesting that it is doing something of value). These conclusions would be reinforced if the reader had access to several Forms 990 of the filer and they all reported significant amounts on this line.

Line 1d (Related organizations) reports on the amount of money received from related organizations. A related organization might be a subsidiary or parent of the filer or an organization that supports the filer or that the filer supports. Related organizations are explained in more detail in the Expansion on Related Organizations. In most cases nothing will be reported on this line. If a substantial amount is reported, it will suggest that to fully understand how the filer operates it may be necessary to find out more about its relationship with the related organization(s).

Line 1e (Government grants (contributions)) reports the amount received from government agencies. These are grants which are like grants from private philanthropies in so far as the purpose of the grant is to enable the filer to provide benefits to the public rather than to the government agency that made the grant. In many cases these grants will be called contracts. Despite the fact that they are called contracts, for the reason just given, in most cases income from government contracts is to be reported on this line. If a government agency makes such a grant to (or contract with) the filer it may be concluded that it is likely that the agency thinks well of the filer and this may be significant to the reader.

Some nonprofits receive most of their funds by way of government contracts and this too will be significant in understanding the nature of the filer. One can usually tell whether the filer received a large proportion of all of its revenue from the government by looking at this line.

Line 1f (All other contributions gifts, grants and similar amounts not included above) primarily reports on the amounts received as contributions from individuals and grants from private philanthropies. This is the same amount that is reported at Line 8 (Contributions and grants) of Part I on page 1. See the discussion at Chapter 4 regarding contributions income and program service revenue and the discussion below at the end of Line 2.

Line 1g (Noncash contributions included in lines 1a-1f) reports the dollar value of gifts in kind. Such amounts are not considered revenue for Form 990 purposes. If the amount exceeds \$25,000, the filer must complete Schedule M (Non-Cash Contributions) and answer "Yes" to Line 29 of Part IV.

Line 1h (Total. Add lines 1a-1f) reports the total of the above and is the same amount as is reported at Line 8 of Part I.

Lines 2a-e (Program service revenue) reports on the filer's five largest sources of program service revenue. Line 2f reports all other program service revenue. Generally program service revenue is revenue derived from charging for services (and in rare cases goods). These revenues are divided into two major categories: related income reported at column B (Related or exempt function income) and unrelated income reported at column C (Unrelated business revenue). Related or exempt function income refers to income derived from pursuing the filer's exempt purposes. Ticket sales income received by a nonprofit arts organization or tuition received by a school are examples. Fees charged for services by a helping organization is another example. Also, as noted above in our discussion of Line 1, if a member receives something back from the filer in return for his or her dues (such as regular reports of information), the revenue will be considered program service revenue. Unrelated business revenue refers to income received from activities that have nothing to do with achieving the organization's exempt purpose and are conducted for the most part merely to raise funds to support the organization's exempt activities. An example would be a nonprofit that published a journal that ran advertising for products having nothing to do with the nonprofit's exempt purpose. In this case, the filer would be required

to file a Form 990-T and report the amount of the unrelated business income on which a tax would be imposed.

As noted, exempt function income for a listed activity is reported as part of total revenues at column A and at column B and unrelated business income is reported as part of total revenues at column A and at column C.³ Most filers do not have unrelated business income. If they do and it exceeds \$1,000 they are required to file a Form 990-T. While a filer does not have to make available its Form 990-T, if it reports a considerable amount of unrelated business income, the reader may want to request a copy from the filer.

In boxes to the right of the Lines 2a-f the business code for the activity listed is to be reported. These codes are not found in the Instructions for the Form 990 but rather in the Instructions for the Form 990-T. On the last page of the Instructions for Form 990-T there are listed, under the title "Codes for Unrelated Business Activity," over 200 codes covering various activities (e.g., code 443120 is for computer and software stores and code 445100 is for grocery stores). Even if the listed activity is not an unrelated business activity (which will be the case in most instances) the filer is required to list a business code for the activity.

In Chapter 4 it was suggested that the distinction between donative nonprofits (those that rely primarily on contributions) and entrepreneurial nonprofits (those that rely primarily on charging for their services) might be of interest. If an inspection of Line 2 (and Line 9 of Part I) reveals that the filer gets most of its income from program service revenue, it may be concluded that it is an entrepreneurial nonprofit. (And if it gets most of its income from contributions reported on Line 1 (and Line 8 of part I), it may be concluded that it is a donative nonprofit.)

Line 2g (Total. Add lines 2a-2f) reports the total of the above and is the same amount as is reported at Line 9 of Part I.

³ Some unrelated business income is excluded from taxation. For example, if volunteers run the unrelated business its income will be excluded from the unrelated business income tax. So also if the income is derived from the sale of goods that were donated to the filer. The amounts of such excluded income is reported in column D (Revenue excluded from tax under sections 512, 513, or 514) as well as part of total revenues at column A.

Line 3 (Investment income including dividends, interest, and other similar amounts)) reports dividends and interest income and income from the disposition of capital assets. The amount would be reported as part of total revenues at column A and at column D. It would be reported at column D because dividend and interest income and income from the disposition of capital assets is excluded from unrelated business taxable income under section 512(b) of the Internal Revenue Code.⁴ This kind of income is usually derived from savings (kept in a reserve) or from endowments. See the Expansion on Endowments for discussion of endowments and the like. A significant amount of such income will usually reflect endowments and reserves of a considerable size. This can be verified by looking at Line 29 (Permanently restricted net assets) of Part X, and Part V (Endowment Funds) of Schedule D. Large amounts of such income and such assets usually means a steady source of income from these sources, uninfluenced by the whims of funders, and that can be a good thing in terms of the filer's future financial viability.⁵ The amount reported at Line 3 is combined with the amounts reported at Lines 4 and 7d and reported at Line 10 (Investment income) of Part I.

Line 4 (Income from investment of tax-exempt bond proceeds) reports investment income received from investing the proceeds of tax-exempt bond issues. This has to do with a government agency issuing tax-exempt bonds where, for example, the proceeds are turned over to a section 501(c)(3) organization to support its exempt activity. If the interest paid to the 501(c)(3) organizations from its investing the proceeds of the bonds is higher than the interest paid on the bonds, the bonds may lose their tax-exempt status and this line is designed to alert the IRS to what may be problem. The rules are complicated and the instances of these transactions are rare and further comment is beyond the scope of this paper. The amount reported at Line 4 is combined with the amounts reported at Lines 3 and 7d and reported at Line 10 (Investment income) of Part I.

Line 5 (Royalties) reports royalty income from the licensing of the use of (usually intangible) property such as a nonprofit theatre licensing to a for-profit theatre the production rights to a play it owns. The amount would be reported as part of total revenues reported at column A and at columns C or D depending on whether or not the income is excluded from unrelated business taxable income under

⁴ In rare cases some of such income might be included under column B (Related or exempt function income) or column C (Unrelated business revenue).

⁵ This conclusion would be reinforced if the reader had access to several of the filer's recent Forms 990.

section 512(b) of the Internal Revenue Code.⁶ The amount reported at Line 5 is combined with the amounts reported at Lines 6d, 8c, 9c, 10c and 11e and reported at Line 11 (Other revenue) of Part I.

Line 6 deals with income from investments in real and personal property. Real property income refers to rent received from renting space. Personal property income refers to rent received from renting items like machinery, usually rented along with a space rental.

Line 6a (Gross rents) reports the gross rent received broken down between real (column (i)) and personal property (column (ii)). (There are special rules for apportionment when the property rented includes both real and personal property.)

Line 6b (Less: rental expenses) reports the expenses incurred in connection with the rental of such property.

Line 6c (Rental income or (loss)) reports the net amount of such income (Line 6a – Line 6b = Line 6c) allocated between real (column i) and personal (column ii) rental income.

Line 6d (Net rental income or (loss)) reports under column (A) (Total Revenue) the sum of the amounts reported at Line 6c column (i) and (ii). Generally rental income from real property is excluded from the unrelated business income tax under section 512(b) and that part reported in column (A) relating to such income would be reported at column (D) (Revenue excluded from tax under sections 512, 513 or 514). Generally rental income from personal property is included in unrelated business income tax and that part reported in column (A) relating to such income would be reported at column (C) (Unrelated business revenue).⁷ The amount reported at Line 6d is combined with the amounts reported at Lines 5, 8c, 9c, 10c and 11e and reported at Line 11 (Other revenue) of Part I.

Large amounts of such income can mean a steady source of income from these sources, uninfluenced by the whims of funders, and that can be a good thing in terms of the filer's future financial viability.

⁶ In most cases royalty income is not subject to the unrelated business income tax. In rare cases (where, for example, it is received from a for-profit subsidiary) it may be.

⁷ There are special rules for apportionment when the property rented includes both real and personal property. In very rare cases some of such income might be included under column B (Related or exempt function income).

This conclusion would be reinforced if the reader had access to several of the filer's recent Forms 990.

Line 7 deals with the income (or losses) from the disposition of capital assets. The usual disposition involves the sale of securities and the amount of these dispositions is reported in column (i) (Securities). Line 7 also includes the sale of such assets as real estate or fixed assets used by the filer to conduct its activities. Income from these sales is reported in column (ii) (Other).

Line 7a (Gross amount from sales of assets other than inventory) reports the total gross sales price of the type of assets in question.

Line 7b (Less: cost of other basis and sales expenses) reports the cost (or other basis) plus the selling expenses of the type of assets in question.

Line 7c (Gain or (loss)) reports the net amount of such dispositions (Line 7a - Line 7b = Line 7c).

Line 7d (Net gains or (loss)) under column A (Total Revenue) shows the sum of the amounts reported at Line 7c in columns i and ii. Generally gains and losses from the disposition of such assets are excluded from the unrelated business income tax under section 512(b) and would be reported at column D (Revenue excluded from tax under section 512, 513 or 514). In rare cases, the gains and losses from the disposition of such assets is included in unrelated business income tax, and if so, that part reported in column A relating to such income would be reported at column C (Unrelated business revenue).⁸ The amount reported at Line 7d is combined with the amounts reported at Lines 3 and 4 and reported at Line 10 (Investment income) of Part I.

Typically, income from these dispositions does not occur too frequently and so it is likely that amounts reported here would not reflect too strongly on the filer's future financial viability.

Line 8 deals with that income from fundraising events for which the payor of the income is not entitled to a charitable contribution deduction.

⁸ It is virtually impossible to imagine such income ever being included under column B (Related or exempt function income).

Line 8a (Gross income from fundraising events (not including \$ _ _ _ of contributions reported on line 1c)) – reports the total amount paid by participants in fundraising events held by the filer for which the payors were not entitled to a charitable contribution deduction. The total amount paid by participants in such fundraising events for which the payors *were* entitled to a charitable contribution deduction would be reported in the parentheses in the title to Line 8a (and on Line 1c). For example, when someone attends an event and pays, say \$500, and in return for the payment receives certain benefits such as a dinner and attendance at a performance which benefits are worth, say \$200, because the payor received something worth (namely, \$200) for part of her total payment, \$200 of the \$500 payment would be reported here and the remaining \$300 would be reported at Line 1c. See material on Line 1c above.

Line 8b (Less: direct expenses) reports the direct expenses incurred by the filer in putting on the fundraising event, e.g., the cost of the food and beverage served at a dinner benefit.

Line 8c (Net income or (loss) from fundraising events) reports the net amount (Line 8a – Line 8b = Line 8c) under column A. In most cases the income from fundraising events will not consist of unrelated trade or business income and such amount will also be reported under column D. In rare cases the income from fundraising events might consist of unrelated trade or business income and in such cases such amounts will also be reported under column C.⁹ The amount reported at Line 8c is combined with the amounts reported at Lines 5, 6d, 9c, 10c and 11e and reported at Line 11 (Other revenue) of Part I.

If the sum of the amounts reported at Lines 1c and 8a exceeds \$15,000 the filer is required to answer “Yes” to Line 18 at Part IV and complete Schedule G (Supplemental Information Regarding Fundraising or Gaming Activities).

Here follows a brief discussion of Schedule G. Line 1 of Part I (Fundraising Activities) of Schedule G asks about the means the filer has used to fundraise, e.g., mail, phone, special fundraising events, etc. Line 2a asks whether the filer had an agreement with any individual or entity for professional fundraising services. Line 2b requests the filer to list the ten highest paid of such individuals or

⁹ In very rare cases some of such income might be included under column B (Related or exempt function income).

entities who were paid at least \$5,000. A table is provided that elicits various information regarding such professional fundraising services (e.g., whether the fundraiser had custody or control over contributions, gross receipts from the activity, amount paid to the fundraiser, etc.). Line 3 asks the filer to list all the states in which it is registered to solicit funds. This may give the reader some idea of the scope of the filer's fundraising and reflects on the likelihood of its receiving funds from such sources.

Part II (Fundraising Events) elicits information, event by event, in tabular form about events in which gross receipts exceeded \$5,000. Revenue data is similar to that reported at Line 8 (gross receipts – charitable contributions = gross revenue). Direct expenses are broken down into various categories (e.g., cash prizes, rent/facility costs, and other direct expenses).

Part III (Gaming) elicits substantial information about gaming. The instances of gaming transactions are rare and further comment is beyond the scope of this paper. See following comments on Line 9.

Line 9 deals with revenue from gaming activities such as bingo. There are complicated rules about whether income from certain games is or is not subject to the unrelated business income tax (e.g., bingo is not and instant bingo is). Elucidating such rules is beyond the scope of this paper.

Line 9a (Gross income from gaming activities) reports the gross amount from gaming activities.

Line 9b (Less: direct expenses) reports the direct expenses incurred by the filer in running the gaming activities, e.g., cash prizes, rental of gaming equipment, compensation paid to callers, etc.

Line 9c (Net income or (loss) from gaming activities) reports the net amount (Line 9a – Line 9b = Line 9c) under column A. This amount is broken down between gaming income that does not consist of unrelated trade or business income and is reported under column D and income from gaming activities that consists of unrelated trade or business income and is reported under column C.¹⁰ The amount reported at Line 9c is combined with the amounts reported at Lines 5, 6d, 8c, 10c and 11e and reported at Line 11 (Other revenue) of Part I.

¹⁰ It will never be the case that such income would be included under column B (Related or exempt function income).

If the amount reported at Lines 9a exceeds \$15,000, the filer is required to answer "Yes" to Line 19 at Part IV and to complete Part III of Schedule G (see above).

Line 10 reports income from the sale of inventory items, typically items the filer makes to sell to others or buys for resale.

Line 10a (Gross sales of inventory, less returns and allowances) reports the gross income from the sale of inventory, less returns and allowances.

Line 10b (Less: direct expenses) reports the costs of goods sold related to the sales of inventory, such as labor and materials and supplies consumed, and a portion of overhead. (The Instructions note: "Marketing and distribution costs are not included in the costs of goods sold but are reported in column B, *Program services expenses*, of Part IX.")

Line 10c (Net income or (loss) from sales of inventory) reports the net amount (Line 10a – Line 10b = Line 10c) under column A. This amount is broken down between income that consists of exempt function income and is reported under column D and income that consists of unrelated trade or business income and is reported under column C.¹¹ The amount reported at Line 10c is combined with the amounts reported at Lines 5, 6d, 8c, 9c and 11e and reported at Line 11 (Other revenue) of Part I.

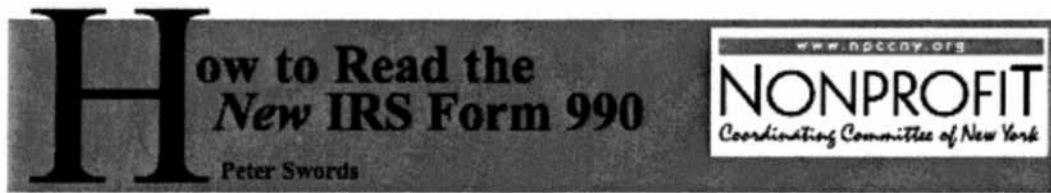
Line 11 reports miscellaneous income. The three largest sources of such income are reported at Lines 11a through 11c and the rest of such revenue at Line 11d. These amounts are broken down between income that consists of exempt function income included under column B, income that does not consist of unrelated trade or business income and reported under column D and income that consists of unrelated trade or business income and is reported under column C. In boxes to the right of the Lines 11a-c the business code for the activity listed is to be reported. These codes are not found in the Instructions to the Form 990 but rather in the Instructions for the Form 990-T. On the last page of the Instructions for Form 990-T there are listed, under the title "Codes for Unrelated Business Activity," over 200 codes covering various activities (see above at Line 2). Even if the listed activity is not an unrelated business activity (which will be the case in most

¹¹ It will never be the case that such income would be included under column D (Revenue excluded from tax under section 512, 513, or 514).

instances) the filer is required to list a business code for the activity. If none of the listed codes describe the activity in question, the filer is to enter 900099.

The total of miscellaneous income is reported at Line 11e. The amount reported at Line 11e is combined with the amounts reported at Lines 5, 6d, 8c, 9c and 10c and reported at Line 11 (Other revenue) of Part I.

Line 12 (Total Revenue) – reports the total of all the totals of Part VIII (Lines 1h, 2g, 3, etc.) broken down between total revenue reported under column A, exempt function income reported under column B, income that consists of unrelated trade or business income reported under column C and income that does not consist of unrelated trade or business income reported under column D. The amount reported at Line 12 is the same as the amount reported at Line 12 of Part I.



Expansion: Related Organizations

A notable feature of the expanded Form 990 is its eliciting of a great deal of information on payments by related organizations to personnel connected with the filer and transactions with related organizations. This sort of information was elicited in the Forms 990 issued in the years just preceding its expansion in 2008, but the expanded Form 990 adds many more questions regarding related organizations. We believe that these additions derive from the IRS's concern about the use of related organizations for questionable purposes. For example, a related organization might be used to pay an employee of the filer to avoid having to disclose on the filer's Form 990 the full extent of the compensation s/he had received for performing services for the filer. The reader should then be alert that when the filer has relations with a related organization there may be an issue worth pursuing. As noted in the Introduction, because in the vast number of cases filers are not related to other organizations, this topic is covered here.

How do you check to see whether the filer is related to another organization? First you look at Lines 33-37 in Part IV on page 4 of the Form 990. In virtually every case where there is such a relationship, the filer is instructed to complete certain parts of Schedule R. We explain Schedule R below. The principal line is Line 34, which asks whether the filer was related to any tax-exempt or taxable entity. If the answer is "Yes," the filer is instructed to complete Schedule R, Parts II, III, IV and Part V, line 1. The other lines refer to somewhat technical and rare situations and shall now only be briefly commented on.

Line 33 relates to disregarded entities, entities such as LLCs that are part of the filer's operation, in effect divisions or branches, that are treated as separate organizations for state law purposes (e.g., liability claims) but as part of the filer for Federal income tax purposes. Information on these entities would be found at Part I of Schedule R.

Line 35 relates to controlled entities described by section 512(b)(13) of the Code. Section 512(b)(13) entities are usually subsidiaries of the filer that conduct unrelated or taxable business activities and section 512(b)(13) eliminates the possibility of avoiding taxation by the controlled entity making certain deductible payments to its parent. Information on these entities would be found at Part V of Schedule R.

Line 36 relates to transfers by the filer to an exempt non-charitable related organization. This usually involves transfers to certain entities that engage in political activity (e.g., section 527 organizations). Information on these entities would be found at Part V of Schedule R.

Line 37 asks whether the filer conducted more than 5% of its activities through an entity that is *not* a related organization and that is treated as a partnership for federal income tax purposes. Typically this refers to joint ventures that are conducted for unrelated business income or to engage in political activity. Information on these entities would be found at Part VI of Schedule R.

So what are related organizations? First we will consider the case where the two organizations are nonprofit organizations. There are three categories of related organizations.

1. If the filer stands in a parent/subsidiary relationship to another organization, they are related organizations. The filer might be the parent or the subsidiary. In a parent/subsidiary relationship, the parent has the power to elect or appoint a majority of the board of its subsidiary. (Even if the parent lacks this power, if a majority of the directors of the subsidiary are employees or agents of the parent, it will be a parent/subsidiary relationship.)
2. If the filer stands in a brother/sister relationship to another organization, they are related organizations. Here the two organizations are controlled by the same persons, that is, the same persons constitute a majority of the directors of both organizations.
3. Finally, if the filer stands in a supporting/supported relationship to another organization, they are related organizations. In this relationship the filer under section 509(a)(3) is either a supporting organization of the other organization (the supported organization) or the filer under section 509(a)(3) is a supported organization of the other organization (the supporting

organization). The specific rules under section 509(a)(3) that determine whether a supporting/supported relationship exists are detailed and quite complicated. Suffice it to say that the supporting organization must provide the supported organization with significant support that helps the supported organization carry out its charitable purposes and the supported organization must have sufficient control over the supporting organization.

We turn now to the case where the other organization is a for-profit entity. (Remember the filer will always be a nonprofit organization.) Here are the principal examples of related organizations in this context. The filer and such other organization will be related organizations if, in the case where the other organization is a corporation, the filer owns more than 50% of the stock (by voting power or value) of the corporation. If the other organization is a partnership, the filer and such other organization will be related organizations if the filer has an ownership interest of more than 50% of the profits or capital interest in the partnership.¹

If the filer is a related organization with another tax-exempt organization, it must complete Part II of Schedule R, by providing such information as the name of the other organization, its primary activity and its public charity status.² If the filer is a related organization with another taxable organization it must complete Parts III (relating to taxable partnerships) or IV (relating to taxable corporations of trusts), as appropriate. These Parts collect information similar to Part II and in addition include a column for share of total income.³ These parts, which must be completed whether or not the filer had transactions with the related organization in question, may be of interest in

¹ Similarly if the filer has an ownership interest of more than 50% of the profits or capital interest in a limited liability company (LLC) treated as a partnership under federal tax law, the filer and the LLC will be related organizations. In addition, if the filer is the managing partner in a partnership or LLC which has three or fewer managing partners (regardless of which partner has the most actual control), the filer and the other entity will be related organizations. Likewise if the filer is the general partner in a limited partnership which has three or fewer general partners (regardless of which partner has the most actual control), the filer and the other entity will be related organizations. If the filer is the sole member of a disregarded entity, it and the disregarded entity will be related organizations. (See the discussion of Line 33 above for a description of a disregarded entity.) Finally, if the filer has more than 50% ownership interest in a trust, it and the trust will be related organizations.

² See Chapter 9.

³ Part I elicits information on disregarded entities and Part VI information on unrelated organizations treated as partnerships.

themselves, but it may be in Part V which reports on transactions with related organizations where the real interest will lie. Line 1 lists 18 different kinds of transactions (e.g., loans, lease of facilities, performance of service, etc.). The filer is required to answer "Yes" if it had any such transaction with any entity listed in Parts II, III, or IV. If the answer is "Yes" and it relates to a transaction with a related organization that is a section 512(b)(13) controlled entity or a non-501(c)(3) tax-exempt organization, the filer must complete Line 2, which asks for the name of the organization involved and the type and amount of the transaction.⁴ The reader should realize that the IRS may be looking at this Schedule and Part V, and if anything seems to be not quite right, the reader may want to inquire further.

As suggested at the outset, perhaps the transaction that may be of most interest is that where a related organization provides a key employee or one of the filer's highly paid employees with compensation in addition to the compensation provided by the filer.

Part VII (Compensation of Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees) of the core Form 990 on page 7 is where you would look to see if any such payments transpired. See Chapter 6 for a full explanation of Part VII and compensation issues. Part VII Section A requires the filer to report the names and compensation of key employees. Section A also elicits such information on officers, directors and trustees. As explained in Chapter 6, most directors and trustees do not get paid for their service and officers are either board members who don't get paid or employees who do get paid.

Column E⁵ elicits information on reportable compensation from related organizations paid to such individuals. Part VII also requires the filer to report the names and compensation of the filer's five highest

⁴ That Line 2 is limited in its scope to 512(b)(13) controlled entities and non-501(c)(3) tax-exempt organizations is not immediately evident from a reading of the beginning line of Line 2 which states in part: "If the answer to any of the above is "Yes," see the instructions for information on who must complete this line" The instructions make it clear that Line 2 is limited to 512(b)(13) controlled entities and non-501(c)(3) tax-exempt organizations. See the text above on Lines 35 and 36 for an idea of what 512(b)(13) controlled entities and non-501(c)(3) tax-exempt organizations are.

⁵ As explained in Chapter 6, Section A of Part VII elicits information on compensation in six columns. For example, column A is where the name and title of the individual in question would be listed, column B the average number of hours a week s/he works and, as noted in the text, column E reports the reportable compensation paid by a related organization to the individual in question.

compensated employees (other than key employees) who received reportable compensation of more than \$100,000 from the filer and any related organizations. Again, any compensation from a related organization paid to such employees would be reported at column E. Compensation payments to employees of nonprofits from related organizations are rare. Such payments may flag an inappropriate transaction. Where a reader sees such payments reported, s/he may want to find out more about them.

Return of Organization Exempt From Income Tax

2013

Open to Public Inspection

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations)

Do not enter Social Security numbers on this form as it may be made public.

Information about Form 990 and its instructions is at www.irs.gov/form990.

Department of the Treasury Internal Revenue Service

Form 990 header section including fields for calendar year, organization name, EIN, address, and principal officer.

Part I Summary

Summary table with columns for Revenue, Expenses, and Net Assets or Fund Balances, containing lines 1 through 22.

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Signature block section for the officer, including fields for signature and name.

Paid Preparer Use Only section with fields for preparer name, signature, date, and firm information.

May the IRS discuss this return with the preparer shown above? (see instructions) Yes No

Part III Statement of Program Service Accomplishments

Check if Schedule O contains a response or note to any line in this Part III

1 Briefly describe the organization's mission:

.....
.....
.....

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? Yes No

If "Yes," describe these new services on Schedule O.

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? Yes No

If "Yes," describe these changes on Schedule O.

4 Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses. Section 501(c)(3) and 501(c)(4) organizations are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.

4a (Code: _____) (Expenses \$ _____ including grants of \$ _____) (Revenue \$ _____)

.....
.....
.....
.....
.....
.....
.....
.....
.....
.....

4b (Code: _____) (Expenses \$ _____ including grants of \$ _____) (Revenue \$ _____)

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4c (Code: _____) (Expenses \$ _____ including grants of \$ _____) (Revenue \$ _____)

.....
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.....
.....
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.....

4d Other program services (Describe in Schedule O.)
(Expenses \$ _____ including grants of \$ _____) (Revenue \$ _____)

4e Total program service expenses ▶

Part IV Checklist of Required Schedules

		Yes	No
1	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? <i>If "Yes," complete Schedule A</i>		
2	Is the organization required to complete <i>Schedule B, Schedule of Contributors</i> (see instructions)?		
3	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? <i>If "Yes," complete Schedule C, Part I</i>		
4	Section 501(c)(3) organizations. Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? <i>If "Yes," complete Schedule C, Part II</i>		
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? <i>If "Yes," complete Schedule C, Part III</i>		
6	Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? <i>If "Yes," complete Schedule D, Part I</i>		
7	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas, or historic structures? <i>If "Yes," complete Schedule D, Part II</i>		
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? <i>If "Yes," complete Schedule D, Part III</i>		
9	Did the organization report an amount in Part X, line 21, for escrow or custodial account liability; serve as a custodian for amounts not listed in Part X; or provide credit counseling, debt management, credit repair, or debt negotiation services? <i>If "Yes," complete Schedule D, Part IV</i>		
10	Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? <i>If "Yes," complete Schedule D, Part V</i>		
11	If the organization's answer to any of the following questions is "Yes," then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable.		
a	Did the organization report an amount for land, buildings, and equipment in Part X, line 10? <i>If "Yes," complete Schedule D, Part VI</i>		
b	Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VII</i>		
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VIII</i>		
d	Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part IX</i>		
e	Did the organization report an amount for other liabilities in Part X, line 25? <i>If "Yes," complete Schedule D, Part X</i>		
f	Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? <i>If "Yes," complete Schedule D, Part X</i>		
12 a	Did the organization obtain separate, independent audited financial statements for the tax year? <i>If "Yes," complete Schedule D, Parts XI and XII</i>		
b	Was the organization included in consolidated, independent audited financial statements for the tax year? <i>If "Yes," and if the organization answered "No" to line 12a, then completing Schedule D, Parts XI and XII is optional</i>		
13	Is the organization a school described in section 170(b)(1)(A)(ii)? <i>If "Yes," complete Schedule E</i>		
14 a	Did the organization maintain an office, employees, or agents outside of the United States?		
b	Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? <i>If "Yes," complete Schedule F, Parts I and IV.</i>		
15	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or other assistance to or for any foreign organization? <i>If "Yes," complete Schedule F, Parts II and IV</i>		
16	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or other assistance to or for foreign individuals? <i>If "Yes," complete Schedule F, Parts III and IV.</i>		
17	Did the organization report a total of more than \$15,000 of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? <i>If "Yes," complete Schedule G, Part I (see instructions)</i>		
18	Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? <i>If "Yes," complete Schedule G, Part II</i>		
19	Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? <i>If "Yes," complete Schedule G, Part III</i>		
20 a	Did the organization operate one or more hospital facilities? <i>If "Yes," complete Schedule H</i>		
b	If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return?		

Part IV Checklist of Required Schedules *(continued)*

		Yes	No
21	Did the organization report more than \$5,000 of grants or other assistance to any domestic organization or government on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i>		
22	Did the organization report more than \$5,000 of grants or other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i>		
23	Did the organization answer "Yes" to Part VII, Section A, line 3, 4, or 5 about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i>		
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b through 24d and complete Schedule K. If "No," go to line 25a</i>		
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?		
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?		
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?		
25a	Section 501(c)(3) and 501(c)(4) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i>		
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i>		
26	Did the organization report any amount on Part X, line 5, 6, or 22 for receivables from or payables to any current or former officers, directors, trustees, key employees, highest compensated employees, or disqualified persons? If so, complete Schedule L, Part II		
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor or employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? <i>If "Yes," complete Schedule L, Part III</i>		
28	Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions):		
a	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>		
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>		
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i>		
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i>		
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i>		
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i>		
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i>		
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i>		
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Part II, III, or IV, and Part V, line 1</i>		
35a	Did the organization have a controlled entity within the meaning of section 512(b)(13)?		
b	If "Yes" to line 35a, did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i>		
36	Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i>		
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i>		
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11b and 19? Note. All Form 990 filers are required to complete Schedule O		

Part V Statements Regarding Other IRS Filings and Tax Compliance

Check if Schedule O contains a response or note to any line in this Part V

Table with columns for line numbers (1a-14b), descriptions of questions, and Yes/No response columns. Includes sections for backup withholding, employee reporting, foreign accounts, prohibited transactions, and charitable trusts.

Part VI Governance, Management, and Disclosure For each "Yes" response to lines 2 through 7b below, and for a "No" response to line 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.

Check if Schedule O contains a response or note to any line in this Part VI

Section A. Governing Body and Management

Table with 3 columns: Question, Yes, No. Rows include 1a (governing body members), 1b (independent members), 2 (family/business relationships), 3 (delegated control), 4 (governing documents), 5 (asset diversion), 6 (members/stockholders), 7a (governing body power), 7b (governance decisions), 8 (meeting documentation), 8a (governing body), 8b (committees), 9 (unreachable officers).

Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)

Table with 3 columns: Question, Yes, No. Rows include 10a (local chapters), 10b (policies/procedures), 11a (Form 990 distribution), 11b (review process), 12a (conflict of interest policy), 12b (disclosure requirements), 12c (monitoring/enforcement), 13 (whistleblower policy), 14 (document retention), 15 (compensation review), 15a (CEO), 15b (other officers), 16a (joint ventures), 16b (joint venture policy).

Section C. Disclosure

- 17 List the states with which a copy of this Form 990 is required to be filed
18 Section 6104 requires an organization to make its Forms 1023 (or 1024 if applicable), 990, and 990-T (Section 501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply.
19 Describe in Schedule O whether (and if so, how) the organization made its governing documents, conflict of interest policy, and financial statements available to the public during the tax year.
20 State the name, physical address, and telephone number of the person who possesses the books and records of the organization:

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

Check if Schedule O contains a response or note to any line in this Part VII

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

1a Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation. Enter -0- in columns (D), (E), and (F) if no compensation was paid.
- List all of the organization's **current** key employees, if any. See instructions for definition of "key employee."
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee, or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations.
- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations.

List persons in the following order: individual trustees or directors; institutional trustees; officers; key employees; highest compensated employees; and former such persons.

Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee.

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(1)										
(2)										
(3)										
(4)										
(5)										
(6)										
(7)										
(8)										
(9)										
(10)										
(11)										
(12)										
(13)										
(14)										

Part VII Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees (continued)

(A) Name and title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(15)										
(16)										
(17)										
(18)										
(19)										
(20)										
(21)										
(22)										
(23)										
(24)										
(25)										
1b Sub-total										
c Total from continuation sheets to Part VII, Section A										
d Total (add lines 1b and 1c)										

2 Total number of individuals (including but not limited to those listed above) who received more than \$100,000 of reportable compensation from the organization ▶

	Yes	No
3 Did the organization list any former officer, director, or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i>		
4 For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? <i>If "Yes," complete Schedule J for such individual</i>		
5 Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? <i>If "Yes," complete Schedule J for such person</i>		

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization. Report compensation for the calendar year ending with or within the organization's tax year.

(A) Name and business address	(B) Description of services	(C) Compensation

2 Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 of compensation from the organization ▶

Part VIII Statement of Revenue

Check if Schedule O contains a response or note to any line in this Part VIII

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

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).

Check if Schedule O contains a response or note to any line in this Part IX

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.

	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
a				
b				
c				
d				
e				
f				
g				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
a				
b				
c				
d				
e				
25				
26				

Part X Balance Sheet

Check if Schedule O contains a response or note to any line in this Part X

		(A) Beginning of year	(B) End of year
Assets	1 Cash—non-interest-bearing		1
	2 Savings and temporary cash investments		2
	3 Pledges and grants receivable, net		3
	4 Accounts receivable, net		4
	5 Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L		5
	6 Loans and other receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions). Complete Part II of Schedule L		6
	7 Notes and loans receivable, net		7
	8 Inventories for sale or use		8
	9 Prepaid expenses and deferred charges		9
	10a Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D	10a	
	b Less: accumulated depreciation	10b	10c
	11 Investments—publicly traded securities		11
	12 Investments—other securities. See Part IV, line 11		12
	13 Investments—program-related. See Part IV, line 11		13
	14 Intangible assets		14
	15 Other assets. See Part IV, line 11		15
16 Total assets. Add lines 1 through 15 (must equal line 34)		16	
Liabilities	17 Accounts payable and accrued expenses		17
	18 Grants payable		18
	19 Deferred revenue		19
	20 Tax-exempt bond liabilities		20
	21 Escrow or custodial account liability. Complete Part IV of Schedule D		21
	22 Loans and other payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L		22
	23 Secured mortgages and notes payable to unrelated third parties		23
	24 Unsecured notes and loans payable to unrelated third parties		24
	25 Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24). Complete Part X of Schedule D		25
	26 Total liabilities. Add lines 17 through 25		26
Net Assets or Fund Balances	Organizations that follow SFAS 117 (ASC 958), check here <input type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.		
	27 Unrestricted net assets		27
	28 Temporarily restricted net assets		28
	29 Permanently restricted net assets		29
	Organizations that do not follow SFAS 117 (ASC 958), check here <input type="checkbox"/> and complete lines 30 through 34.		
	30 Capital stock or trust principal, or current funds		30
	31 Paid-in or capital surplus, or land, building, or equipment fund		31
	32 Retained earnings, endowment, accumulated income, or other funds		32
33 Total net assets or fund balances		33	
34 Total liabilities and net assets/fund balances		34	

Part XI Reconciliation of Net Assets

Check if Schedule O contains a response or note to any line in this Part XI

1	Total revenue (must equal Part VIII, column (A), line 12)	1	
2	Total expenses (must equal Part IX, column (A), line 25)	2	
3	Revenue less expenses. Subtract line 2 from line 1	3	
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	
5	Net unrealized gains (losses) on investments	5	
6	Donated services and use of facilities	6	
7	Investment expenses	7	
8	Prior period adjustments	8	
9	Other changes in net assets or fund balances (explain in Schedule O)	9	
10	Net assets or fund balances at end of year. Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	

Part XII Financial Statements and Reporting

Check if Schedule O contains a response or note to any line in this Part XII

		Yes	No
1	Accounting method used to prepare the Form 990: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual <input type="checkbox"/> Other _____ If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O.		
2a	Were the organization's financial statements compiled or reviewed by an independent accountant? If "Yes," check a box below to indicate whether the financial statements for the year were compiled or reviewed on a separate basis, consolidated basis, or both: <input type="checkbox"/> Separate basis <input type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separate basis		
b	Were the organization's financial statements audited by an independent accountant? If "Yes," check a box below to indicate whether the financial statements for the year were audited on a separate basis, consolidated basis, or both: <input type="checkbox"/> Separate basis <input type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separate basis		
c	If "Yes" to line 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O.		
3a	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?		
b	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits.		