

## New 990 Instructions – All Schedules A-O – Table of Contents

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## 2008 Schedule A (Form 990 or 990-EZ) Instructions Public Charity Status and Public Support

Section references are to the Internal Revenue Code unless otherwise noted.

### General Instructions

#### Purpose of Schedule

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

#### Who Must File

Any organization that answered "Yes," to Form 990, Part IV, *Checklist of Required Schedules*, line 1, must complete and attach Schedule A (Form 990 or 990-EZ) to Form 990. Any section 501(c)(3) organization or 4947(a)(1) nonexempt charitable trust that files a Form 990-EZ must complete and attach this schedule to Form 990-EZ. These include:

- Organizations that are described in section 501(c)(3) and are public charities.
- Organizations that are described in sections 501(e), 501(f), 501(k), or 501(n).
- Nonexempt charitable trusts described in section 4947(a)(1) that are not treated as private foundations.

If an organization is not required to file Form 990 or Form 990-EZ, it is not required to file Schedule A.

**TIP:** Any organization that is tax-exempt under section 501(c)(3) but which is a private foundation rather than a public charity should not file Form 990 or Form 990-EZ, or Schedule A, but should file Form 990-PF. See Instructions to Part I. [Which means that all 501\(c\)\(3\)'s properly filing 990 or 990EZ \(not 990PF\) will file Schedule A.](#)

#### Accounting Method

When completing Schedule A, the organization **must** use the same accounting method it checked on Form 990, Part XI, Financial Statements and Reporting, line 1, or Form 990-EZ, line G. The organization must use this accounting method in reporting all amounts on Schedule A, regardless of the accounting method it used in completing Schedule A for 2007. [retroactive restating](#)

If the accounting method the organization used in completing Schedule A of 2007 Form 990 was different from the accounting method checked on 2008 Form 990, Part XI, line 1, or 2008 Form 990-EZ, line G, the organization should not report, in either Part II or Part III of this Schedule, the amounts reported in the applicable columns of Schedule A of 2007 Form 990. Instead, the organization should report all amounts in Part II or Part III in conformity with the accounting method checked on 2008 Form 990, Part XI, line 1, or 2008 Form 990-EZ, line G.

#### Examples:

- An organization checks "Cash" on line 1 in Part XI of Form 990. It should report the amounts in Part II or Part III using the cash method. If the organization filed a 2007 Schedule A using the cash method, it should report in the 2004 through 2006 columns on the 2008 Schedule A the same amounts that it reported in the 2004 through 2006 columns on the 2007 Schedule A.

- An organization checks “Accrual” on line 1 in Part XI of Form 990. It should report the amounts in Part II or Part III of Schedule A using the accrual method. If the organization filed a 2007 Schedule A using the cash method, it should not report in the 2004 through 2006 columns on the 2008 Schedule A the same amounts that it reported in the 2004 through 2006 columns on the 2007 Schedule A but should report these amounts using the accrual method.

If an organization wants to change its overall accounting method, see *General Instruction D* (Accounting Periods and Methods) of the Form 990 or the General Instructions in Form 990-EZ.

**TIP:** The IRS has issued new rules eliminating the advance ruling process for section 501(c)(3) organizations described in sections 170(b)(1)(A)(vi) and 509(a)(2). Organizations with an advance ruling that expires after the new rules were issued no longer need to file Form 8734, Support Schedule for Advance Ruling Period, after five years to receive a definitive ruling. In addition, organizations described in sections 170(b)(1)(A)(vi) and 509(a)(2) will use a five-year period that includes the current tax year and the four preceding tax years in computing their public support.

They say they are not automatically going to send new letters to groups with advance rulings, but I think funders will balk at what appears to be an expiration date. Time will tell. In the meantime, I suspect IRS will respond if asked to issue a letter without an end of advance ruling period shown. UPDATE: I spoke to a group which got a letter that specifically explained they were still good and said to attach it to their current advance ruling letter.

## Specific Instructions

### Part I. Reason for Public Charity Status

**Lines 1 through 11. Reason for Public Charity Status.** Check only one of the boxes on lines 1 through 11 to indicate the reason the organization is a public charity for 2008. The reason may be the same as stated in the organization’s tax-exempt determination letter from the IRS (“exemption letter”) or subsequent IRS determination letter, or it may be different. However, for the organization’s first five tax years it must check the box that corresponds to its public charity status as stated in its exemption letter (see *New Organizations* instruction below). Thereafter, it may check whichever box most accurately describes its public charity status. An organization that does not check any of the boxes on lines 1 through 11 should not file Form 990 or Form 990-EZ or Schedule A for 2008 but should file Form 990-PF instead.

If an organization believes there is more than one reason why it is a public charity, it should check only one box but **may explain** the other reasons it qualifies for public charity status in Part IV of Schedule A.

**TIP:** An organization that does not know the public charity status that was stated in its exemption letter or subsequent determination letter may call the Exempt Organizations Customer Account Services toll free at 1-877-829-5500 or write to Internal Revenue Service, TE/GE Customer Account Services, P.O. Box 2508, Cincinnati, OH 45201.

**TIP:** An organization that checks a public charity status different from the reason stated in its exemption letter or subsequent determination letter, although not required, may submit a request to the IRS Exempt Organizations Determinations Office for a determination letter confirming that it qualifies for the public charity status checked. A request should be submitted using the procedures described in Section 9 of Rev. Proc. 2008-4, 2008-1 I.R.B. 121, 134 (updated annually). No user fee is required to be paid.

### Examples:

- The organization received an exemption letter that it is a public charity under section 170(b)(1)(A)(vi). For 2008, it meets the requirements for public charity status under section 170(b)(1)(A)(vi). The organization should check box 7 and complete Part II of Schedule A.
- The organization received an exemption letter that it is a public charity under section 170(b)(1)(A)(vi). For 2008, it does not meet the requirements for public charity status under section 170(b)(1)(A)(vi). Instead, it meets the requirements for public charity status under section 509(a)(2). The organization should check the box on line 9 and complete Part III of Schedule A.

*I find it really surprising that IRS thinks groups can figure this out for themselves without review.*

- The organization received an exemption letter that it is a public charity under section 509(a)(2). For 2008, it does not meet the requirements for public charity status under section 509(a)(2) or 170(b)(1)(A)(vi). Instead, it meets the requirements for public charity status as a **supporting organization** under section 509(a)(3). The organization should check the box on line 11 and the box on either line 11a, 11b, 11c, or 11d, complete lines 11e through 11g, and complete the table on line 11h.
- The organization received an exemption letter that it is a **supporting organization** under section 509(a)(3). Based on Announcement 2006-93, 2006-48 I.R.B. 1017, the organization submitted a request to the IRS to change its classification to public charity status under section 509(a)(2). The organization received a determination letter from the IRS that it has been reclassified as a public charity under section 509(a)(2). The organization should check the box on line 9 and complete Part III of Schedule A.
- The organization received an exemption letter that it is a public charity under section 170(b)(1)(A)(vi). For 2008, it does not meet the requirements for public charity status under section 170(b)(1)(A)(vi) or section 509(a)(2) or as a **supporting organization** under section 509(a)(3). Nor does it meet the requirements for public charity status under any other provision of the Internal Revenue Code. The organization is a private foundation and should not file Form 990 or Form 990-EZ or Schedule A (Form 990 or Form 990-EZ) for 2008 but should file Form 990-PF instead.

New Organizations. If Form 990 or Form 990-EZ is for any of the organization's first five tax years as a section 501(c)(3) organization, check one of the boxes on lines 1 through 11 that corresponds to the organization's public charity status that is stated in its exemption letter. If the organization's exemption letter was an advance ruling letter, it should check the box that corresponds to the organization's public charity status that is stated in this letter.

- If the organization's exemption letter stated it is a public charity under section 170(b)(1)(A)(vi), it should check the box on line 7 and complete Part II of Schedule A through line 13.
- If the organization's exemption letter stated it is a public charity under section 509(a)(2), it should check the box on line 9 and complete Part III of Schedule A through line 14.

**Example:**

An organization received an exemption letter from the IRS that it is tax-exempt under section 501(c)(3) and a public charity under section 170(b)(1)(A)(vi) effective March 25, 2008, its date of incorporation. The organization uses a calendar year accounting

period. When the organization prepares Schedule A, Part I, for 2008 through 2012, it should check the box on Part I, line 7, complete Part II through line 13, and check the box on Part II, line 13.

When the organization prepares Schedule A for 2013, if it qualifies as a public charity for 2013, it should check the appropriate box on Part I indicating the reason it is a public charity for 2013, whether or not the reason is the same as stated in its exemption letter or subsequent IRS determination letter. If the line for the box checked requires doing so, it should complete Part II or Part III. If the organization is a private foundation for 2013, it should not file Form 990 or Form 990-EZ or Schedule A but should file Form 990-PF instead.

**Line 1. Church.** Check the box for a church, convention of churches, or association of churches.

**TIP:** Publication 1828, *Tax Guide for Churches and Religious Organizations*, provides the following description of a church: Certain characteristics are generally attributed to churches. These attributes of a church have been developed by the IRS and by court decisions. They include: distinct legal existence; recognized creed and form of worship; definite and distinct ecclesiastical government; formal code of doctrine and discipline; distinct religious history; membership not associated with any other church or denomination; organization of ordained ministers; ordained ministers selected after completing prescribed courses of study; literature of its own; established places of worship; regular congregations; regular religious services; Sunday schools for the religious instruction of the young; schools for the preparation of its ministers. The IRS generally uses a combination of these characteristics, together with other facts and circumstances, to determine whether an organization is considered a church for federal tax purposes.

**Line 2. School.** Check the box on line 2 for a **school** whose primary function is the presentation of formal instruction, and which regularly has a faculty, a curriculum, an enrolled body of students, and a place where educational activities are regularly conducted. A private school must have a racially nondiscriminatory policy toward its students. For details about these requirements, see Schedule E and the related instructions.

**TIP:** An organization that checks this box on line 2 must also complete Schedule E, *Schools*.

**Line 3. Hospital or Cooperative Hospital Service Organization.** Check the box on line 3 for an organization whose main purpose is to provide hospital or medical care. A rehabilitation institution or an outpatient clinic may qualify as a **hospital** if its principal purposes or functions are the providing of hospital or medical care, but the term does not include medical schools, medical research organizations, convalescent homes, homes for children or the aged, or vocational training institutions for handicapped individuals.

Check the box on line 3 also for a cooperative hospital service organization described in section 501(e).

**TIP:** The definition of **hospital** for Schedule A, Part I, is different from the definition for Schedule H. Accordingly, an organization that checks this box may or may not be required to

complete Schedule H, *Hospitals*. See the instructions for Schedule H, *Hospitals*, under “Who Must File.”

**Line 4. Medical Research Organization.** Check the box on line 4 for an organization the principal purpose or function of which is to engage in **medical research**, and that is directly engaged in the continuous active conduct of **medical research** in conjunction with a hospital. The hospital must be described in section 501(c)(3) or operated by the Federal government, a state or its political subdivision, a U.S. possession or its political subdivision, or the District of Columbia.

If the organization primarily gives funds to other organizations (or grants and scholarships to individuals) for them to do the research, the organization is not a medical research organization.

The organization is not required to be an affiliate of the **hospital**, but there must be a joint effort by the organization and the **hospital** to maintain continuing close cooperation in the active conduct of **medical research**.

**TIP:** The definition of **medical research** for Schedule A, Part I, is different from the definition for Schedule H. Accordingly, research that constitutes **medical research** for purposes of determining whether an organization is a medical research organization does not necessarily constitute **medical research** for Schedule H reporting purposes, or vice versa.

**Assets test/Expenditure test.** An organization qualifies as a medical research organization if its principal purpose is medical research, and if it devotes more than half its assets, or spends at least 3.5% of the fair market value of its endowment, in conducting **medical research** directly. Either test may be met based on a computation period consisting of the immediately preceding tax year or the immediately preceding four tax years.

If an organization does not satisfy either the assets test or the expenditure test, it may still qualify as a medical research organization, based on the circumstances involved.

These tests are discussed in Regulations sections 1.170A-9(d)(2)(v) and (vi). Under these tests, value the organization’s assets as of any day in its tax year but using the same day every year, and value the endowment at fair market value, using commonly accepted valuation methods. (See Regulations section 20.2031.)

**Line 5. Organization Operated for the Benefit of a <sup>publicly-owned</sup> College or University.** Check the box on line 5 and complete Part II of Schedule A if the organization receives and manages property for and expends funds to benefit a college or university that is owned or operated by one or more states or their political subdivisions. The school must be an organization described in the instructions for line 2.

Expending funds to benefit a college or university includes acquiring and maintaining the campus, its buildings, and equipment, granting scholarships and student loans, and making any other payments in connection with the normal functions of colleges and universities.

The organization must meet the same public support test described below for line 7. See Rev. Rul. 82-132, 1982-2 C.B. 107.

They rarely even realize they are public charities.

**Line 6. Federal, State, or Local Governmental Unit.** Only a federal, state or local government or government unit that has received an exemption letter recognizing it as tax-exempt under section 501(c)(3) should check this box. See Rev. Rul. 60-384, 1960-2 C.B. 172.

**Line 7. Organization Normally Receiving Substantial Support from a Governmental Unit or the General Public.** Check the box on line 7 and complete Part II of Schedule A if the organization meets the section 170(b)(1)(A)(vi) public support test. (See instructions for Part II below regarding how an organization may qualify as a publicly supported organization under section 170(b)(1)(A)(vi).) *This is the most common type of public charity for whom Schedule A is so important.*

**Line 8. Community Trust.** Check the box on line 8 and complete Part II of Schedule A if the organization is a community trust and meets the section 170(b)(1)(A)(vi) public support test. A community trust is a charity that attracts large contributions for the benefit of a particular community or area, often initially from a small number of donors, and is generally governed by representatives of its particular community or area. See Regulations section 1.170A-9T(f)(10)-(12).

**Caution:** A community trust claiming it qualifies as a public charity should check the box on line 8 whether it is structured as a corporation or as a trust.

**Line 9. Organization Meeting the Section 509(a)(2) Public Support Tests.** Check the box on line 9 and complete Part III of Schedule A if the organization meets both of the section 509(a)(2) support tests (see instructions for Part III below regarding how an organization may qualify as a publicly supported organization under section 509(a)(2)).

**Line 10. Organization Operated to Test for Public Safety.** Check the box on line 10 only if the organization has received a ruling from the IRS that it is organized and operated primarily to test for public safety.

**Line 11. Supporting Organization.** Check the box on line 11 if the organization is a **supporting organization**. For more information about **supporting organizations**, see Regulations section 1.509(a)-4, and sections 509(a)(3) and 509(f). *Lots of abuse and regulatory focus on the more esoteric types of (a)(3)'s.*

If the organization is a **supporting organization**, it must also check either box 11a, 11b, 11c or 11d to show the type of **supporting organization** it is. The organization must also complete lines 11e through 11g, and the table on line 11h.

**Line 11a to 11d. Type of Supporting Organization.** Use the information below to determine the type of **supporting organization** the organization is. If the organization checks the box on line 11f, the letter the organization received from the IRS identifies its type. If the box checked on line 11a to 11d is different from the type stated in the letter, provide an explanation in Part IV of this Schedule. If the organization does not check the box on line 11f, it should check the box on line 11a to 11d that best describes the type of **supporting organization** it is.

- **Type I.** A *Type I* **supporting organization** is operated, supervised, or controlled by one or more publicly **supported organizations**. If the organization can answer "Yes" to the following question, check the box for "*Type I*."

Does the governing body, officers or membership of the supported public charity(ies) select a majority of the **supporting organization's** officers, directors or trustees?

- **Type II.** A *Type II supporting organization* is supervised or controlled in connection with one or more publicly supported organizations. If the organization can answer “Yes ” to the following question, check the box for “*Type II.*”

Do the same persons, such as directors, trustees, and officers, supervise or control the **supported organization(s)** and the **supporting organization**?

- **Type III – Functionally Integrated.** Check this box if:
  1. The organization is not described in *Type I* or *Type II* above,
  2. The organization’s activities perform the functions of, or carry out the purposes of, the publicly supported organizations, and
  3. But for the organization’s involvement, such activities would normally be engaged in by the publicly supported organizations themselves.

See Regulations section 1.509(a)-4(i)(3)(ii), Notice 2006-109, 2006-51 I.R.B. 1121, and any further related guidance for more information.

- **Type III – Other.** Check this box if the organization is not described as a *Type I*, *Type II*, or *Type III - Functionally Integrated* organization.

**Line 11(e). Certification.** A section 509(a)(3) **supporting organization** cannot be controlled by **disqualified persons**, other than foundation managers. Section 509(a)(1) or (2) organizations and foundation managers who are **disqualified persons** only as a result of being foundation managers are not treated as **disqualified persons**.

**Line 11f – Type of Supporting Organization.** The organization’s exemption letter or subsequent determination letter may state the type of **supporting organization** it is. If it does, check the box on this line. If the letter does not state the type, leave this line blank.

**TIP:** An organization may request a determination letter that describes it as a Type I, Type II, or Type III **supporting organization**. Pending the issuance of final regulations that define Type III – Functionally Integrated and Type III – Other, the IRS may issue a determination letter as to whether a type III **supporting organization** is functionally integrated, but it will not issue a determination letter as whether a Type III **supporting organization** is Type III – Other. A request should be submitted using the procedures described in Section 9 of Rev. Proc. 2008-4, 2008-1 I.R.B. 121, 134 (updated annually). No user fee is required to be paid.

A grantor to a section 509(a)(3) **supporting organization**, acting in good faith, may rely on this letter in determining whether the organization is a *Type I*, *Type II* or *Type III* organization. The grantor may also rely on certain representations made by the organization, or may rely on a reasoned written opinion of counsel of either the grantor or the organization that the organization is a functionally integrated Type III **supporting organization**. See Notice 2006-109, Section 3.01.

**Line 11h – Information Regarding Supported Organizations.** An organization checking a box on line 11 must complete the table on line 11h.

- **Columns (i) and (ii).** List the name and employer identification number (EIN) for each **supported organization**.
- **Column (iii).** For each **supported organization** named in column (i), show which line number (from lines 1 through 9) best describes the **supported organization**. For example, if the organization supported a hospital, enter “3” in column (iii). If the organization supported a federal, state, or local government or governmental unit, or a foreign government, enter “6” in column (iii).
- **Column (iv).** Check “Yes” if the **supported organization** named in column (i) is specifically named as a **supported organization** in the organization’s declaration of trust, articles of incorporation, or other governing document. An organization that supports non-designated publicly **supported organizations** and meets the requirements of Regulations section 1.509(a)-4(d)(2)(i) (relating to designating the publicly supported organizations by class or purpose rather than by name) should not complete column (iv) but should provide a statement in Part IV of this Schedule explaining how it meets these requirements.
- **Column (v).** Check “Yes” if the organization notified the **supported organization** named in column (i) of its support. Note: Only Type III organizations are required to answer this question.
- **Column (vi).** Check “Yes” if the **supported organization** named in column (i) is organized in the United States. Note: Only Type III organizations are required to answer this question.
- **Column (vii).** Enter the total amount of monetary support paid to, or for the benefit of, the **supported organization** named in column (i) during 2008. If no monetary support was provided during 2008, enter zero. If the organization provided to or purchased for the benefit of the **supported organization** services, facilities, or goods, explain in Part IV of Schedule A.

**Part II Support Schedule for Organizations Described in IRC 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)** [This should say "...Described in IRC 509\(a\)\(1\) and 170\(b\)\(1\)\(A\)\(vi\)..." to avoid confusion.](#)

**Caution:** If an organization checked a box on line 5, 7, or 8 of Part I of Schedule A, it should complete Part II. If the organization checks the box on line 13 of Part II, it should stop there and not complete the rest of Part II.

**TIP:** If the organization checked a box on line 5, 7, or 8 of Part I of Schedule A and also checks the box on line 18 of Part II, the organization should complete Part III to determine if it qualifies as a publicly supported organization under section 509(a)(2). If it does, the organization should instead check the box on line 9 of Part I.

**Public Support Test.** For an organization to qualify as a publicly supported organization under section 170(b)(1)(A)(vi), either:

- 33-1/3% or more of its total support must come from governmental agencies, contributions from the general public, and contributions or grants from other public charities, or
- 10% or more of its total support must come from governmental agencies, contributions from the general public, and contributions or grants from other public charities, and the facts and circumstances indicate it is a publicly supported organization.

**Note:** An organization will not meet either of these public support tests if almost all of its support comes from gross receipts from related activities and an insignificant amount of its support comes from governmental units and contributions made directly or indirectly by the general public.

Public support is measured using a five-year computation period. If the organization was not a section 501(c)(3) organization for the entire five-year period in Part II, report amounts only for the years the organization was a section 501(c)(3) organization.

**Line 1. Gifts, Grants, Contributions, and Membership Fees Received.** (Do not include any “unusual grants.”) Include membership fees only to the extent to which the fees are payments to provide support for the organization rather than to purchase admissions, merchandise, services, or the use of facilities. To the extent that the membership fees are payments to purchase admissions, merchandise, services, or the use of facilities in a related activity, report the membership fees on line 12. To the extent that the membership fees are payments to purchase admissions, merchandise, services, or the use of facilities in an unrelated business activity, report the membership fees on line 9. See Regulations section 1.170A-9T()(7)(iv).

**Support from a Governmental Unit.** Include on line 1 support received from a governmental unit. This includes any amounts received from a governmental unit, including donations or contributions and amounts received in connection with a contract entered into with a governmental unit for the performance of services or in connection with a government research grant, unless the amounts are received from exercising or performing the organization’s tax-exempt purpose or function, which should be reported on line 12. An amount received from a governmental unit is not treated as received from exercising or performing the organization’s tax-exempt purpose or function if the payment is to enable the organization to provide a service to, or maintain a facility for, the direct benefit of the public, as for example, to maintain library facilities that are open to the public. See Regulations section 1.170A-9T(f)(8) and Rev. Rul. 81-276 (Issue 2).

**Unusual Grants.** For an organization that received any unusual grants during the five-year period, prepare a list for the organization’s records to show, for each year, the name of the contributor, the date and amount of the grant, and a brief description of the grant. If the organization used the cash method for the applicable year, show only the amounts the organization actually received during that year. If the organization used the accrual method for the applicable year, show only the amounts the organization accrued for that year. (Do not file this list with the organization’s Form 990 or Form 990-EZ because it may be made available for public inspection.) An example of such a list is given below.

**Line 1 Example**

Year → 2008	Description
-------------	-------------

<b>Name</b> → Mr. Distinguished Donor	Undeveloped land
<b>Date of Grant</b> → January 15, 2008	
<b>Amount of Grant</b> → \$60,000	

Include in Part IV of Schedule A a list showing the amount of each unusual grant actually received each year (if the cash accounting method is used), or accrued each year (if the accrual accounting method is used). Do not include the names of the grantors because Part IV will be made available for public inspection.

Unusual grants generally are substantial contributions and bequests from disinterested persons and are:

1. Attracted because of the organization's publicly supported nature,
2. Unusual and unexpected because of the amount, and
3. Large enough to endanger the organization's status as normally meeting either the 33-1/3% public support test or the 10% facts and circumstances test.

For a list of other factors to be considered in determining whether a grant is an unusual grant, see Regulations section 1.509(a)-3T(c)(4).

An unusual grant is excluded even if the organization receives or accrues the funds over a period of years.

Do not report gross investment income items as unusual grants. Instead, include all investment income on line 8.

See Rev. Rul. 76-440, 1976-2 C.B. 58 and Regulations sections 1.170A-9(f)(6)(ii) and 1.509(a)-3T(c)(3) and (4) for details about unusual grants.

### **Reporting Contributions Not Reported As Revenue.**

If the organization reports any contributions in line 1 of this Part that it does not report as revenues in Part VIII or assets in Part X of this Form 990, explain in Part IV of this Schedule the basis for characterizing such transfers as contributions but not as revenues and/or assets. For instance, if an organization is a community foundation that receives and holds a cash transfer for another tax-exempt organization and reports contributions of such property on line 1 without reporting it as revenues in Part VIII or assets in Part X, explain the basis for characterizing the property as contributions but not as revenues and/or assets.

*I am surprised this works. Question might be a trap, or possibly it is a recognition of the problem United Ways have with designated gifts, but they usually need it on the income & expenses to justify fundraising amounts.*

**Line 2. Tax Revenues Levied for the Organization's Benefit.** Enter on this line tax revenues levied for the organization's benefit by a governmental unit and either paid to the organization or expended on its behalf. Report these revenues whether or not the organization includes this amount as revenue on its financial statements or elsewhere on Form 990 or Form 990-EZ.

**Line 3. Value of Services Furnished By a Governmental Unit.** Enter on this line the value of services or facilities furnished by a governmental unit to the organization without charge. Do not include the value of services or facilities generally furnished to the public without charge. For example, include the fair rental value of office space furnished by a governmental unit to the organization without charge but only if the governmental unit does not generally furnish similar

office space to the public without charge. Report these amounts whether or not the organization includes these amounts as revenues on its financial statements or elsewhere on Form 990 or form 990-EZ.

**Line 5. Amounts Exceeding 2%.** Enter in column (f) on this line the portion of total contributions by each individual, trust or corporation included on line 1 for the years reported that exceeds 2% of the amount reported on line 11, column (f). However, the 2% limitation does not apply to contributions from organizations qualifying as publicly supported organizations under section 170(b)(1)(A)(vi), governmental units described in section 170(b)(1)(A)(v), and other organizations, such as the following, but only if they also qualify as publicly supported organizations under section 170(b)(1)(A)(vi):

- Churches described in section 170(b)(1)(A)(i).
- Educational institutions described in section 170(b)(1)(A)(ii).
- **Hospitals** described in section 170(b)(1)(A)(iii).
- Organizations operated for the benefit of a college or university owned or operated by a governmental unit described in section 170(b)(1)(A)(iv).

Prepare for the organization's files a list showing the name of and amount contributed by each donor (other than a governmental unit or publicly supported organization) whose total gifts during the years reported exceed 2% of the amount reported in line 11, column (f). (Do not file this list with the organization's Form 990 or Form 990-EZ because it may be made available for public inspection.) See example below.

[Helpful sample excess contributors schedule. This looks just like your workpaper should look.](#)

**Line 5 Example**

Assumption: 2% of the amount on line 11, column (f) of Part II of Schedule A is \$12,000							
<b>Contributors whose total gifts from 2004 through 2008 were in excess of the 2% limitation</b>							
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
<b>Name</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>Total</b>	<b>Excess contributions (col. (f) less the 2% limitation)</b>
XYZ Foundation			\$59,000	\$3,000	\$18,000	\$80,000	\$68,000
Banana Office Supply	\$12,000			3,000	1,000	\$16,000	4,000
Plum Corporation			15,000	15,000		30,000	18,000
John Smith	5,000	\$5,000	5,000	1,000		16,000	4,000
Sue Adams		10,000		10,000	10,000	30,000	18,000
Raisin Trade Assoc.			20,000	7,000		27,000	15,000

<b>Total</b> Enter the total of column (g) on line 5, column (f) of Part II		\$127,000
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**Line 8. Gross Income from Interest, Dividends, etc.** Include on this line the gross income from interest, dividends, payments received on securities loans (section 512(a)(5)), rents, royalties and income from similar sources. Do not include on this line payments that result from activities of the organization that further its exempt purpose. Instead, report these amounts on line 12.

**Line 9. Net Income from Unrelated Businesses.** Enter on this line the organization's net income from carrying on unrelated business activities, whether or not the activities are regularly carried on as a trade or business. See sections 512 and 513 and the applicable regulations. Include membership fees to the extent they are payments to purchase admissions, merchandise, services, or the use of facilities in an activity that is an unrelated business.

Net income and net losses from all of the organization's unrelated business activities should be aggregated. If a net loss results, enter zero on this line.

**Line 10. Other Income.** Include on this line all support, as defined in section 509(d), that is not included elsewhere on Part II of Schedule A. Explain in Part IV the nature and source of each amount reported. Do not include gain or loss from the sale of capital assets.

**Line 12. Gross Receipts from Related Activities, etc.** Enter on this line the total amount of gross receipts the organization received from related activities for all the years reported in Part II of Schedule A. Although an organization may otherwise meet the section 170(b)(1)(A)(vi) 33-1/3% public support test or the 10% facts and circumstances public support test, it will not be treated as meeting one of these tests if almost all of its support consists of gross receipts from related activities and an insignificant amount of support comes from governmental units and public contributions. See Regulations section 1.170A-9(f)(7)(iii).

Include on line 12 gross receipts from admissions, sales of merchandise, performance of services, or furnishing of facilities in any activity which is not an unrelated trade or business (within the meaning of section 513). See section 509(d)(2). Include membership fees to the extent they are payments to purchase admissions, merchandise, services, or the use of facilities in a related activity. For example, include on this line gross receipts from:

- A trade or business in which substantially all of the work is performed by volunteers. Section 513(a)(1).
- A trade or business carried on by the organization primarily for the convenience of its members, students, patients, officers, or employees. Section 513(a)(2).
- A trade or business which is the selling of merchandise, substantially all of which the organization received as gifts or contributions. Section 513(a)(3).
- "Qualified public entertainment activities" or "qualified convention and trade show activities" of certain organizations. Section 513(d).
- Furnishing certain hospital services. Section 513(e).

What this is saying is that of the common exclusions from UBTI characterization, "not regularly carried on" is the least desirable because the money stays in the denominator, but if the exclusion is volunteers, convenience of members, donated merchandise, and others, that the number drops out of the calculation as if it is program service revenue.

- A trade or business consisting of conducting bingo games, but only if the conduct of such games is lawful. Section 513(f).
- Qualified pole rentals by a mutual or cooperative telephone or electric company. Section 513(g).
- The distribution of certain low cost articles and exchange and rental of members lists. Section 513(h).
- Soliciting and receiving qualified sponsorship payments. Section 513(i).

**Line 13. First Five Years.** An organization that checks this box should stop here and should not complete the rest of Part II of Schedule A. It should not make a public support computation on line 14 or 15 or check any of the boxes on lines 16 through 18.

**Example**

An organization receives an exemption letter from the IRS that it is tax-exempt under section 501(c)(3) and a public charity under section 170(b)(1)(A)(vi) effective March 25, 2008, its date of incorporation. The organization uses a calendar year accounting period. When the organization prepares Part II of Schedule A for 2008 through 2012, it should check the box on line 13 and should not complete the rest of Part II. When the organization prepares Part II for 2013 and subsequent years, it should not check the box on line 13 and should complete the rest of Part II.

**TIP:** An organization in its first five years of existence should make the public support computations on a copy of Schedule A that it keeps for itself. Organizations should carefully monitor their public support on an ongoing basis to ensure that they will meet the public support tests in the sixth and succeeding years.

**Line 14. Public Support Percentage for 2008.** Round to the nearest hundredth decimal point in reporting the percentage of public support. For instance, if the organization calculates its public support percentage as 58.3456%, this percentage would be rounded to 58.35% when reported on line 14.

**Line 15. Public Support Percentage from 2007 Schedule A.** For 2008, enter the Public Support Percentage from the 2007 Form 990 or Form 990-EZ, Schedule A, Part IV-A, line 26f. Round to the nearest hundredth decimal point in reporting the percentage of public support.

**TIP:** Although an organization that uses the accrual method for 2008 Form 990 used the cash method when it prepared the 2007 Form 990 or Form 990-EZ, Schedule A, it should enter on line 15 the Public Support Percentage from the 2007 Form 990 or Form 990-EZ, Schedule A, Part IV-A, line 26f.

**Line 16a. 33-1/3% Test – 2008.** If the organization did not check the box on line 13, and line 14 is 33-1/3% or more, check the box on this line and do not complete the rest of Part II of Schedule A. The organization qualifies as a publicly supported organization for 2008 and 2009.

**Line 16b. 33-1/3% Test – 2007.** If the organization did not check a box on line 13 or 16a, and line 15 is 33-1/3% or more, check the box on this line and do not complete the rest of Part II of Schedule A. The organization qualifies as a publicly supported organization for 2008.

It has always been true that once past the advance ruling period (years 1-5) that public support for any one measurement period conferred public charity status for the next two years - that is what all the 2008 and 2007 testing amounts to.

**Line 17a. 10% Facts and Circumstances Test – 2008.** 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 the box on this line and do not complete the rest of Part II of Schedule A. The organization qualifies as a publicly supported organization for 2008 and 2009. If this box is checked, complete Part IV of this Schedule by describing how the organization meets the “facts and circumstances” test in Reg. 1.170A-9(f)(3). Include in this description the following information:

- Whether the organization maintains a continuous and bona fide program for solicitation of funds from the general public, community, membership group involved, governmental units or other public charities.
- All other facts and circumstances, including the sources of support, whether the organization has a governing board which represents the broad interests of the public, and whether the organization generally provides facilities or services directly for the general benefit of the general public on a continuing basis.
- If the organization is a membership organization, whether the solicitation for dues-paying members is designed to enroll a substantial number of persons from the community, whether dues for individual members have been fixed at rates designed to make membership available to a broad cross section of the interested public, and whether the activities of the organization will be likely to appeal to persons having some broad common interest or purpose.

**Line 17b. 10% Facts and Circumstances Test – 2007.** 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 the box on this line and do not complete the rest of Part II of Schedule A. The organization qualifies as a publicly supported organization for 2008. If this box is checked, complete Part IV of this Schedule by describing how the organization meets the “facts and circumstances” test in Reg. 1.170A-9(f)(3). Include in this description the same information identified in the instructions to line 17a.

**Note:** The alternative test for organizations experiencing substantial and material changes in its sources of support, other than from unusual grants, has been eliminated. [was very obscure anyway](#)

**Line 18. Private Foundation.** If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, it does not qualify as a publicly supported organization under section 170(b)(1)(A)(iv) or section 170(b)(1)(A)(vi) for 2008 and should check the box on this line. If the organization does not qualify as a public charity under any of the boxes in Part I of Schedule A, lines 1 through 11, it is a private foundation as of the beginning of the tax year and should not file Form 990 or Form 990-EZ or Schedule A for 2008. Instead, the organization should file Form 990-PF.

**TIP:** If the Form 990 or Form 990-EZ is for the organization’s sixth tax year as a section 501(c)(3) organization, and it checked the box on line 18, it should compute the public support percentage on its Form 990 or Form 990-EZ for its first five tax years. If its public support percentage for its first five tax years is 33-1/3% or more, or if it meets the 10% facts and circumstances test for its first five tax years, it will qualify as a public charity for its sixth tax year. If the organization qualifies in this manner, explain in Part IV of Schedule A.

**TIP:** If the organization does not qualify as a publicly supported organization under section 170(b)(1)(A)(vi), it may complete Part III of Schedule A to determine if it qualifies as a publicly supported organization under section 509(a)(2).

### **Part III Support Schedule for Organizations Described in IRC 509(a)(2)**

**Caution:** If an organization checked the box on line 9 of Part I of Schedule A, it should complete Part III. If the organization checks the box on line 14 of Part III, it should stop there and not complete the rest of Part III.

**TIP:** If the organization checked the box on line 9 of Part I of Schedule A and also checks the box on line 20 of Part III, the organization should complete Part II to determine if it qualifies as a publicly supported organization under section 170(b)(1)(A)(vi). If it does, the organization should instead check the box on line 5, 7 or 8 of Part I, whichever applies.

**Public Support Test.** For an organization to qualify as a publicly supported organization under section 509(a)(2):

- More than 33-1/3% of its support must come from contributions, membership fees, and gross receipts from activities related to its exempt functions or from amounts which are not unrelated trades or businesses under section 513, and
- No more than 33-1/3% of its support must come from gross investment income and net unrelated business income (less section 511 tax) from businesses acquired by the organization after June 30, 1975.

Public support is measured using a five-year computation period. If the organization was not a section 501(c)(3) organization for the entire five-year period in Part III of Schedule A, report amounts only for the years the organization was a section 501(c)(3) organization.

**Line 1. Gifts, Grants, Contributions, and Membership Fees Received.** (Do not include any "unusual grants.") Include membership fees only to the extent to which the fees are payments to provide support for the organization rather than to purchase admissions, merchandise, services, or the use of facilities. To the extent that the membership fees are payments to purchase admissions, merchandise, services or the use of facilities in a related activity, include the membership fees on line 2. See Regulations section 1.509(a)-3(h). To the extent that the membership fees are payments to purchase admissions, merchandise, services, or the use of facilities in an activity that is not an unrelated business under section 513, report the membership fees on line 3. To the extent that the membership fees are payments to purchase admissions, merchandise, services, or the use of facilities in an activity that is an unrelated business, report the net amount either on line 10b or line 11, as appropriate.

**Support from a Governmental Unit.** Include on line 1 support received from a governmental unit. This includes any amounts received from a governmental unit, including donations or contributions and amounts received in connection with a contract entered into with a governmental unit for the performance of services or in connection with a government research grant, unless the amounts are received from exercising or performing the organization's tax-exempt purpose or function which should be reported on line 2. An amount received from a governmental unit is not treated as received from exercising or performing the organization's tax-exempt purpose or function if the payment is to provide services, facilities or products

primarily for the economic benefit of the payee. For example, if a state agency pays an organization to operate an institute to train employees from various industries in the principles of management and administration, the funds received should be included in line 2 as support related to the exercise or performance of the organization's tax-exempt purpose. Regulations section 1.509(a)-3(g).

**Unusual Grants.** For an organization that received any unusual grants during the five-year period, prepare a list for the organization's records to show, for each year, the name of the contributor, the date and amount of the grant, and a brief description of the grant. If the organization used the cash method for the applicable year, show only the amounts the organization actually received during that year. If the organization used the accrual method for the applicable year, show only the amounts the organization accrued for that year. (Do not file this list with the organization's Form 990 or Form 990-EZ because it may be made available for public inspection.) See example below.

**Line 1 Example**

<b>Year → 2008</b>	<b>Description</b> Undeveloped land
<b>Name → Mr. Distinguished Donor</b>	
<b>Date of Grant → January 15, 2008</b>	
<b>Amount of Grant → \$60,000</b>	

Include in Part IV of Schedule A a schedule showing the amount of each unusual grant actually received each year (if the cash accounting method is used), or accrued each year (if the accrual accounting method is used). Do not include the names of the grantors because Part IV will be made available for public inspection.

Unusual grants generally are substantial contributions and bequests from disinterested persons and are:

1. Attracted because of the organization's publicly supported nature,
2. Unusual and unexpected because of the amount, and
3. Large enough to endanger the organization's status as normally meeting the 33-1/3% public support test.

For a list of other factors to be considered in determining whether a grant is an unusual grant, see Regulations section 1.509(a)-3T(c)(4).

An unusual grant is excluded even if the organization receives or accrues the funds over a period of years.

Do not report gross investment income items as unusual grants. Instead, include all investment income on line 10a.

See Rev. Rul. 76-440, 1976-2 C.B. 58 and Regulations sections 1.170A-9(f)(6)(ii) and 1.509(a)-3T(c)(3) and (4) for details about unusual grants.

**Reporting Contributions Not Reported As Revenue.**

If the organization reports any contributions in line 1 of this Part that it does not report as revenues in Part VIII or assets in Part X of this Form 990, explain in Part IV of this Schedule the

basis for characterizing such transfers as contributions but not as revenues and/or assets. For instance, if an organization is a community foundation that receives and holds a cash transfer for another tax-exempt organization and reports contributions of such property on line 1 without reporting it as revenues in Part VIII or assets in Part X, explain the basis for characterizing the property as contributions but not as revenues and/or assets.

**Line 2. Gross Receipts From Activities Related to Organization's Tax-Exempt Purpose.**

Include on line 2 gross receipts from admissions, merchandise sold, or services performed, or facilities furnished, in any activity that is related to the organization's tax-exempt purpose (such as charitable, educational, etc.). To the extent that the membership fees are payments to purchase admissions, merchandise, services or the use of facilities in a related activity, include the membership fees on line 2. See Regulations section 1.509(a)-3(h).

**Line 3. Gross Receipts from Activities Not an Unrelated Trade or Business Under Section 513.** Include on this line gross receipts from:

- A trade or business in which substantially all of the work is performed by volunteers. Section 513(a)(1).
- A trade or business carried on by the organization primarily for the convenience of its members, students, patients, officers, or employees. Section 513(a)(2).
- A trade or business which is the selling of merchandise, substantially all of which the organization received as gifts or contributions. Section 513(a)(3).
- "Qualified public entertainment activities" or "qualified convention and trade show activities" of certain organizations. Section 513(d).
- Furnishing certain hospital services. Section 513(e).
- A trade or business consisting of conducting **bingo** games, but only if the conduct of such games is lawful. Section 513(f).
- Qualified pole rentals by a mutual or cooperative telephone or electric company. Section 513(g).
- The distribution of certain low cost articles and exchange and rental of members lists. Section 513(h).
- Soliciting and receiving qualified sponsorship payments. Section 513(i).

**Line 4. Tax Revenues Levied for the Organization's Benefit.** Enter on this line tax revenues levied for the organization's benefit by a governmental unit and either paid to the organization or expended on its behalf. Report these revenues whether or not the organization includes this amount as revenue on its financial statements or elsewhere on Form 990 or Form 990-EZ.

**Line 5. Value of Services Furnished By a Governmental Unit.** Enter on this line the value of services or facilities furnished by a governmental unit to the organization without charge. Do not include the value of services or facilities generally furnished to the public without charge. For example, include the fair rental value of office space furnished by a governmental unit to the

organization without charge but only if the governmental unit does not generally furnish similar office space to the public without charge.

**Line 7a. Amounts from Disqualified Persons.** Enter on this line the amounts that are included on lines 1, 2 and 3 that the organization received from **disqualified persons** (Section 4946).

For amounts included in lines 1, 2, and 3 that were received from a **disqualified person**, prepare a list for the organization's records to show the name of, and total amounts received in each year from, each **disqualified person**. (Do not file this list with the organization's Form 990 or Form 990-EZ because it may be made available for public inspection.) **Enter the total of such amounts for each year on line 7a.** See example below.

**Line 7a Example**

Disqualified Person	(a) 2004	(b) 2005	(c) 2006	(d) 2007	(e) 2008	(f) Total
David Smith	\$7,000	\$6,000			\$2,000	\$15,000
Anne Parker			\$5,000	\$7,000	\$4,000	\$16,000
<b>Total</b>	\$7,000	\$6,000	\$5,000	\$7,000	\$6,000	\$31,000

**Line 7b. Amounts Exceeding 1%.** For any gross receipts included on lines 2 and 3 from related activities received from any person, or from any bureau or similar agency of a governmental unit, other than from a **disqualified person**, that exceed the greater of 1% of line 13 for the applicable year or \$5,000, enter the excess on line 7b. Prepare a list for the organization's records to show, for each year, the name of the person or government agency, the amount received during the applicable year, the larger of 1% of line 13 for the applicable year or \$5,000, and the excess, if any. (Do not file this list with the organization's Form 990 or Form 990-EZ because it may be made available for public inspection.) See example below.

**Line 7b Example  
Year 2008**

(a) Name	(b) Amount Received in 2008	(c) 1% of Amount on Line 13 for 2008	(d) Enter the Larger of column (c) or \$5,000	(e) 2008 Excess (column (b) less column (d))
Word Processing, Inc.	\$25,000	\$2,000	\$5,000	\$20,000
<b>Enter the total for column (f) on line 7b for 2008</b>				\$20,000

**Line 10a. Gross Income from Interest, Dividends, etc.** Include on this line the gross income from interest, dividends, payments received on securities loans (section 512(a)(5)), rents, royalties and income from similar sources. Do not include on this line payments that result from activities of the organization that further its exempt purpose. Instead, report these amounts on line 2.

**Line 10b. Unrelated Business Taxable Income.** Enter on this line the excess of the organization's unrelated business taxable income (as defined in section 512) from trades or businesses that it acquired or commenced after June 30, 1975 over the amount of tax imposed

on this income under section 511. Include membership fees to the extent they are payments to purchase admissions, merchandise, services, or the use of facilities in an unrelated business activity that is a trade or business that was acquired or commenced after June 30, 1975.

Net income and net losses from all of these trades or businesses should be aggregated. If a net loss results, enter zero on this line. See Regulations section 1.509(a)-3(a)(3).

**Line 11. Net Income from Unrelated Businesses.** Enter on this line the organization's net income from carrying on unrelated business activities, not included on line 10b, whether or not the activities are regularly carried on as a trade or business. See sections 512 and 513 and the applicable regulations. Include membership fees to the extent they are payments to purchase admissions, merchandise, services, or the use of facilities in an activity that is an unrelated business not included on line 10b.

Net income and net losses from all of the organization's unrelated business activities should be aggregated. If a net loss results, enter zero on this line.

**Line 12. Other Income.** Include on this line all support as defined in section 509(d) that is not included elsewhere on Part III of Schedule A. Explain on Part IV of this Schedule the nature and source of each amount reported. Do not include gain or loss from the sale of capital assets.

**Line 14. First Five Years.** An organization that checks this box should stop here and should not complete the rest of Part III of Schedule A. It should not make a public support computation on line 15 or 16 or an investment income computation on line 17 or 18, or check any of the boxes on line 19 or 20.

**Example:**

An organization receives an exemption letter from the IRS that it is tax-exempt under section 501(c)(3) and a public charity under section 509(a)(2) effective March 25, 2008, its date of incorporation. The organization uses a calendar year accounting period. When the organization prepares Part III of Schedule A for 2008 through 2012, it should check the box on line 14 and should not complete the rest of Part III. When the organization prepares Part III for 2013 and subsequent years, it should not check the box on line 14 and should complete the rest of Part III

**TIP:** An organization in its first five years of existence should make the public support and investment income computations on a copy of Schedule A that it keeps for itself. Organizations should carefully monitor their public support on an ongoing basis to ensure that they will meet the public support tests in the sixth and succeeding years.

**Line 15. Public Support Percentage for 2008.** Round to the nearest hundredth decimal point in reporting the percentage of public support. For instance, if the organization calculates its public support percentage as 58.3456%, this percentage would be rounded to 58.35% when reported on line 15.

**Line 16. Public Support Percentage from 2007 Schedule A.** For 2008, enter the Public Support Percentage from the 2007 Form 990 or Form 990-EZ, Schedule A, Part IV-A, line 27g. Round to the nearest hundredth decimal point in reporting the percentage of public support.

**TIP:** Although an organization that uses the accrual method for 2008 Form 990 used the cash method when it prepared the 2007 Form 990 or Form 990-EZ, Schedule A, it should enter on line 16 the Public Support Percentage from the 2007 Form 990 or Form 990-EZ, Schedule A, Part IV-A, line 27g.

**Line 17. Investment Income Percentage for 2008.** Round to the nearest whole percentage.

**Line 18. Investment Income Percentage from 2007 Schedule A.** For 2008, enter the Investment Income Percentage from the 2007 Form 990 or Form 990-EZ, Schedule A, Part IV-A, line 27h. Round to the nearest whole percentage.

**Line 19a. 33-1/3% Tests – 2008.** If the organization did not check the box on line 14, and Line 15 is more than 33-1/3%, and line 17 is not more than 33-1/3%, check the box on this line and do not complete the rest of this schedule. The organization qualifies as a publicly supported organization for 2008 and 2009.

**Line 19b. 33-1/3% Tests – 2007.** If the organization did not check a box on line 14 or 19a, and line 16 is more than 33-1/3%, and line 18 is not more than 33-1/3%, **check the box on this line and do not complete the rest of this schedule.** The organization qualifies as a publicly supported organization for 2008.

**Note:** The alternative test for organizations experiencing substantial and material changes in its sources of support, other than from unusual grants, has been eliminated.

**Line 20. Private Foundation.** If the organization did not check a box on line 14, 19a or 19b, it does not qualify as a publicly supported organization under section 509(a)(2) for 2008 and should check the box on this line. If the organization does not qualify as a public charity under any of the boxes in Part I of Schedule A, lines 1 through 11, it is a private foundation as of the beginning of the year and should not file Form 990 or Form 990-EZ or Schedule A for 2008. Instead, the organization should file Form 990-PF.

**TIP:** If the Form 990 or Form 990-EZ is for the organization's sixth tax year as a section 501(c)(3) organization, and it checked the box on line 20, it should compute the public support percentage and the investment income percentage on its Form 990 for its first five tax years. If its public support percentage for its first five tax years is more than 33-1/3% and the investment income percentage for its first five tax years is not more than 33-1/3%, it will qualify as a public charity for its sixth tax year. If the organization qualifies in this manner, explain in Part IV of Schedule A.

**TIP:** If the organization does not qualify as a publicly supported organization under section 509(a)(2), it may complete Part II of Schedule A to determine if the organization qualifies as a publicly supported organization under section 170(b)(1)(A)(vi).

#### **Part IV Supplemental Information**

Use Part IV of Schedule A to provide narrative information required, if applicable, in Part II, line 10, and line 17a or 17b, and in Part III, line 12. Also use Part IV to provide other narrative explanations required by these instructions or to supplement responses to questions in Schedule A. Identify the specific part and line number that the response supports, in the order in which they appear on Schedule A. Part IV may be duplicated if more space is needed.

**CAUTION:** Do not include in Part IV the names of any donors, grantors or contributors because Part IV will be made available for public inspection.

DRAFT

## 2008 Instructions for Schedule B (Form 990, 990-EZ, or 990-PF) Schedule of Contributors

Section references are to the Internal Revenue Code unless otherwise noted.

### General Instructions

#### Purpose of Schedule

Schedule B (Form 990, 990-EZ, or 990-PF) is used to provide information on **contributions** the organization reported on –

- Form 990-PF, Return of Private Foundation, line 1,
- Form 990, Return of Organization Exempt From Income Tax, Part VIII, line 1, or
- Form 990-EZ, Short Form Return of Organization Exempt From Income Tax, line 1.

#### Who Must File

Every organization must complete and attach Schedule B to their Form 990, 990-EZ, or 990-PF, unless it certifies that it does not meet the filing requirements of this schedule by answering “No” on Part IV, line 2, of Form 990, or by checking the proper box on line H of Form 990-EZ, or on line 2 of Form 990-PF. See the instructions for Schedule B found in the separate instructions for those forms. For special instructions regarding **group returns**, see Appendix E.

If an organization is not required to file Form 990, Form 990-EZ or Form 990-PF, it is not required to file Schedule B.

#### Accounting Method

When completing Schedule B (Form 990, 990-EZ, or 990-PF), the organization must use the same accounting method it checked, either on Form 990, Part XI, *Financial Statements and Reporting*, line 1; Form 990-EZ, line G; or Form 990-PF, line J.

#### Public Inspection

Schedule B is:

- Open to public inspection for an organization that files Form 990-PF,
- Open to public inspection for a section 527 political organization that files Form 990 or Form 990-EZ, or
- For the other organizations that file Form 990 or Form 990-EZ, the names and addresses of contributors are not open to public inspection. All other information, including the amount of **contributions**, the description of **non-cash contributions**, and any other information provided will be open to public inspection unless it clearly identifies the contributor.

If an organization files a copy of Form 990, or Form 990-EZ, and attachments, with any state, it should not include its Schedule B in the attachments for the state, unless a schedule of contributors is specifically required by the state. States that do not require the information might inadvertently make the schedule available for public inspection along with the rest of the Form 990 or Form 990-EZ.

See the Instructions for Form 990 and Form 990-EZ, as well as the Instructions for Form

990-PF, for phone help information and the public inspection rules for those forms and their attachments.

### **Contributors to be Listed on Part I**

A “contributor” (person) includes individuals, fiduciaries, partnerships, corporations, associations, trusts, and exempt organizations. In addition, **governmental units** are contributors for purposes of contributions to section 509(a)(2), 170(b)(1)(A)(iv), and 170(b)(1)(A)(vi) organizations.

### **Contributions**

“Contributions” reportable in Schedule B are contributions, grants, bequests, devises, and gifts of money or property, whether or not for charitable purposes. For instance, political contributions to section 527 political organizations are included. Contributions do not include fees for the performance of services. See the instructions for Form 990, Part VIII, *Statement of Revenue*, line 1 for a fuller discussion of what constitutes “contributions.”

### **General Rule**

Unless the organization is covered by one of the *Special Rules* below, it must list on Part I every contributor who, during the year, gave the organization directly or indirectly, money, securities, or any other type of property aggregating \$5,000 or more for the year. In determining the aggregate amount, separate and independent gifts of less than \$1,000 may be disregarded.

### **Special Rules**

**Section 501(c)(3) organizations that file Form 990 or Form 990-EZ.** For an organization described in section 501(c)(3) that meets the 33 1/3% support test of the regulations under sections 509(a)(1)/170(b)(1)(A)(vi) and not just the 10% support test (whether or not the organization is otherwise described in section 170(b)(1)(A)) –

List in Part I only those contributors whose contribution of \$5,000 or more is greater than 2% of the amount reported on line 1h of Part VIII of Form 990 (or line 1 of Form 990-EZ).

**Example.** A section 501(c)(3) organization, of the type described above, reported \$700,000 in total contributions, gifts, grants, and similar amounts received on Part VIII, line 1h, of its Form 990. The organization is only required to list in Parts I and II of its Schedule B each person who contributed more than the greater of \$5,000 or 2% of \$700,000, that is, \$14,000. Thus, a contributor who gave a total of \$11,000 would not be reported in Parts I and II for this section 501(c)(3) organization. Even though the \$11,000 contribution to the organization was greater than \$5,000, it did not exceed \$14,000.

**Section 501(c)(7), (8), or (10) organizations.** For contributions to these social and recreational clubs, fraternal beneficiary and domestic fraternal societies, orders, or associations that were not for an exclusively religious, charitable, etc., purpose, list in Part I each contributor who, during the year, contributed \$5,000 or more, as described above under the *General Rule*.

For contributions or bequests to a section 501(c)(7), (8), or (10) organization received for use exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals (sections 170(c)(4), 2055(a)(3), or 2522(a)(3)) –

List in Part I each contributor whose aggregate contributions for an exclusively religious, charitable, etc., purpose were more than \$1,000 during the year. To determine the more-than-\$1,000 amount, total all of a contributor's gifts for the year (regardless of amount). If the type of contribution listed in Part I, column (d) is noncash, also complete Part II.

All section 501(c)(7), (8), or (10) organizations that listed an exclusively religious, charitable, etc., contribution on Part I or II must also complete Part III to –

Provide further information on such contributions of more than \$1,000 during the year, and show the total amount received from such contributions that were for \$1,000 or less during the year.

However, if a section 501(c)(7), (8), or (10) organization did not receive a contribution of more than \$1,000 during the year for exclusively religious, charitable, etc., purposes, and consequently was not required to complete Parts I through III, it need only check the correct *Special Rules* box applicable to that organization on the front of Schedule B and enter, in the space provided, the total contributions it did receive during the year for an exclusively religious, charitable, etc., purpose.

### Specific Instructions

**Note:** *You may duplicate Parts I through III if more copies of these Parts are needed. Number each page of each Part.*

**Part I. Contributors.** In column (a), identify the first contributor listed as No. 1 and the second contributor as No. 2, etc. Number consecutively. In column (b), list the contributor's name and address. In column (c), enter the amount of aggregate contributions for the year for the contributor listed.

In column (d), list the type of contribution. If a cash contribution came directly from a "contributor" (other than through payroll deduction), check the "Person" box. A "cash contribution" includes contributions paid by cash, credit cards, checks, money orders, electronic fund or wire transfers, and other charges against funds on deposit at a financial institution. Check the "Payroll" box for indirect contributions; that is, employees' contributions forwarded by an employer. (If an employer withholds contributions from employees' pay and periodically gives them to the organization, report only the employer's name and address and the total amount given unless you know that a particular employee gave enough to be listed separately.) Check the "Noncash" box for any other contribution of property other than "cash" and complete Part II of this Schedule. Check all that apply for the contributor listed.

For section 527 organizations that file a Form 8871, Political Organization Notice of Section 527 Status, the names and addresses of contributors that are not reported on Form 8872, Political Organization Report of Contributions and Expenditures, do not need to be reported in Part I of Schedule B if the organization paid the amount specified by section 527(j)(1). In this case, enter "Pd. 527(j)(1)" in column (b), instead of a name, address, and zip code; but enter the amount of contributions in column (c).

**Part II. Noncash Property.** In column (a), show the number that corresponds to the contributor's number in Part I. In column (b), describe the **non-cash contribution** received by the organization. Note the public inspection rules discussed above.

In columns (c) and (d), report on property with readily determinable market value (for example, market quotations for **securities**) by listing its fair market value. If the organization immediately sells securities contributed to the organization (including through a broker or agent), the contribution still must be reported as a gift of property rather than cash, in the amount of the net proceeds plus the broker's fees and expenses. See Instructions to Part VIII, line 1g of Form 990, which provides an example to illustrate this point. If the property is not immediately sold, for marketable securities registered and listed on a recognized securities exchange, measure market value by the average of the highest and lowest quoted selling prices (or the average between the *bona fide* bid and asked prices) on the contribution date. See Regulations section 20.2031-2 to determine the value of contributed stocks and bonds. When fair market value cannot be readily determined, use an appraised or estimated value. To determine the amount of a **non-cash contribution** that is subject to an outstanding debt, subtract the debt from the property's fair market value. Enter the date the property was received by the organization, if the donor has fully given up use and enjoyment of the property at that time.

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

If the organization received a partially completed Form 8283, Noncash Charitable Contributions, from a donor, complete it and return it so the donor can get a charitable contribution deduction. Keep a copy for your records.

Original (first) and successor donee (recipient) organizations must file Form 8282, Donee Information Return, if they sell, exchange, consume, or otherwise dispose of (with or without consideration) charitable deduction property (property other than money or certain publicly traded securities) within 3 years after the date the original donee received the property.

**Part III. Section 501(c)(7), (c)(8), or (c)(10) organizations.** Section 501(c)(7), (8), or (10) organizations that received contributions or bequests for use exclusively for religious, charitable, etc., purposes must complete Parts I through III for those persons whose gifts totaled more than \$1,000 during the year. Show also, in the heading of Part III, total gifts to these organizations that were \$1,000 or less for the year and were for exclusively religious, charitable, etc., purposes. Complete this information only on the first Part III page.

If an amount is set aside for an exclusively religious, charitable, etc., purpose, show in column (d) how the amount is held (for example, whether it is commingled with amounts held for other purposes). If the organization transferred the gift to another organization, show the name and address of the transferee organization in column (e) and explain the relationship between the two organizations.

## 2008 Schedule C (Form 990 or 990-EZ) Instructions Political Campaign and Lobbying Activities

Section references are to the Internal Revenue Code unless otherwise noted.

### General Instructions

#### Purpose of the Schedule

Schedule C (Form 990 or 990-EZ) is used by

- section 501(c) organizations, and
- section 527 organizations.

These organizations must use Schedule C to furnish additional information on political campaign or lobbying activities, as those terms are defined below for the various Parts of this Schedule.

#### Who Must File

Any organization that answered "Yes" on Form 990, Part IV, *Checklist of Required Schedules*, lines 3, 4 or 5 must complete and attach Schedule C to Form 990, and complete the applicable Parts relating to those lines. Any organization that answered "Yes" on Form 990-EZ, Part VI, lines 46 or 47, must complete and attach Schedule C to Form 990-EZ, and complete the applicable Parts relating to those lines.

If an organization has an ownership interest in a joint venture taxed as a partnership that conducts political campaign or lobbying activities, the organization must report its share of such activity on Schedule C.

**Part I, Political Campaign Activities.** Part I is to be completed by section 501(c) and section 527 organizations. If the organization answered "Yes" to Form 990, Part IV, Line 3, or Form 990-EZ, Part VI, line 46, then:

- A section 501(c)(3) organization must complete Part I-A and Part I-B. Do not complete Part I-C.
- A section 501(c) organization *other than* section 501(c)(3) must complete Part I-A and Part I-C. Do not complete Part I-B.
- A section 527 organization must complete Part I-A. Do not complete Parts I-B and Part I-C.

**Part II, Lobbying Activities.** Part II is to be completed only by section 501(c)(3) organizations. If the organization answered "Yes" to Form 990, Part IV, Line 4, or Form 990-EZ, Part VI, line 47, then:

- A section 501(c)(3) organization that elected to be subject to the lobbying expenditure limitations of section 501(h) by filing Form 5768 and for which the election was valid and in effect for its tax year beginning in the year 2008 must complete Part II-A. Do not complete Part II-B.

- A section 501(c)(3) organization that has NOT elected (or has revoked such election by filing Form 5768 for which the revocation was valid and in effect for its tax year beginning in the year 2008) must complete Part II-B. Do not complete Part II-A.

**Part III, Section 6033(e) Notice and Reporting Requirements and Proxy Tax.** Part III is to be completed by section 501(c)(4), 501(c)(5), and 501(c)(6) organizations that received membership dues, assessments, or similar amounts as defined in Rev. Proc. 98-19, and that answered “Yes” to Form 990, Part IV, line 5.

If an organization is not required to file Form 990, or Form 990-EZ, as applicable, it is not required to file Schedule C.

## **Specific Instructions**

### **Definitions**

**General Definition of Terms.** (Definitions in this section are applicable throughout Schedule C, except where noted)

**Political Campaign Activities:** See Glossary for definition.

**TIP:** Revenue Ruling 2007-41 provides guidelines for exempt organizations on the scope of the tax law prohibition of campaign activities by section 501(c)(3) organizations. (See Rev. Rul. 2007-41, 2007-25 I.R.B. (June 18, 2007)).

*Section 527 Exempt Function Activities:* All functions that influence or attempt to influence the selection, nomination, election, or appointment of any individual to any Federal, State, or local public office or office in a political organization, or the election of Presidential or Vice-Presidential electors, whether or not such individual or electors are selected, nominated, elected, or appointed.

*Political Expenditures:* Any expenditure for political campaign activities are political expenditures. An expenditure includes a payment, distribution, loan, advance, deposit, or gift of money, or anything of value. It also includes a contract, promise, or agreement to make an expenditure, whether or not legally enforceable.

**Lobbying Activities:** See Glossary for definition.

*Legislation:* Legislation includes action by Congress, any state legislature, any local council, or similar governing body with respect to acts, bills, resolutions, or similar items or by the public in referenda, ballot initiatives, constitutional amendments or similar procedures. It does not include actions by executive, judicial or administrative bodies.

*Specific Legislation:* Specific legislation includes (1) legislation that has already been introduced in a legislative body and (2) specific legislative proposals that an organization either supports or opposes.

**Part II-A - Definitions** (Definitions in this section are applicable only to Part II-A of this Schedule)

*Expenditure Test:* Under the expenditure test, there are limits both upon the amount of the organization's grassroots lobbying expenditures and upon the total amount of its direct lobbying and grassroots lobbying expenditures. If the electing public charity does not meet this expenditure test, it will owe a section 4911 excise tax on its excess lobbying expenditures. Moreover, if over a 4-year averaging period the organization's average annual total lobbying or grassroots lobbying expenditures are more than 150% of its dollar limits, the organization will lose its exempt status.

*Exempt purpose expenditures:* In general, an exempt purpose expenditure is paid or incurred by an electing public charity to accomplish the organization's exempt purpose.

Exempt purpose expenditures include:

1. The total amount paid or incurred for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, or to foster national or international amateur sports competition (not including providing athletic facilities or equipment, other than by qualified amateur sports organizations described in section 501(j)(2)),
2. The allocable portion of administrative expenses paid or incurred for the above purposes,
3. Amounts paid or incurred to try to influence legislation, whether or not for the purposes described in 1 above,
4. Allowance for depreciation or amortization, and
5. Fundraising expenditures, except that exempt purpose expenditures do not include amounts paid to or incurred for either the organization's separate fundraising unit or other organizations, if the amounts are primarily for fundraising.

See Regulations section 56.4911-4(c) for a discussion of excluded expenditures.

*Lobbying expenditures:* *Lobbying expenditures* are expenditures (including allocable overhead and administrative costs) paid or incurred for the purpose of attempting to influence legislation:

- Through communication with any member or employee of a legislative or similar body, or with any government official or employee who may participate in the formulation of the legislation, and
- By attempting to affect the opinions of the general public.

To determine if an organization has spent excessive amounts on lobbying, the organization must know which expenditures are lobbying expenditures and which are not lobbying expenditures. An electing public charity's lobbying expenditures for a year are the sum of its expenditures during that year for (1) direct lobbying communications (direct lobbying expenditures) plus (2) grassroots lobbying communications (grassroots expenditures).

*Direct lobbying communications (direct lobbying expenditures):* A direct lobbying communication is any attempt to influence any legislation through communication with:

- A member or employee of a legislative or similar body,

- A government official or employee (other than a member or employee of a legislative body) who may participate in the formulation of the legislation, but only if the principal purpose of the communication is to influence legislation, or
- The public in a referendum, initiative, constitutional amendment, or similar procedure.

A communication with a legislator or government official will be treated as a direct lobbying communication, if, but only if, the communication:

- Refers to specific legislation, and
- Reflects a view on such legislation.

*Grassroots lobbying communications (grassroots expenditures):* A grassroots lobbying communication is any attempt to influence any legislation through an attempt to affect the opinions of the general public or any part of the general public.

A communication is generally not a grassroots lobbying communication unless (in addition to referring to specific legislation and reflecting a view on that legislation) it encourages recipients to take action about the specific legislation.

A communication encourages a recipient to take action when it:

1. States that the recipient should contact legislators;
2. States a legislator's address, phone number, etc.;
3. Provides a petition, tear-off postcard, or similar material for the recipient to send to a legislator; or
4. Specifically identifies one or more legislators who:
  - a. Will vote on legislation;
  - b. Opposes the communication's view on the legislation;
  - c. Is undecided about the legislation;
  - d. Is the recipient's representative in the legislature; or
  - e. Is a member of the legislative committee that will consider the legislation.

A communication described in (4) above generally is grassroots lobbying only if, in addition to referring to and reflecting a view on specific legislation, it is a communication that cannot meet the full and fair exposition test as nonpartisan analysis, study, or research.

*Exceptions to Lobbying:* In general, engaging in nonpartisan analysis, study, or research and making its results available to the general public or segment or members thereof, or to governmental bodies, officials, or employees is not considered either a direct lobbying communication or a grassroots lobbying communication. Nonpartisan analysis, study, or research may advocate a particular position or viewpoint as long as there is a sufficiently full and fair exposition of the pertinent facts to enable the public or an individual to form an independent opinion or conclusion.

A communication that responds to a governmental body's or committee's written request for technical advice is not a direct lobbying communication.

A communication is not a direct lobbying communication if the communication is an appearance before, or communication with, any legislative body concerning action by that body that might affect the organization's existence, its powers and duties, its tax-exempt status, or

the deductibility of contributions to the organization, as opposed to affecting merely the scope of the organization's future activities.

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

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

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

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

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

*Affiliated Groups:* Members of an affiliated group are treated as a single organization to measure lobbying expenditures and permitted lobbying expenditures. Two organizations are affiliated if one is bound by the other organization's decisions on legislative issues (control) or if enough representatives of one belong to the other organization's governing board to cause or prevent action on legislative issues (interlocking directorate). If the organization is not sure whether its group is affiliated, it may ask the IRS for a ruling letter. There is a fee for this ruling. For information on requesting rulings, see annual revenue procedure.

Members of an affiliated group measure both lobbying expenditures and permitted lobbying expenditures on the basis of the affiliated group's tax year. If all members of the affiliated group have the same tax year, that year is the tax year of the affiliated group. However, if the affiliated group's members have different tax years, the tax year of the affiliated group is the calendar year, unless all the members of the group elect otherwise. See Regulations section 56.4911-7(e)(3).

*Limited Control:* Two organizations that are affiliated because their governing instruments provide that the decisions of one will control the other only on national legislation are subject to the following provisions:

- Charge the controlling organization with its own lobbying expenditures and the national legislation expenditures of the affiliated organizations,
- Do not charge the controlling organization with other lobbying expenditures (or other exempt-purpose expenditures) of the affiliated organizations, and
- Treat each local organization as though it were not a member of an affiliated group. For example, the local organization should account for its own expenditures only and not any of the national legislation expenditures deemed as incurred by the controlling organization.

**Part III - Definitions.** (Definitions in this section are applicable only to Part III of this Schedule)

*Lobbying and Political Expenditures:* For purposes of this section only, lobbying and political expenditures do not include direct lobbying expenditures made to influence local legislation. Nor does it include any political campaign expenditures for which the tax under section 527(f) was paid. (see Part I-C). They do include any expenditures for communications with a covered executive branch official in an attempt to influence the official actions or positions of that official.

*Covered Executive Branch Official:* The President, Vice-President, White House Office of the Executive Office of the President officers and employees, the two senior level officers of each of the other agencies in the Executive Office, individuals in level I positions of the Executive Schedule and their immediate deputies, and individuals designated as having Cabinet level status and their immediate deputies.

*Direct contact lobbying is a*

- Meeting
- Telephone conversation,
- Letter, or
- Similar means of communication that is with a
  - Legislator (other than a local legislator), or
  - Covered executive branch official and that otherwise qualifies as a lobbying activity.

*In-house expenditures include:*

- Salaries, and
- Other expenses of the organization's officials and staff (including amounts paid or incurred for the planning of legislative activities).

*In-house expenditures do not include:*

Any payments to other taxpayers engaged in lobbying or political activities as a trade or business, or any dues paid to another organization that are allocable to lobbying or political activities.

## **PART I-A Political Activity of Exempt Organizations**

**Note:** Section 501(c) organizations other than those exempt under section 501(c)(3) may establish section 527(f)(3) separate segregated funds to engage in political activity. Separate segregated funds are subject to their own filing requirements. A section 501(c) organization that engages a separate segregated fund to conduct political activity should report transfers to the

fund in Parts I-A and I-C. The separate segregated fund should report specific activities on its own Form 990 if the fund is required to file.

**Line 1.** Section 501(c) organizations should provide a detailed description of their direct and indirect **political campaign activities**. If the section 501(c) organization collects political contributions or member dues earmarked for a separate segregated fund, and promptly and directly transfers them to that fund as prescribed in Regulations section 1.527-6(e), do not report them here. Such amounts should be reported in Part I-C, line 5e.

Section 527 organizations should provide a detailed description of their exempt function activities in Part IV of this Schedule.

**Line 2.** The total amount that the filing organization has spent conducting the activities described on line 1.

**Line 3.** If the organization used volunteer labor in the conduct of its **political campaign activities** or section 527 exempt function activities, provide the total number of hours. Any reasonable method may be used to estimate this amount.

#### **PART I-B Section 501(c)(3) Organizations: Disclosure of Excise Taxes Imposed Under Section 4955**

Section 501(c)(3) organizations must disclose any excise tax incurred during the year under section 4955 (political expenditures), unless abated. See sections 4962 and 6033(b).

**Line 1.** Enter the amount of taxes incurred by the organization itself under section 4955, unless abated. If no tax was incurred, enter 0.

**Line 2.** Enter the amount of taxes incurred by the organization managers under section 4955, unless abated. If no tax was incurred, enter 0.

**Line 3. Form 4720** If the filing organization reported a section 4955 tax on a Form 4720 for this year, answer "Yes."

**Line 4 Correction.** Provide a detailed description in Part IV of this Schedule of the steps the organization has taken to correct the activity which subjected the organization to the section 4955 tax. Correction of a political expenditure means recovering the expenditure to the extent possible and establishing safeguards to prevent future political expenditures. Recovery of the expenditure means recovering part or all of the expenditure to the extent possible, and, where full recovery cannot be accomplished, by any additional corrective action that is necessary. (The organization that made the political expenditure is not under any obligation to attempt to recover the expenditure by legal action if the action would in all probability not result in the satisfaction of execution on a judgment.)

#### **PART I-C Section 527 Exempt Function Activity of Section 501(c) organizations other than Section 501(c)(3)**

Note: Section 501(c) organizations that collect political contributions or member dues earmarked for a separate segregated fund, and promptly and directly transfer them to that fund

as prescribed in Regulations section 1.527-6(e), should not report them on lines 1 or 2. Such amounts should be reported on line 5e.

**Line 1.** Enter the amount of the organization's funds that it expended for section 527 exempt function activities.

**Line 2.** Enter the amount of the organization's funds that it transferred to other organizations, including a separate segregated section 527(f)(3) fund created by the organization, for section 527 exempt function activity.

**Line 3.** Total exempt function expenditures. Add lines 1 and 2 and enter on line 3 and on Form 1120-POL, line 17b.

**Line 4.** If the filing organization reported taxable political expenditures on Form 1120-POL for this year, answer "Yes."

**Line 5.** State the name, address and Employer Identification Number (EIN) of each section 527 political organization to which payments were made. Enter the amount paid and indicate if the amount was paid from the filing organization's funds or were political contributions received and promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC). If additional space is needed, provide information in Part IV of this Schedule.

**PART II-A Lobbying Activity** – Only section 501(c)(3) organizations that have filed Form 5768 (election under section 501(h)) complete this section.

A public charity that makes a valid section 501(h) election may spend up to a certain percentage of its exempt purpose expenditures to influence legislation without incurring tax or losing its tax-exempt status.

Complete lines 1a through 1i in column (a) for any organization required to complete Part II-A, but complete column (b) only for affiliated groups.

If the filing organization belongs to an affiliated group, check Part II-A box A and complete lines 1a through 1i:

- Column (a) for the electing member of the group, and
- Column (b) for the affiliated group as a whole.

**Affiliated group list.** Provide in Part IV of this Schedule a list showing each affiliated group member's name, address, EIN, and expenses. Show which members made the election under section 501(h) and which did not.

Include each electing member's share of the excess lobbying expenditures on the list.

Non-electing members do not owe tax, but remain subject to the general rule, which provides that no substantial part of their activities may consist of carrying on propaganda or otherwise trying to influence legislation.

If the filing organization checked box A and the limited control provisions apply to the organizations, each member of the affiliated group should check box B and complete column (a) only.

If the filing organization does not check box A, do not check box B.

Lines 1a-i are used to determine whether any of the organization's current year lobbying expenditures are subject to tax under section 4911. File Form 4720 if the organization needs to report and pay the excise tax.

**Line 1a. Grassroots Lobbying** - Enter the amount the organization expended for grassroots lobbying communications.

**Line 1b. Direct Lobbying** - Enter the amount the organization expended for direct lobbying communications.

**Line 1c. Total Lobbying** - Add lines 1a and 1b.

**Line 1d . Other Exempt Purpose Expenditures** - Enter all other amounts (excluding lobbying) the organization expended to accomplish its exempt purpose.

**Line 1e. Exempt Purpose Expenditures** - Add lines 1c and 1d. This is the organization's total exempt purpose expenditures.

If there are no excess lobbying expenditures on either line 1h or 1i of column (b), treat each electing member of the affiliated group as having no excess lobbying expenditures. However, if there are excess lobbying expenditures on either line 1h or 1i of column (b), treat each electing member as having excess lobbying expenditures. In such case, each electing member must file Form 4720, Return of Certain Excise Taxes Under Chapters 41 and 42 of the Internal Revenue Code, and must pay the tax on its proportionate share of the affiliated group's excess lobbying expenditures. Enter the proportionate share in column (a) on line 1h or line 1i, or on both lines. Attach the list described above under Affiliated Group List. Show what amounts apply to each group member. To find a member's proportionate share, see Regulations section 56.4911-8(d).

**Line 1j.** If the filing organization reported section 4911 tax on Form 4720 for this year, answer "Yes."

**Line 2.** Line 2 is used to determine if the organization exceeded lobbying expenditure limits during the 4-year averaging period.

Any organization for which a lobbying expenditure election under section 501(h) was in effect for its tax year beginning in 2008 must complete columns (a) through (e) of lines 2a through 2f except in the following situations.

1. An organization first treated as a section 501(c)(3) organization in its tax year beginning in 2008 does not have to complete any part of lines 2a through 2f.
2. An organization does not have to complete lines 2a through 2f for any period before it is first treated as a section 501(c)(3) organization.
3. If 2008 is the first year for which an organization's first section 501(h) election is effective, that organization must complete line 2a, columns (d) and (e). The organization must then complete all of column (e) to determine whether the amount on line 2c, column (e), is equal to or less than the lobbying ceiling amount calculated on line 2b and whether the amount on line 2f is equal to or less than the grassroots ceiling amount calculated on line 2e. The organization

does not satisfy both tests if either its total lobbying expenditures or grassroots lobbying expenditures exceed the applicable ceiling amounts. When this occurs, all five columns must be completed and a re-computation made unless exception 1 or 2 above applies.

4. If 2008 is the second or third tax year for which the organization's first section 501(h) election is in effect, that organization is required to complete only the columns for the years in which the election has been in effect, entering the totals for those years in column (e). The organization must determine, for those 2 or 3 years, whether the amount entered in column (e), line 2c, is equal to or less than the lobbying ceiling amount reported on line 2b, and whether the amount entered in column (e), line 2f, is equal to or less than the grassroots ceiling amount calculated on line 2e. The organization does not satisfy both tests if either its total lobbying expenditures or grassroots lobbying expenditures exceed applicable ceiling amounts. When that occurs, all five columns must be completed and a re-computation made, unless exception 1 or 2 above applies. If the organization is not required to complete all five columns, provide a statement explaining why in Part IV. In the statement, show the ending date of the tax year in which the organization made its first section 501(h) election and state whether or not that first election was revoked before the start of the organization's tax year that began in 2008.

**Note.** If the organization belongs to an affiliated group, enter the appropriate affiliated group totals from column (b), lines 1a through 1i, when completing lines 2a, 2c, 2d, and 2f.

**Line 2a. Lobbying nontaxable amount.** For 2005 through 2007, enter the amount from line 41 of Schedule A, Part VI-A filed for each year. For 2008, enter the amount from line 1f of Schedule C, Part II-A filed for each year.

**Line 2c. Total lobbying expenditures.** For 2005 through 2007, enter the amount from line 38 of Schedule A, Part VI-A filed for each year. For 2008, enter the amount from line 1c of Schedule C, Part II-A filed for each year.

**Line 2d. Grassroots nontaxable amount.** For 2005 through 2007, enter the amount from line 42 of Schedule A, Part VI-A filed for each year. For 2008, enter the amount from line 1g of Schedule C, Part II-A filed for each year.

**Line 2f. Grassroots lobbying expenditures.** For 2005 through 2007, enter the amount from line 36 of Schedule A, Part VI-A filed for each year. For 2008, enter the amount from line 1a of Schedule C, Part II-A filed for each year.

Add each row of column (a) through (d) and put the total in column (e)

**PART II-B Lobbying Activity** – Only section 501(c)(3) organizations that have not filed Form 5768 (election under section 501(h)) or have revoked a previous election complete this section.

Part II-B provides a reporting format for any section 501(c)(3) organization that engaged in lobbying activities in its 2008 tax year but did not make a section 501(h) lobbying expenditure election for that year by filing Form 5768. The Part II-A instructions defining direct and grassroots lobbying activities by organizations that made the section 501(h) election do not apply to organizations that complete Part II-B.

Non-electing section 501(c)(3) organizations must complete both columns (a) and (b) of Part II-B to show lobbying expenditures paid or incurred.

**NOTE:**

A non-electing organization will generally be regarded as lobbying if the organization either: (1) contacts, or urges the public to contact, members of a legislative body for the purpose of proposing, supporting, or opposing legislation or the government's budget process; or (2) advocates the adoption or rejection of legislation.

Organizations should answer "Yes" or "No" in column (a) to questions 1a through 1i and describe in Part IV of this Schedule the activities the organization conducted (either through its employees or volunteers) attempting to influence legislation. Examples of activities include:

- Sending letters or publications to government officials or legislators,
- Meeting with or calling government officials or legislators,
- Sending or distributing letters or publications (including newsletters, brochures, etc.) to members or to the general public, or
- Using direct mail, placing advertisements, issuing press releases, holding news conferences, or holding rallies or demonstrations.

Additionally, organizations must provide lobbying expenditures paid or incurred in column (b) for lines 1c through line 1i with the total expenditures provided on line 1j.

**Line 1f.** Grants to other organizations are amounts from the organization's funds given to another organization for the purpose of assisting the other organization conducting lobbying activities.

**Line 1g.** Direct contact is a personal telephone call or visit with legislators, their staffs, or government officials.

**Line 1h.** Rallies, demonstrations, seminars, conventions, speeches, and lectures are examples of public forums conducted directly by the organization or paid for out of the organization's funds.

**Line 1i.** Provide a detailed description of any other activity that the organization engaged in to influence legislation. The description should include all lobbying activities, whether expenses are incurred or not (for example, even lobbying activities carried out by unreimbursed volunteers). If additional space is needed, describe in Part IV of this Schedule.

**Line 2a.** Answer "Yes" if a section 501(c)(3) organization ceased to be described as a section 501(c)(3) organization because the amount on line 1j was substantial.

**Line 2b.** For line 2a, enter the amount of taxes, if any, imposed on the organization itself under section 4912, unless abated.

**Line 2c.** For line 2, enter the amount of taxes, if any, imposed on the organization managers under section 4912, unless abated.

**Line 2d. Form 4720** If the filing organization reported a section 4912 tax on a Form 4720 for this year, answer "Yes."

### **PART III - Section 6033(e) Notice and Reporting Requirements and Proxy Tax.**

#### **Reporting membership dues, lobbying, and political expenses under section 6033(e).**

Only certain organizations that are tax-exempt under:

- Section 501(c)(4) (social welfare organizations),
- Section 501(c)(5) (agricultural and horticultural organizations), or
- Section 501(c)(6) (business leagues)

are subject to (a) the section 6033(e) notice and reporting requirements, and (b) a potential proxy tax. These organizations must report their total lobbying expenses, political expenses, and membership dues, or similar amounts.

Section 6033(e) requires certain section 501(c)(4), (5), and (6) organizations to tell their members what portion of their membership dues were allocable to the political or lobbying activities of the organization. If an organization does not give its members this information, then the organization is subject to a proxy tax. This tax is reported on Form 990-T.

### **PART III-A**

#### **Line 1. Section 6033(e)(3) exceptions for organizations whose dues are nondeductible.**

Answer "Yes" if any of the following exemptions apply. By doing so, the organization is declaring that substantially all of its membership dues were nondeductible.

1. Local associations of employees' and veterans' organizations described in section 501(c)(4), but not section 501(c)(4) social welfare organizations.
2. Labor unions and other labor organizations described in section 501(c)(5), but not section 501(c)(5) agricultural and horticultural organizations.
3. Section 501(c)(4), (5), and (6) organizations that receive more than 90% of their dues from:
  - a. Organizations exempt from tax under section 501(a), other than section 501(c)(4), (5), and (6) organizations,
  - b. State or local governments,
  - c. Entities whose income is exempt from tax under section 115, or
  - d. Organizations described in 1 or 2, above.
4. Section 501(c)(4) and (5) organizations that receive more than 90% of their annual dues from:
  - a. Persons,
  - b. Families, or
  - c. Entities,who each paid annual dues of \$\$\$ or less in 2008 (adjusted annually for inflation). See annual revenue procedure.
5. Any organization that receives a private letter ruling from the IRS stating that the organization satisfies the section 6033(e)(3) exception.
6. Any organization that keeps records to substantiate that 90% or more of its members cannot deduct their dues (or similar amounts) as business expenses whether or not any part of their dues are used for lobbying purposes.
7. Any organization that is not a membership organization.

**CAUTION!** Special rules treat affiliated social welfare organizations, agricultural and horticultural organizations, and business leagues as parts of a single organization for purposes of meeting the nondeductible dues exception. See Rev. Proc. 98-19, 1998-1 C.B. 547.

**Line 2. Section 6033(e)(1) \$2,000 in-house lobbying exception.** Answer “Yes” for line 2 if the organization satisfies the following criteria of the \$2,000 in-house lobbying exception.

1. Did not make any political expenditures or foreign lobbying expenditures during the 2008 reporting year, and
2. Made lobbying expenditures during the 2008 reporting year consisting only of in-house direct lobbying expenditures totaling \$2,000 or less, but excluding:
  - a. Any allocable overhead expenses, and
  - b. All direct lobbying expenses of any local council regarding legislation of direct interest to the organization or its members.

If the organization’s in-house direct lobbying expenditures during the 2008 reporting year were \$2,000 or less, but the organization also paid or incurred other lobbying or political expenditures during the 2008 reporting year, it should answer “No” to question 2. If the organization is required to complete Part III-B, the \$2,000 or less of in-house direct lobbying expenditures should not be included in the total on line 2a.

**Line 3. Lobbying and Political Expenses Carryover.** Answer “Yes” for line 3 if the organization on its prior year report agreed to carryover an amount to be included in the current year’s reasonable estimate of lobbying and political expenses.

Complete Part III-B only if the organization answered “No” to BOTH Line 1 and Line 2 OR if the organization answered “Yes” to Line 3.

**PART III-B – Dues Notice, Reporting Requirements, and Proxy Tax**

**Dues notices.** An organization that checked “No” for both Part III-A, lines 1 and 2, and is thus responsible for completing Part III-B, must send dues notices to its members at the time of assessment or payment of dues, unless the organization chooses to pay the proxy tax instead of informing its members of the nondeductible portion of its dues. These dues notices must reasonably estimate the dues allocable to the nondeductible lobbying and political expenditures reported on line Part III-B, line 2a. An organization that checked “Yes” for Part III-A, line 3, must send dues notices to its members at the time of assessment or payment of dues and include the amount it agreed to carryover in its reasonable estimate of the dues allocable to the nondeductible lobbying and political expenditures reported on line Part III-B, line 2a.

IF...	THEN...
The organization’s lobbying and political expenses are more than its membership dues for the year,	The organization must: (a) Allocate all membership dues to its lobbying and political activities, and (b) Carry forward any excess lobbying and political expenses to the next tax year.
The organization: (a) Had only <i>de minimis</i> in-house expenses (\$2,000 or less) and no other nondeductible lobbying or political expenses (including any amount it agreed to carryover); or (b) Paid a proxy tax, instead of notifying its members on the allocation of dues to lobbying and political expenses; or (c) Established that substantially all of its membership dues, etc., are not deductible by	The organization need not disclose to its membership the allocation of dues, etc., to its lobbying and political activities.

members.	
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Members of the organization cannot take a trade or business expense deduction on their tax returns for the portion of their dues, etc., allocable to the organization's lobbying and political activities.

### Proxy Tax

IF...	THEN...
The organization's actual lobbying and political expenses are more than it estimated in its dues notices,	The organization is liable for a proxy tax on the excess.
The organization: (a) Elects to pay the proxy tax, and (b) Chooses not to give its members a notice allocating dues to lobbying and political campaign activities,	All the members' dues remain eligible for a section 162 trade or business expense deduction.
The organization: (a) Makes a reasonable estimate of dues allocable to nondeductible lobbying and political activities, and (b) Agrees to adjust its estimate in the following year*. (*A facts and circumstances test determines whether or not a reasonable estimate was made in good faith.)	The IRS may permit a waiver of the proxy tax.

**Allocation of costs to lobbying activities and influencing legislation.** An organization that is subject to the lobbying disclosure rules of section 6033(e) must use a reasonable allocation method to determine its total costs of its direct lobbying activities; that is, costs to influence:

- Legislation, and
- The actions of a covered executive branch official through direct communication (for example, President, Vice President, or cabinet-level officials, and their immediate deputies) (sections 162(e)(1)(A) and (D)).

Reasonable methods of allocating costs to direct lobbying activities include, but are not limited to:

- The ratio method,
- The gross-up and alternative gross-up methods, and
- A method applying the principles of section 263A.

See Regulations sections 1.162-28 and 1.162-29 and the special rules and definitions for these allocation methods given below.

An organization that is subject to the lobbying disclosure rules of section 6033(e) must also determine its total costs of:

- *De minimis* in-house lobbying,
- Grassroots lobbying, and
- Political campaign activities.

There are no special rules related to determining these costs.

**All methods.** For all the allocation methods, include labor hours and costs of personnel whose activities involve significant judgment with respect to lobbying activities.

**Special rules:**

**Ratio and gross-up methods.**

1. May use even if volunteers conduct activities.
2. May disregard labor hours and costs of clerical or support personnel (other than lobbying personnel) under the ratio method.

**Alternative gross-up method.**

- Disregard labor hours, and
- Costs of clerical or support personnel (other than lobbying personnel).

**Third-party costs** are those paid to:

- Outside parties for conducting lobbying activities,
- Dues paid to another membership organization that were declared to be nondeductible lobbying expenses, and
- Travel and entertainment costs for lobbying activities.

**Direct contact lobbying:** Treat all hours spent by a person in connection with direct contact lobbying as labor hours allocable to lobbying activities.

Do not treat the hours spent by a person who engages in research and other background activities related to direct contact lobbying, but who makes no direct contact with a legislator, or covered executive branch official, as direct contact lobbying.

**De minimis rule.** If less than 5% of a person's time is spent on lobbying activities, and there is no direct contact lobbying, an organization may treat that person's time spent on lobbying activities as zero.

**Purpose for engaging in an activity** is based on all the facts and circumstances. If an organization's lobbying communication was for a lobbying and a non-lobbying purpose, the organization must make a reasonable allocation of costs to influencing legislation.

**Correction of prior year lobbying costs.** If in a prior year, an organization treated costs incurred for a future lobbying communication as a lobbying cost to influence legislation, but after the organization filed a timely return, it appears the lobbying communication will not be made under any foreseeable circumstance, the organization may apply these costs to reduce its current year's lobbying costs, but not below zero. The organization may carry forward any amount of the costs not used to reduce its current year's lobbying costs to subsequent years.

**Example: Ratio method.** X Organization incurred:

1. 6,000 labor hours for all activities,
2. 3,000 labor hours for lobbying activities (three employees),
3. \$300,000 for operational costs, and
4. No third-party lobbying costs.

X Organization allocated its lobbying costs as follows:

Lobbying labor hrs.					
3,000	×	\$300,000	+	0	= \$150,000
6,000					
Total labor hrs.		Total costs of operations		Allocable third-party costs	Costs allocable to lobbying activities

**Examples: Gross-up method and Alternative gross-up method.**

A and B are employees of Y Organization.

1. A's activities involve significant judgment with respect to lobbying activities.
2. A's basic lobbying labor costs (excluding employee benefits) are \$50,000.
3. B performs clerical and support activities for A.
4. B's labor costs (excluding employee benefits) in support of A's activities are \$15,000.
5. Allocable third-party costs are \$100,000.

If Y Organization uses the gross-up method to allocate its lobbying costs, Y multiplies 175% times its basic labor costs (excluding employee benefits) for all of the lobbying of its personnel and adds its allocable third-party lobbying costs as follows:

175%	×	\$65,000	+	\$100,000	=	\$213,750
Basic lobbying labor costs of A + B				Allocable third-party costs		Costs allocable to lobbying activities

If Y Organization uses the alternative gross-up method to allocate its lobbying costs, Y multiplies 225% times its basic labor costs (excluding employee benefits) for all of the lobbying hours of its lobbying personnel and adds its third-party lobbying costs as follows:

225%	×	\$50,000	+	\$100,000	=	\$212,500
Basic lobbying labor costs of A				Allocable third-party costs		Costs allocable to lobbying activities

**Section 263A cost allocation method.**

The examples that demonstrate this method are found in Regulations section 1.162-28(f).

**Line 1. Dues, Assessments, And Similar Amounts Received**

Enter the total dues, assessments, and similar amounts allocable to the 2008 reporting year. Dues are the amounts the organization requires a member to pay in order to be recognized as a member.

Payments that are similar to dues include:

1. Members' voluntary payments,
2. Assessments to cover basic operating costs, and
3. Special assessments to conduct lobbying and political activities.

**Line 2. Lobbying and Political Expenditures**

Include on line 2a the total amount of expenses paid or incurred during the 2008 reporting year in connection with:

1. Influencing legislation;

2. Participating or intervening in any political campaign on behalf of (or in opposition to) any candidate for any public office;
3. Attempting to influence any segment of the general public with respect to elections, legislative matters, or referendums; or
4. Communicating directly with a covered executive branch official in an attempt to influence the official actions or positions of such official.

Do not include:

1. Any direct lobbying of any local council or similar governing body with respect to legislation of direct interest to the organization or its members.
2. In-house direct lobbying expenditures, if the total of such expenditures is \$2,000 or less (excluding allocable overhead).
3. Political expenditures for which the section 527(f) tax has been paid (on Form 1120-POL).

Reduce the current year's lobbying expenditures, but not below zero, by costs previously allocated in a prior year to lobbying activities that were cancelled after a return reporting those costs was filed.

Carry forward any amounts not used as a reduction to subsequent years.

Include on line 2b:

1. Lobbying and political expenditures carried over from the preceding tax year.
2. An amount equal to the taxable lobbying and political expenditures reported on line 85f for the preceding tax year, if the organization received a waiver of the proxy tax imposed on that amount.

### **Line 3. Dues Declared Nondeductible In Notices To Members**

Enter the total amount of dues, assessments, and similar amounts received, allocable to the 2008 reporting year that members were notified were nondeductible under section 162(e).

**Example:**

- Membership dues: \$100,000 for the 2008 reporting year,
- Organization's timely notices to members—25% of membership dues nondeductible, and
- Line 3 entry—\$25,000.

### **Line 4. Carryover Lobbying and Political Expenditure to Next Year.**

If the amount on line 2c exceeds the amount on line 3 and the organization sent dues notices to its members at the time of assessment or payment of dues, include the amount on line 4 that the organization agrees to carryover to the reasonable estimate of nondeductible lobbying and political expenditure next year and include the amount on Part III-B, line 2b (carryover lobbying and political expenses), or its equivalent, on the next year Form 990, Schedule C.

If the organization did not send notices to its members, enter zero on line 4.

### **Line 5. Taxable Lobbying and Political Expenditures (Proxy Tax)**

The taxable amount reportable on line 5 is the amount of dues, assessments, and similar amounts received:

1. Allocable to the 2008 reporting year, and
2. Attributable to lobbying and political expenditures that the organization did not timely notify its members were nondeductible.

Report the tax on Form 990-T.

If the amount on line 1 (dues, etc.) is greater than the amount on line 2c (lobbying & political expenses), then:

Line 2c (lobbying & political expenses)  
**Less**  
Line 3 (dues shown in notices)  
**Less**  
Line 4 (carryover)  
**Equals**  
Line 5 (taxable lobbying & political expenses)

If the amount on line 1 (dues, etc.) is less than the amount on line 2c (lobbying & political expenses), then:

Line 1 (dues, etc.)  
**Less**  
Line 3 (dues shown in notices)  
**Less**  
Line 4 (carryover)  
**Equals**  
Line 5 (taxable lobbying & political expenses), and

Line 2c (lobbying & political expenses)  
**Less**  
Line 1 (dues, etc.)  
**Equals**

The excess amount to be carried over to the following tax year and reported on Part III-B, line 2b (carryover lobbying & political expenses), or its equivalent, on the next year Form 990 along with the amounts the organization agreed to carryover in line 4.

**Underreporting of lobbying expenses.**

An organization is subject to the proxy tax for the 2008 reporting year for underreported lobbying and political expenses only to the extent that these expenses (if actually reported) would have resulted in a proxy tax liability for that year. A waiver of proxy tax for the tax year only applies to reported expenditures.

An organization that underreports its lobbying and political expenses is also subject to the section 6652(c) daily penalty for filing an incomplete or inaccurate return. See Form 990 General Instruction H.

**Examples**

Organizations A, B and C:

1. Reported on the calendar year basis.
2. Incurred only grassroots lobbying expenses (did not qualify for the under \$2,000 in-house lobbying exception (*de minimis* rule)).
3. Allocated dues to the tax year in which received.

**For Organization A** — Dues, assessments, and similar amounts received in 2008 were greater than its lobbying expenses for 2008.

Workpapers (for 2008 Form 990) — Organization A

1.	Total dues, assessments, etc., received	\$800	
2.	Lobbying expenses paid or incurred		\$600
3.	Less: Total nondeductible amount of dues notices	<u>100</u>	<u>100</u>
4.	(Subtract line 3 from both lines 1 and 2)	<u>\$700</u>	<u>\$500</u>
5.	Taxable amount of lobbying expenses (smaller of the two amounts on line 4)		\$500

**TIP:** The amounts on lines 1, 2, 3, and 5 of the workpapers were entered on lines 1, 2c, 3, and 5 of the 2008 Form 990, Schedule C, Part III-B.

Because dues, etc., received were greater than lobbying expenses, there is no carryover of excess lobbying expenses to Part III-B, line 2b of the year 2008 Form 990.

See the instructions for Part III-B, line 5 for the treatment of the \$500.

**For Organization B**— Dues, assessments, and similar amounts received in 2008 were less than its lobbying expenses for 2008.

Workpapers (for 2008 Form 990) — Organization B

1.	Total dues, assessments, etc., received	\$400	
2.	Lobbying expenses paid or incurred		\$600
3.	Less: Total nondeductible amount of dues notices	<u>100</u>	<u>100</u>
4.	(Subtract line 3 from both lines 1 and 2)	<u>\$300</u>	<u>\$500</u>
5.	Taxable amount of lobbying expenses (smaller of the two amounts on line 4)		\$300

**TIP:** The amounts on lines 1, 2, 3, and 5 of the workpapers were entered on lines 1, 2c, 3, and 5 of the 2008 Form 990, Schedule C, Part III-B.

Because dues, etc., received were less than lobbying expenses, excess lobbying expenses of \$200 must be carried forward to Part III-B, line 2b of the next year Form 990 Schedule C (excess of \$600 of lobbying expenses over \$400 dues, etc., received). The \$200 will be included along with the other lobbying and political expenses paid or incurred in 2009 reporting year.

See the instructions for Part III-B, line 5 for the treatment of the \$300.

**For Organization C** — Dues, assessments, and similar amounts received in 2008 were greater than its lobbying expenses for 2008 and the organization agreed to carryover a portion of its excess lobbying and political expenses to the next year.

Workpapers (for 2008 Form 990) — Organization C

1.	Total dues, assessments, etc., received	\$800	
2.	Lobbying expenses paid or incurred		\$600
3.	Less: Total nondeductible amount of dues notices	<u>100</u>	<u>100</u>
4.	Less: Amount agreed to carryover	<u>100</u>	<u>100</u>
5.	(Subtract lines 3 and 4 from both lines 1 and 2)	<u>\$600</u>	<u>\$400</u>
6.	Taxable amount of lobbying expenses (smaller of the two amounts on line 5)		\$400

**TIP:** The amounts on lines 1, 2, 3, 4, and 5 of the workpapers were entered on lines 1, 2c, 3, 4 and 5 of the 2008 Form 990, Schedule C, Part III-B.

See the instructions for Part III-B, line 5 for the treatment of the \$400.

**Part IV Supplemental Information**

Use Part IV to provide narrative information required in Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, Part II-A, line 1 (affiliated group list), Part II-A, line 2a, and Part II-B, line 1. Also use Part IV to provide other narrative explanations and descriptions. Identify the specific part and line number that the response supports, in the order in which they appear on Schedule C. Part IV may be duplicated if more space is needed.

DRAFT

## 2008 Schedule D (Form 990) Instructions Supplemental Financial Statements

Section references are to the Internal Revenue Code unless otherwise noted.

### General Instructions

#### Purpose of Schedule

Schedule D (Form 990) is used by an organization that files Form 990 to provide the required reporting for **donor advised funds**, **conservation easements**, certain art and museum collections, escrow accounts and custodial arrangements, endowment funds, and supplemental financial information.

#### Who Must File

Any organization that answered "Yes" to Form 990, Part IV, *Checklist of Required Schedules*, lines 6 through 12 must complete the appropriate parts of Schedule D and attach Schedule D to Form 990.

If an organization is not required to file Form 990, it is not required to file Schedule D.

### Specific Instructions

#### Part I Donor Advised Funds

Complete Part I if the organization answered "Yes" to Form 990, Part IV, *Checklist of Required Schedules*, line 6.

Generally, a **donor advised fund** is a fund or account:

1. That is separately identified by reference to contributions of a donor or donors;
2. That is owned and controlled by a **sponsoring organization**; and
3. For which the donor or **donor advisor** has or reasonably expects to have advisory privileges in the distribution or investment of amounts held in the donor advised funds or accounts because of the donor's status as a donor.

**Exceptions.** A **donor advised fund** does not include any fund or account:

1. That makes distributions only to a single identified organization or governmental entity, or
2. In which a donor or **donor advisor** gives advice about which individuals receive grants for travel, study, or other similar purposes, if:
  - a. The donor or donor advisor's advisory privileges are performed exclusively by such person in his or her capacity as a committee member in which all of the committee members are appointed by the **sponsoring organization**;
  - b. No combination of donors or donor advisors (and related persons as defined below) directly or indirectly control the committee; and
  - c. All grants from the fund or account are awarded on an objective and nondiscriminatory basis following a procedure approved in advance by the board of directors of the sponsoring organization. The procedure must be designed to ensure that all grants meet the requirements of sections 4945(g)(1), (2), or (3); or
3. That the Secretary exempts from being treated as a donor advised fund because either such fund or account is advised by a committee not directly or indirectly controlled

The pension protection act defined Donor Advised Funds (DAFs) narrowly, but the 990 then turns around and wants the same answers on all "exception" funds as well.

by the donor or donor advisor or because such fund benefits a single identified charitable purpose. For example, see Notice 2006-109, 2006-51 I.R.B. 1121. [Notice 2006-109 excepts employer sponsored disaster relief funds in certain circumstances.](#)

In regards to **donor advised funds**, a *related person* is any family member (as defined in section 4958(f)) of the donor or donor advisor and any 35% controlled entity (as defined in section 4958(f)) of the donor or donor advisor.

**Column (a).** Complete column (a) for all **donor advised funds** held at any time during the tax year by the organization as a **sponsoring organization**.  
[very strange that Congress defined donor advised funds specifically and now IRS is reaching beyond them with questions](#)

**Column (b).** Complete column (b) for other similar funds or accounts held by the organization at any time during the tax year over which a donor, or person appointed by the donor, had advisory privileges with respect to the distribution or investment of amounts held in such funds or accounts, but which do not constitute a **donor advised fund**. Examples of other similar funds or accounts include, but are not limited to, the funds or accounts listed in *Exceptions*, above, or that are otherwise prescribed by statute as excepted from the meaning of a **donor advised fund**.

**Line 1.** Report in column (a) the total number of **donor advised funds** and in column (b) the total number of other similar funds or accounts held by the organization at the end of the year.

**Line 2.** Report in column (a) the aggregate amount of contributions during the year to all **donor advised funds** and in column (b) the aggregate amount of contributions during the year to all other similar funds or accounts held by the organization.

**Line 3.** Report in column (a) the aggregate amount of grants made during the year from all **donor advised funds** and in column (b) the aggregate amount of grants made during the year from all other similar funds or accounts held by the organization.

**Line 4.** Report in column (a) the aggregate value at the end of the year of all **donor advised funds** and in column (b) the aggregate value at the end of the year of all other similar funds or accounts held by the organization.

[Lines 5 & 6. Interesting that there is no discussion. Line 5 is clearly required by Pension Protection Act, but instructions don't say that.](#)

#### **Part II Conservation Easements**

Complete Part II if the organization answered "Yes" to Form 990, Part IV, *Checklist of Required Schedules*, line 7.

In addition to reporting on **conservation easements**, also report on Part II other real property interests in real property that under state law have attributes similar to an easement (e.g., a restrictive covenant or equitable servitude).

A **certified historic structure** is any building or structure listed in the National Register as well as any building certified as being of historic significance to a registered historic district. See section 170(h)(4)(B) for special rules that apply to contributions made after August 17, 2006.

**Line 1.** Check the box for the purpose or purposes for which the organization held the easement(s) during the tax year. Check all that apply.

**Line 2.** Provide an answer for each item.

**Line 2a.** Enter the number of **conservation easements** held by the organization at the end of the tax year. This should not be an estimate or a rounded off number.

**Line 2b.** Enter the total acreage restricted by **conservation easements** held by the organization at the end of the tax year. Complete the total acreage by adding together all the acres of land subject to all the easements held as of the end of the year. Do not include conservation easements on certified historic structures. Acreage may be expressed in decimal points for properties subject to easements where the acreage consists of less than whole numbers. For example, two and one-half acres may be expressed as 2.5 acres.

**Line 2c.** Enter the number of **conservation easements** on certified historic structures held by the organization at the end of the tax year.

**Line 2d.** Enter the number of **conservation easements** included in the answer to Line 2c which the organization acquired after August 17, 2006.

**Line 3.** In general, a grant of a **conservation easement** to a qualified organization is required to be made in perpetuity. Enter the total number of conservation easements held by the organization that were modified, transferred, released, extinguished and/or terminated during the tax year. For example, if 2 easements were modified and 1 easement was terminated during the tax year, enter the number 3. For each easement that was modified, transferred, released, extinguished, or terminated, explain the changes in Part XIV of this Schedule. *An easement is modified* when the terms of easement are amended. For example, if the deed of easement is amended to increase or decrease the amount of land subject to the easement and/or to add or remove restrictions regarding the use of the property subject to the easement, the easement is modified. *An easement is transferred* when the organization assigns the deed of easement whether with or without consideration. *An easement is released or terminated* when it is condemned, extinguished by court order, transferred to the land owner, or in any way rendered void and unenforceable.

**Line 4.** A qualified organization must have a commitment to protect the conservation purposes of the easement, and have the resources to enforce the restrictions. Enter as a total number the number of states where property is located which is subject to a **conservation easement** or easements held by the organization during the tax year.

**Line 5.** Report whether the organization has a **written policy or policies** regarding how the organization will monitor, inspect, respond to violations, and enforce conservation easements. If "Yes," briefly summarize such policy or policies in Part XIV of this Schedule. Also, indicate whether such policy or policies are reflected in the organization's easement documents. *Monitoring* means that the organization investigates the use or condition of the real property restricted by the easement to determine if the property owner is adhering to the restrictions imposed by the terms of the easement to ensure that the conservation purpose of the easement is being achieved. *Inspection* means an onsite visit to observe the property to carry out a monitoring purpose. *Enforcement* of an easement means action taken by the organization after it discovers a violation to compel a property owner to adhere to the terms of the **conservation easement**. Such activities may include communications with

Land Trusts and other holders of easements are familiar with this problem. One issue is how to value them, since they represent negative value (promise not to develop) in the first place. Common to carry them on balance sheet for \$1 each.

the property owner explaining his or her obligations with respect to the easement, arbitration, or litigation.

**Line 6.** Enter the total number of hours devoted during the year to monitoring, inspecting, and enforcing easements, as those terms are defined in the instruction for line 5, above. Include the hours devoted to this purpose by any of the organization's paid or unpaid staff and by any of the organization's agents or contractors.

Reflects concern that donors are getting deduction and then not living under constraints. This means "prove you're holding accountable."

**Line 7.** Enter the total amount of expenses incurred by the organization during the year to monitor, inspect, and enforce the easements it held during the year as those terms are defined in the instruction for line 5, above.

leads to what is known in the field as "facade-omy" when the inside is gutted but walls are maintained

**Line 8.** Answer "yes" if each of the organization's façade easements acquired after August 17, 2006, satisfies the requirements of both section 170(c)(4)(B)(i) and section 170(c)(4)(B)(ii). Section 170(c)(4)(B)(i) requires each façade easement donated after August 17, 2006, to include a restriction which preserves the entire exterior of the building, including the front, sides, rear, and height of the building, and to prohibit any change in the exterior of the building which is inconsistent with the historical character of such exterior. Section 170(c)(4)(B)(ii) requires the donor and donee to enter into a written agreement certifying, among other things, that the donee organization has the resources to manage the historic preservation property and a commitment to do so.

**Line 9.** Enter on Part XIV of this Schedule a description of how the organization reports **conservation easements** (1) in its revenue and expense statements, and (2) on its balance sheets. Include in Part XIV, if applicable, the text of the footnote to the organization's **financial statements** that describes the organization's accounting for conservation easements and the basis for its reporting position (e.g., FASB EITF 02-7, Example 1). See note above under Line 5.

### **Part III Organizations Maintaining Collections of Art, Historical Treasures, and Other Similar Assets**

Complete Part III if the organization answered "Yes" to Form 990, Part IV, *Checklist of Required Schedules*, line 8.

Organizations that receive contributions of **works of art, historical treasures**, and similar assets that do not maintain collections as described in **SFAS 116** are not required to complete Part III.

For this Part, refer to **SFAS 116** for meanings of the various terms.

**Lines 1 through 5.** Pursuant to **SFAS 116**, certain organizations may choose one of two methods to report collections of **works of art, historical treasures**, or other similar assets held for public exhibition, education, or research in furtherance of public service. An organization that does not recognize and capitalize its collections for financial statement purposes will report its collections on the face of its statement of activities, separately from revenues, expenses, gains, losses and assets. An organization that recognizes and capitalizes its collections for financial statement purposes will report its collections as assets and revenues based upon its fair value measurement. Line 1 pertains to collection items held by the organization in furtherance of public service, and line 2 pertains to collection items held by the organization for financial gain, as those terms are described in **SFAS 116**.

**Line 1a.** If an organization has elected not to capitalize its collections, then provide in Part XIV of this Schedule the footnote(s) to the organization's financial statements that describe these collection items.

**Line 1b.** If an organization has elected to capitalize its collections, then provide on line 1(b)(i) the revenues reported as to these collection items from the total revenues reported on Form 990, Part VIII, line 1; and, on line 1(b)(ii), provide the asset value assigned to these collection items from the total assets reported on Form 990, Part X.

**Line 2.** If an organization has received or held collections for financial gain, then provide on line 2(a) the revenues reported as to these collection items from the total revenues included on Form 990, Part VIII, line 1; and, on line 2(b), provide the asset value assigned to these collection items from the total assets reported on Form 990, Part X.

**Line 3.** Based upon the organization's acquisition, accession, and other records, check all boxes that best describe how the organization utilizes its collections, including the collection's most significant use.

**Line 4.** On Part XIV of this Schedule, provide a description of the organization's collections and explain how these collections further the organization's exempt purposes.

**Line 5.** Answer "Yes" to line 5 if during the year the organization solicited or received donations of art, historical treasures or other similar assets to be sold in order to raise funds rather than to be maintained as part of the organization's collection.

**Part IV Trust, Escrow, and Custodial Arrangements**

Complete Part IV if the organization answered "Yes" to Form 990, Part IV, *Checklist of Required Schedules*, line 9, regarding **escrow or custodial accounts** or arrangements.

**Lines 1a and b.** If the organization acts as an agent, trustee, custodian or other intermediary for funds payable to other organizations or individuals and has not reported those amounts on Form 990, Part X as an asset or liability, check "Yes" and provide an explanation in Part XIV.

Organizations that maintain **escrow or custodial accounts** not reported on Form 990, Part X, must record increases or decreases in such accounts by completing lines 1c through 1f.

**Examples:**

- A credit counseling organization that collects amounts from debtors to remit to creditors may hold funds in an escrow or custodial account. If the organization acts as a go-between and does not report these funds as its assets or liabilities on Form 990, Part X, it must report the fund balances on lines 1c through 1f.
- An organization providing down-payment assistance that collects amounts from donors to be used toward the purchase of qualifying housing may hold funds in an escrow or custodial account. If the organization acts as a go-between and

does not report these funds as its assets or liabilities on Form 990, Part X, it must report the fund balances on lines 1c through 1f.

**Line 2. Escrow account liability reported in Form 990, Part X, line 21.** If the organization answered "Yes" to line 2a, explain in Part XIV the arrangements under which the amounts reported in line 21 are held, including any obligations the organization has to other persons under such arrangements.

**Part V Endowment Funds**

Complete Part V if the organization answered "Yes" to Form 990, Part IV, *Checklist of Required Schedules*, line 10.

For this Part V, the definitions of **endowments** and types of endowments are governed by **SFAS 117**, paragraphs 14 through 17. Information reported in Part V should pertain to the aggregate of the organization's endowments.

**Lines 1 through 4. Term endowments** are endowment funds that are maintained to provide a source of income for either a specified period of time or until a specific event occurs. **Permanent (true) endowments** are endowment funds that are maintained to provide a permanent source of income, with the stipulation that principal must be invested and kept intact in perpetuity, while only the income generated can be used by the organization.

Board designated or **quasi-endowments** are funds functioning as an endowment that are established by the organization itself, either from donor or institutional funds, and that must retain the purpose and intent as specified by the donor or source of the original funds.

For 2008, columns (b) through (e) may be left blank.

**Line 1a.** Enter the beginning year balance of the organization's endowment funds. The amount entered should agree with the organization's total of permanent (true), term, and quasi endowment funds at the beginning of the year.

**Line 1b.** Enter the amount of current year contributions to the organization's endowment funds. This amount includes all donor gifts, grants and contributions received, as well as additional funds that have been established by the organization's governing board to function like an endowment but that may be expended at any time at the discretion of the board.

**Line 1c.** Enter the current year net amount of investment earnings, gains, and losses, including both realized or unrealized amounts. For earnings reported net of transaction costs, enter the net amount in line 1c. For earnings reported on a gross basis, enter the transaction costs in line 1f.

**Line 1d.** Enter the current year amounts distributed for grants or scholarships.

**TIP:** Because scholarships represent direct aid to individuals, they are distinguished from general programmatic aid referenced in line 1e.

**Line 1e.** Enter the current year amounts distributed for facilities and programs. Amounts on this line should include withdrawn amounts and amounts disinvested from an organization's quasi endowments.

**Line 1f.** Enter the amount of current year administrative expenses charged to the endowment fund. These expenses can arise from either internal or third party sources.

**Line 1g.** Enter the year-end balance of the endowments. To determine the year-end balance, add lines 1a, 1b and investment earnings of line 1c, and subtract line 1c investment losses and the amounts on lines 1d through 1f.

**Line 2.** On lines 2a through 2c, enter the estimated percentage of the organization's total endowment funds at year end held in (a) board designated/quasi-endowment funds, (b) permanent endowments funds, or (c) term endowment funds. The total of these three percentages should equal 100%.

**CAUTION:** At the time these instructions went to print, the Financial Accounting Standards Board was considering adopting FASB Staff Position 117-a, effective for reporting years ending after December 15, 2008. FASB Staff Position 117-a addresses reporting of endowments as permanently restricted or temporarily restricted funds. Further, a number of states have enacted or are considering enacting the Uniform Prudent Management of Institutional Funds Act (UPMIFA). If the organization is subject to UPMIFA or FASB Staff Position 117-a, it may affect the amounts reported on lines 2a through 2c.

**Line 3a(i).** Enter "Yes" on line 3a(i) if any of the organization's endowment funds are in the possession of and administered by unrelated organizations.

**Line 3a(ii).** Enter "Yes" on line 3a(ii) if any of the organization's endowment funds are in the possession of and administered by **related organizations**.

**Line 3b.** All **related organizations** are required to be reported on Schedule R. Enter "Yes" on line 3b if the organization answered "Yes" to line 3a(ii) and the organization listed all of the **related organizations** referred to in line 3a(ii) in Schedule R.

**Line 4.** Describe in Part XIV of this Schedule the intended uses of the organization's endowment funds.

#### **Part VI Land, Buildings and Equipment**

Complete Part VI if the organization answered "Yes" on Form 990, Part IV, *Checklist of Required Schedules*, line 11, and reported an amount in Form 990, Part X, *Balance Sheet*, lines 10a, 10b, or 10c, column (B). Reporting is required if any amount other than zero is reported in such lines. [This schedule should have minimums. I have one organization that will file all of Schedule D only because they are depreciating two laptops.](#)

**Column (a).** Enter the cost or other basis of all land, buildings, leasehold improvements, equipment, and other fixed assets held for investment purposes, such as rental properties.

**Column (b).** Enter the cost or other basis of all other land, buildings, leasehold improvements, equipment, and other fixed assets held for other than investment purposes, including any land, buildings, and equipment owned and used by the

[The problem with this is that the public will be put off and less likely to read pages and pages of tax forms in a case like this \(Schedule D is 4 pages\).](#)

organization in conducting its exempt activities. The total amounts reported in columns (a) and (b) must equal the amount reported on Form 990, Part X, line 10a.

**Column (c).** Enter the accumulated depreciation recorded with respect to the assets listed in columns (a) and (b). Do not enter an amount in column (c) for line 1a, Land. The total of column (c) must equal the amount reported on Form 990, Part X, line 10b.

**Column (d).** Enter the sum of column (a) and column (b) minus column (c). The total of column (d) must equal the amount reported on Form 990, Part X, line 10c, column (B).

#### **Part VII Investments — Other Securities.**

Complete Part VII if the organization answered “Yes” to Form 990, Part IV, *Checklist of Required Schedules*, line 11, and reported an amount in Form 990, Part X, *Balance Sheet*, line 12, that is 5 percent or more of the total assets reported on Part X, line 16.

This includes stock in a closely held company whose stock is not available for sale to the general public or which is not widely traded. Other securities also include publicly traded stock for which the organization holds 5% or more of the outstanding shares of the same class. List each separate class of publicly traded stock held by the organization that meets the 5% ownership test. Do not include program related investments.

**Column (a).** Describe the type of investment. However, each class of publicly traded stock for which the organization holds 5% or more of the outstanding shares must be listed by name and class, including the number of shares held.

**Column (b).** Enter the book value for each investment. The total of column (b) must equal the amount reported on Form 990, Part X, line 12, column (B).

**Column (c).** Indicate whether the investment is listed at cost or end-of-year market value. When reporting securities at fair market value, use commonly accepted valuation methods.

#### **Part VIII Investments— Program Related**

Complete Part VIII if the organization answered “Yes” in Form 990, Part IV, *Checklist of Required Schedules*, line 11, and reported an amount in Form 990, Part X, *Balance Sheet*, line 13, that is 5 percent or more of the total assets reported on Part X, line 16.

[These are usually part of Private Foundation payout requirements. For a public charity it would only seem pertinent re: prudence.](#)

**Program-related investments** are investments made primarily to accomplish the organization’s exempt purposes rather than to produce income. Examples of program related investments include student loans and notes receivable from other exempt organizations that obtained the funds to pursue the filing organization’s exempt function.

**Column (a).** List each type of **program-related investment**.

**Column (b).** Enter the book value of each **program-related investment**.

**Column (c).** Indicate whether the investment is listed at cost or end-of-year market value.

**Part IX Other Assets** [This is what we get for too many preparers writing "miscellaneous" as their attached explanatory schedule for "other".](#)

Complete Part IX if the organization answered "Yes" to Form 990, Part IV, *Checklist of Required Schedules*, line 11, and reported an amount in Form 990, Part X, *Balance Sheet*, line 15, that is 5% or more of the total assets reported on Part X, line 16.

**Column (a).** Enter a description of assets reported on Form 990, Part X, line 15. The organization may use any reasonable basis to classify these assets.

**Column (b).** Enter the total book value of these assets. The total of column (b) must equal the amount reported on Form 990, Part X, line 16, column (B).

**Part X Other Liabilities** [This is what we get for too many preparers writing "miscellaneous" as their attached explanatory schedule for "other".](#)

Complete Part X if the organization answered "Yes" to Form 990, Part IV, *Checklist of Required Schedules*, line 11, and reported an amount in Form 990, Part X, *Balance Sheet*, line 25. Organizations are required to separately report all liabilities for Federal income taxes, and amounts owed to related organizations, on Part X, line 25.

**Column (a).** List each type of liability not reported on lines 17 through 24 of Form 990, Part X. The organization may use any reasonable basis to classify these liabilities.

**Column (b).** Enter the book value of each liability.

**FIN 48.** [FIN 48 has been delayed for nonprofits but will be a serious matter for affected organizations](#)  
Every organization required to complete Part X must provide the text of the footnote to its financial statements, if applicable, regarding the organization's liability for uncertain tax positions under **FIN 48**. This includes, for example, the description of a liability for unrelated business income tax, or tax that may be assessed as a result of the revocation of exempt status. Any portion of the FIN 48 footnote that addresses only the filing organization's liability must be provided verbatim. The filing organization may summarize that portion, if any, of the footnote that applies to the liability of multiple organizations including the organization (for example, as a member of a group with consolidated financial statements), to describe the filing organization's share of the liability.

#### **Parts XI, XII, and XIII Reconciliation of Change in Net Assets, Revenues, and Expenses from Form 990 to Audited Financial Statements**

Complete Part XI, Part XII, and Part XIII if the organization answered "Yes" to Form 990, Part IV, *Checklist of Required Schedules*, line 12.

If the organization did not receive an audited **financial statement** for the reporting year for which it is completing this Form 990, it is not required to complete Parts XI, XII or XIII, even if it prepared the Form 990 in accordance with **SFAS 117**.

Use the reconciliation statements of Parts XII and XIII to reconcile the differences between the revenue and expenses reported on the organization's audited **financial statement** prepared in accordance with **SFAS 117** and the revenue and expenses reported on the organization's Form 990.

On line 4a of Parts XII and XIII, include only those investment expenses netted against investment income in the revenue portion of the organization's audited **financial statement**. Do not include program-related investment expenses or other expenses reported as program service expenses in the audited statement of activities.

Part XI, XII, and XIII do not have to be completed for group returns.

**Part XIV Supplemental Information**

Complete Part XIV to provide narrative information required in:

- Part II, line 9 (conservation easements);
- Part III, lines 1a and 4 (collections of art, historical treasures, or other similar assets);
- Part IV, lines 1b and 2b (escrow or custodial arrangements);
- Part V, line 4 (endowment funds);
- Part X (FIN 48 footnote text);
- Part XI, line 8 (reconciliation of change in net assets);
- Part XII, lines 2d and 4b (reconciliation of revenue); and
- Part XIII, lines 2d and 4b (reconciliation of expenses).

Also use Part XIV to provide additional narrative explanations and descriptions, as needed. Identify the specific part and line number that the response supports, in the order that it appears on Schedule D (Form 990). Part XIV may be duplicated if more space is needed.

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## 2008 Schedule E (Form 990 or 990-EZ) Instructions Schools

Section references are to the Internal Revenue Code unless otherwise noted.

### General Instructions

#### Purpose of Schedule

Schedule E (Form 990 or 990-EZ) is used by an organization that files Form 990 or 990-EZ to report information on private **schools**.

#### Who Must File

Any organization that answered "Yes" to Form 990, Part IV, question 13, or Form 990-EZ, Part VI, line 48, must complete and attach Schedule E to Form 990 or Form 990-EZ, as applicable. This means that the organization checked the box on Schedule A (Form 990 or 990-EZ), *Public Charity Status and Public Support*, Part I, line 2, because it is a **school**.

If an organization is not required to file Form 990 or 990-EZ, it is not required to file Schedule E.

### Specific Instructions

Relevant parts of Rev. Proc. 75-50, 1975-2 C.B. 587 are given below. The revenue procedure gives guidelines and recordkeeping requirements for determining whether private **schools** that are recognized as exempt from tax have racially nondiscriminatory policies toward their students.

**4.01 Organizational requirements.** A school must include a statement in its charter, bylaws, or other governing instrument, or in a resolution of its governing body, that it has a racially nondiscriminatory policy as to students and therefore does not discriminate against applicants and students on the basis of race, color, and national or ethnic origin.

**4.02 Statement of policy.** Every school must include a statement of its racially nondiscriminatory policy as to students in all its brochures and catalogues dealing with student admissions, programs, and scholarships. A statement substantially similar to the Notice described in paragraph (a) of subsection 1 of section 4.03, *infra*, will be acceptable for this purpose. Further, every school must include a reference to its racially nondiscriminatory policy in other written advertising that it uses as a means of informing prospective students of its programs. The following references will be acceptable: The (name) school admits students of any race, color, and national or ethnic origin.

**4.03 Publicity.** The school must make its racially nondiscriminatory policy known to all segments of the general community served by the school.

1. The school must use one of the following two methods to satisfy this requirement:

(a) The school may publish a notice of its racially nondiscriminatory policy in a newspaper of general circulation that serves all racial segments of the community. This publication must be repeated at least once annually during the period of the school's

solicitation for students or, in the absence of a solicitation program, during the school's registration period. Where more than one community is served by a school, the school may publish its notice in those newspapers that are reasonably likely to be read by all racial segments of the communities that it serves. The notice must appear in a section of the newspaper likely to be read by prospective students and their families and it must occupy at least three column inches. It must be captioned in at least 12 point boldface type as a notice of nondiscriminatory policy as to students, and its text must be printed in at least 8 point type. The following notice will be acceptable:

**Notice Of Nondiscriminatory Policy As To Students**

*The (name) school admits students of any race, color, national and ethnic origin to all the rights, privileges, programs, and activities generally accorded or made available to students at the school. It does not discriminate on the basis of race, color, national and ethnic origin in administration of its educational policies, admissions policies, scholarship and loan programs, and athletic and other school-administered programs.*

(b) The school may use the broadcast media to publicize its racially nondiscriminatory policy if this use makes such nondiscriminatory policy known to all segments of the general community the school serves. If this method is chosen, the school must provide documentation that the means by which this policy was communicated to all segments of the general community was reasonably expected to be effective. In this case, appropriate documentation would include copies of the tapes or script used and records showing that there was an adequate number of announcements, that they were made during hours when the announcements were likely to be communicated to all segments of the general community, that they were of sufficient duration to convey the message clearly, and that they were broadcast on radio or television stations likely to be listened to by substantial numbers of members of all racial segments of the general community. Announcements must be made during the period of the school's solicitation for students or, in the absence of a solicitation program, during the school's registration period.

Communication of a racially nondiscriminatory policy as to students by a school to leaders of racial groups as the sole means of publicity generally will not be considered effective to make the policy known to all segments of the community.

2. The requirements of subsection 1 of this section will not apply when one of the following paragraphs applies:

(a) If for the preceding 3 years the enrollment of a parochial or other church-related school consists of students at least 75% of whom are members of the sponsoring religious denomination or unit, the school may make known its racially nondiscriminatory policy in whatever newspapers or circulars the religious denomination or unit utilizes in the communities from which the students are drawn. These newspapers and circulars may be those distributed by a particular religious denomination or unit or by an association that represents a number of religious organizations of the same denomination. If, however, the school advertises in newspapers of general circulation in the community or communities from which its students are drawn and paragraphs (b) and (c) of this subsection are not applicable to it, then it must comply with paragraph (a) of subsection 1 of this section.

(b) If a school customarily draws a substantial percentage of its students nationwide or worldwide or from a large geographic section or sections of the United States and follows a racially nondiscriminatory policy as to students, the publicity requirement may be satisfied by complying with section 4.02, *supra*. Such a school may

demonstrate that it follows a racially nondiscriminatory policy within the meaning of the preceding sentence either by showing that it currently enrolls students of racial minority groups in meaningful numbers or, when minority students are not enrolled in meaningful numbers, that its promotional activities and recruiting efforts in each geographic area were reasonably designed to inform students of all racial segments in the general communities within the area of the availability of the school. The question whether a school satisfies the preceding sentence will be determined on the basis of the facts and circumstances of each case.

(c) If a school customarily draws its students from local communities and follows a racially nondiscriminatory policy as to students, the publicity requirement may be satisfied by complying with section 4.02, *supra*. Such a school may demonstrate that it follows a racially nondiscriminatory policy within the meaning of the preceding sentence by showing that it currently enrolls students of racial minority groups in meaningful numbers. The question whether a school satisfies the preceding sentence will be determined on the basis of the facts and circumstances of each case. One of the facts and circumstances that the Service will consider is whether the school's promotional activities and recruiting efforts in each area were reasonably designed to inform students of all racial segments in the general communities within the area of the availability of the school. The Service recognizes that the failure by a school drawing its students from local communities to enroll racial minority group students may not necessarily indicate the absence of a racially nondiscriminatory policy as to students when there are relatively few or no such students in these communities. Actual enrollment is, however, a meaningful indication of a racially nondiscriminatory policy in a community in which a public school or schools became subject to a desegregation order of a Federal court or otherwise expressly became obligated to implement a desegregation plan under the terms of any written contract or other commitment to which any Federal agency was a party.

The Service encourages schools to satisfy the publicity requirement by the methods described in subsection 1 of this section, regardless of whether a school considers itself within subsection 2, because it believes these methods to be the most effective to make known a school's racially nondiscriminatory policy. In this regard it is each school's responsibility to determine whether paragraph (a), (b), or (c) of subsection 2 applies to it. On audit, a school must be prepared to demonstrate that the failure to publish its racially nondiscriminatory policy in accordance with subsection 1 of this section was justified by the application to it of paragraph (a), (b), or (c) of subsection 2. Further, a school must be prepared to demonstrate that it has publicly disavowed or repudiated any statements purported to have been made on its behalf (after November 6, 1975) that are contrary to its publicity of a racially nondiscriminatory policy as to students, to the extent that the school or its principal official were aware of such statements.

**4.04 Facilities and programs.** A school must be able to show that all of its programs and facilities are operated in a racially nondiscriminatory manner.

**4.05 Scholarship and loan programs.** As a general rule, all scholarship or other comparable benefits procurable for use at any given school must be offered on a racially nondiscriminatory basis. Their availability on this basis must be known throughout the general community being served by the school and should be referred to in the publicity required by this section in order for that school to be considered racially nondiscriminatory as to students. . . . [S]cholarships and loans that are made pursuant to financial assistance programs favoring members of one or more racial minority groups

that are designed to promote a school's racially nondiscriminatory policy will not adversely affect the school's exempt status.

Financial assistance programs favoring members of one or more racial groups that do not significantly derogate from the school's racially nondiscriminatory policy similarly will not adversely affect the school's exempt status.

**4.06 Certification.** An individual authorized to take official action on behalf of a school that claims to be racially nondiscriminatory as to students is required to certify annually, under penalties of perjury, that to the best of his or her knowledge and belief the school has satisfied the applicable requirements of sections 4.01 through 4.05 of the Rev. Proc. *This certification is line 7 of Schedule E.*

**4.07 Faculty and staff.** The existence of a racially discriminatory policy with respect to employment of faculty and administrative staff is indicative of a racially discriminatory policy as to students. Conversely, the absence of racial discrimination in employment of faculty and administrative staff is indicative of a racially nondiscriminatory policy as to students.

**7.01 Specific records.** Except as provided in section 7.03, each exempt private school must maintain for a minimum period of three years, beginning with the year after the year of compilation or acquisition, the following records for the use of the Service on proper request:

1. Records indicating the racial composition of the student body, faculty, and administrative staff for each academic year.
2. Records sufficient to document that scholarship and other financial assistance is awarded on a racially nondiscriminatory basis.
3. Copies of all brochures, catalogues, and advertising dealing with student admissions, programs, and scholarships. Schools advertising nationally or in a large geographic segment or segments of the United States need only maintain a record sufficient to indicate when and in what publications their advertisements were placed.
4. Copies of all materials used by or on behalf of the school to solicit contributions.

**7.02 Limitation.**

1. For purposes of section 7.01, the racial composition of the student body, faculty, and administrative staff may be an estimate based on the best information readily available to the school, without requiring student applicants, students, faculty, or administrative staff to submit information to the school that the school otherwise does not require. For each academic year, however, a record of the method by which racial composition is determined must be maintained.

2. The Service does not require that a school release personally identifiable records or personal information contained therein except in accordance with the requirements of the "Family Educational Rights and Privacy Act of 1974," 20 U.S.C. section 1232g (1974). Similarly, the Service does not require a school to keep records the maintenance of which is prohibited under state or federal law.

**7.03 Exceptions.** The records described in section 7.01 need not be independently maintained for Internal Revenue Service use if:

1. Substantially the same information that each of these records would provide has been included in a report or reports filed in accordance with law with an

agency or agencies of Federal, state, or local government, and this information is current within one year, and

2. The school maintains copies of these reports from which this information is readily obtainable. Records described in section 7.01 providing information not included in reports filed with an agency or agencies must be maintained by the school for Service use.

**7.04 Failure to maintain records.** Failure to maintain or to produce upon the proper request the required records and information will create a presumption that the organization has failed to comply with these guidelines.

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## 2008 Schedule F (Form 990) Instructions Statement of Activities Outside the United States

Section references are to the Internal Revenue Code unless otherwise noted.

### General Instructions

#### Purpose of Schedule

Schedule F (Form 990) is used by an organization that files Form 990 to provide information on its activities conducted outside the United States by the organization at any time during the **tax year**.

**Activities conducted outside the United States** include grantmaking, fundraising activities, unrelated trade or business, program services, or maintaining offices, employees, or agents for the purpose of conducting any such activities, in regions outside the United States. This includes passive investments other than financial accounts that are reported on Form 990, Part V, *Statements Regarding Other IRS Filings and Tax Compliance*, lines 4a and 4b.

**United States** is defined as the 50 States and the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, Guam, American Samoa, and the United States Virgin Islands. A foreign country is any sovereignty that is not the United States.

Information is to be reported based on the geographic regions described below. Report activities conducted by the organization directly or indirectly through a disregarded entity, or through a **joint venture** taxed as a partnership.

For purposes of Schedule F:

*Grantmaking* includes awards, prizes, cash allocations, stipends, scholarships, fellowships, research grants, and similar payments and distributions made by the organization at any time during the tax year to **foreign organizations, foreign governments, or foreign individuals**. It does not include salaries or other compensation to employees.

**Foreign organizations** include a foreign estate or trust, nonprofits or other non-governmental organizations, partnerships, corporations, or other entities that are not created or organized in the United States or under the laws of the United States, as defined above. For purposes of defining grantmaking for Schedule F, a foreign organization includes an affiliate that is organized as a legal entity separate from the filing organization, but does not include any branch office, account, or employee of the filing organization located outside the United States.

**Foreign governments** include political subdivisions thereof. Foreign governments do not include a U.S. government agency regardless of where it is located or operated.

**Foreign individuals** are persons who live or reside outside the United States at the time the grant is paid or distributed, including U.S. citizens or residents.

*Program services* are activities that form the basis of the organization's exemption from federal income tax conducted by the organization outside the United States. Some examples of

program services include, but are not limited to: operating an orphanage, school, hospital, or church, temple, mosque, or synagogue; disaster relief efforts; and providing indigent relief.

**Unrelated trade or business** - see Glossary for definition of this term.

**Fundraising activities** – see Glossary for definition of this term.

*Maintaining offices, employees or agents* includes principal, regional, district, or branch offices, such offices maintained by agents, and persons situated at those offices paid wages for services performed. For purposes of this schedule, “agent” is defined under traditional agency principles, but does not include **volunteers**.

Use Schedule F-1 to report additional information for Parts I, II, or III of Schedule F. Use as many Schedules F-1 as needed.

#### **Who Must File**

Any organization that answered “Yes” to Form 990, Part IV, *Checklist of Required Schedules*, line 14b, 15, or 16, must complete the appropriate parts of Schedule F and attach Schedule F to Form 990.

If an organization is not required to file Form 990, it is not required to file Schedule F.

#### **Specific Instructions**

##### **Regions**

Reporting on Schedule F is based on geographic regions. Use the following regions for this purpose:

##### **Central America and the Caribbean**

Includes the following countries: Antigua & Barbuda, Aruba, Bahamas, Barbados, Belize, Cayman Islands, Costa Rica, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guadeloupe, Guatemala, Haiti, Honduras, Jamaica, Martinique, Nicaragua, Panama, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Trinidad & Tobago, Turks & Caicos Islands, and Virgin Islands

##### **East Asia and the Pacific**

Includes the following countries: Australia, Brunei, Burma, Cambodia, China (including Hong Kong), East Timor, Fiji, Indonesia, Japan, Kiribati, Korea, Laos, Malaysia, Marshall Islands, Micronesia, Mongolia, Nauru, New Zealand, North Korea, Palau, Papua New Guinea, Philippines, Samoa, Singapore, Solomon Islands, South Korea, Taiwan, Thailand, Timor Leste, Tonga, Tuvalu, Vanuatu, and Vietnam.

##### **Europe (including Iceland and Greenland)**

Includes the following countries: Albania, Andorra, Austria, Belgium, Bosnia & Herzegovina, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, FYR Macedonia, Germany, Greece, Greenland, Holy See, Hungary, Iceland, Italy, Ireland, Kosovo, Latvia, Liechtenstein, Lithuania, Luxembourg, Macedonia, Monaco, Montenegro, the Netherlands, Norway, Poland, Portugal, Romania, San Marino, Serbia,

Slovakia, Slovenia, Spain, Switzerland, Turkey, and the United Kingdom (England, Northern Ireland, Scotland and Wales).

**Middle East and North Africa**

Includes the following countries: Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates, West Bank and Gaza, and Yemen.

**North America (including Canada and Mexico, but not the United States)**

**Russia and the newly Independent States**

Includes the following countries: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

**South America**

Includes the following countries: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, French Guiana, Guyana, Paraguay, Peru, Suriname, Uruguay, and Venezuela.

**South Asia**

Includes the following countries: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

**Sub-Saharan Africa**

Includes the following countries: Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Dem. Rep. (DRC), Congo Rep., Cote d'Ivoire, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Nigeria, Rwanda, Sao Tome & Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia, and Zimbabwe.

If an organization's activities involve a country not listed above, designate the appropriate region for the country.

**Part I General Information on Activities Outside the United States**

Complete Part I if the organization answered "Yes" to Form 990, Part IV, *Checklist of Required Schedules*, line 14b. This means that the organization had aggregate revenues or expenses of more than \$10,000 from or attributable to grantmaking, fundraising activities, unrelated trade or business, and program services outside the United States.

**TIP:** If an organization that completes Part I makes grants to **foreign organizations** or **foreign individuals**, it may also need to complete, as applicable, Parts II and III. If the organization does not make any such grants, it does not need to complete Parts II or III.

**Lines 1 and 2.** Complete these lines only if the organization made grants directly to **foreign organizations**, **foreign governments**, or **foreign individuals**.

Indicate “Yes” or “No” regarding whether the organization maintains records to substantiate amounts, eligibility, and selection criteria used for grants. Describe how the organization monitors its grants to ensure that such grants are used for proper purposes or are not otherwise diverted from the intended use. For example, the organization may describe periodic reports required or field investigations conducted; or it may indicate that the organization is a “friends of” organization that supports specified foreign organizations. Use Part IV of this Schedule for the narrative response to line 2.

**Line 3.** Activities Per Region. Enter the details for each type of activity conducted at any time during the tax year in each region on a separate line of Part I. Use the regions listed above.

**Column (a).** Identify each region in which the organization conducted grantmaking, **fundraising activities, unrelated trade or business,** or program services during the tax year.

**Column (b).** If the organization answered “Yes” to Form 990, Part IV, *Checklist of Required Schedules*, line 14a, and the organization maintained offices outside the United States, list in this column the number of offices maintained by the organization in each region listed during the tax year. See *Purpose of Schedule*, above, for definition of “maintaining offices.”

**Column (c).** If the organization answered “Yes” to Form 990, Part IV, *Checklist of Required Schedules*, line 14a, and the organization maintained employees or agents outside the United States, list in this column the total number of employees and agents working in each region listed, during the tax year. Do not include in this number any of the organization’s employees or agents whose only presence in the region is to conduct on-site visits, or persons who serve as volunteers. See *Purpose of Schedule*, above, for definition of “maintaining employees or agents”.

**Column (d):** Specify in this column the type(s) of activity conducted in each region. Types of activities include the following: “grantmaking”; “fundraising activities”; “unrelated trade or business”; or “program services”. If multiple activities are conducted per region, list each type of activity on a separate line and repeat regions in Column (a) as necessary. See *Purpose of Schedule*, above, for definitions of types of activities.

**Column (e).** If “program services” is the listed activity in Column (d), provide a description of the specific program service.

**Column (f).** Enter the total amount of expenditures for activities conducted in each listed region. Expenditures include salaries, wages and other employment-related costs paid to or for the benefit of employees located in the region; rent and other costs relating to offices located in the region; grants to recipients located in the region; and payments to agents located in the region. Report expenditures based on the method used to account for them on the organization’s **financial statements**, and describe this method in Part IV.

Totals. Add the totals for Columns (b), (c), and (f).

**Part II Grants and Other Assistance to Organizations or Entities Outside the United States**

Complete Part II if the organization answered “Yes” on Form 990, Part IV, *Checklist of Required Schedules*, line 15. A “Yes” response to Form 990, Part IV, line 15, means that the organization reported on Form 990, Part IX, *Statement of Functional Expenses*, line 3, more than \$5,000 of grants or assistance to any **foreign organization** entity (including a **foreign government**). See *Purpose of Schedule*, above, for definitions of foreign organization and foreign government.

**Line 1.** Enter information only for each recipient organization or entity that received more than \$5,000 total amount of **grants or other assistance** from the organization for the tax year.

**TIP:** Do not complete this table if the organization checked the box on Schedule F, Part II, that no one recipient received more than \$5,000.

Enter the details of each organization or entity on a separate line of Part II. If there are more organizations or entities to report in Part II than space available, report the additional organizations or entities in Part II of Schedule F-1. Use as many Schedules F-1 as needed.

**Do not complete Columns (a) or (b). However, complete Columns (c) – (i) as if Columns (a) and (b) were completed.**

**Column (c).** Specify the region where the principal office of the recipient organization or entity is located. See list of regions above.

**Column (d).** Describe the purpose or ultimate use of the grant funds. Do not use broad terms such as charitable, educational, religious or scientific. Rather, use more specific descriptions such as, for example, general support, school or hospital construction, purchase of medical supplies or equipment, or purchase of school books or school supplies, provision of clothing, food, etc. In the case of specific disaster assistance, the description should include a description of the disaster, such as tsunami or earthquake relief.

**Column (e).** Enter total dollar amount of cash grants, in U.S. dollars, to each recipient foreign organization or entity for the tax year. Cash grants include grants or allocations paid by cash, check, money order, wire transfers, and other charges against funds on deposit at a financial institution.

**Column (f).** Describe **manner of cash disbursement**, such as by cash payment, money order, electronic fund or wire transfer, check, other charges against funds on deposit at a financial institution, or other. List all that apply for each recipient.

**Columns (g).** Enter the fair market value of any non-cash property, in U.S. dollars.

**Column (h).** For non-cash property or assistance, enter a description of the property or assistance. List all that apply. Examples of non-cash assistance include medical supplies or equipment, pharmaceuticals, blankets, books or other educational supplies.

**Column (i).** Describe method of valuation. Report property with a readily determinable market value at its fair market value. When fair market value cannot be readily determined, use an appraised or estimated value.

#2 can be hard to determine. What is not clear to me about this is that a public charity may support a foreign entity without proving "foreign public charity equivalence" as private foundations must (this is one of the advantages of public charity status). So it's not clear to me what the implications are of saying "no" to this one, or in other words, having very many in Line 3 rather than Line 2.

**Line 2.** Add number of recipient **foreign organizations** listed in line 1 above (a) that are recognized by the Internal Revenue Service as exempt from federal income tax as described in section 501(c)(3), (b) that are recognized as a charity by a foreign country, **or** (c) for which the grantmaker has made a good faith determination, based on an affidavit from the grantee or the opinion of counsel, that the grantee is the equivalent of a public charity. Enter total number of such organizations.

**Line 3.** Enter total number of recipient **foreign organizations** listed in line 1 above that are not described in line 2 above.

### **Part III Grants and Other Assistance to Individuals Outside the United States**

Complete Part III if the organization answered "Yes" on Form 990, Part IV, *Checklist of Required Schedules*, line 16. A "Yes" response to Form 990, Part IV, line 16 means that the organization reported on Form 990, Part IX, *Statement of Functional Expenses*, line 3, more than \$5,000 of grants or assistance to **foreign individuals**. See *Purpose of Schedule*, above, for definition of foreign individual.

sounds indirect

Enter information for **grants or other assistance** directly made to or **for the benefit of** **foreign individual** recipients. Do not complete Part III for grants or other assistance provided to individuals through another organization or entity. Instead, complete Part II above for such grants or assistance. For example: report a payment designated to cover the medical expenses of a foreign individual to a hospital located outside the United States in Part III; report a contribution to provide a service to the general public or to unspecified charity patients to a hospital located outside the United States in Part II.

Enter the details of each type of assistance to individuals on a separate line of Part III. If there are more types of assistance than space available, report the additional assistance transactions in Part III of Schedule F-1. Use as many Schedules F-1 as needed.

**Column (a).** **Specify type(s) of assistance provided,** or describe the purpose or use of grant funds. List all that apply for each region. Do not use broad terms such as charitable, educational, religious, or scientific. Rather, use more specific descriptions, such as scholarships, food, clothing, shelter for indigents or disaster victims, direct cash assistance to indigents, medical supplies or equipment, books or other educational supplies, etc. In the case of specific disaster assistance, the description should include a description of the disaster, such as tsunami or earthquake.

**Column (b).** List each region in which **grants or other assistance** were provided to **foreign individual** recipients. See list of regions above.

**Column (c).** For each type of assistance provided in each region listed, enter the number of recipients that received the type of assistance in that region. If the filing organization does not have a way to determine a specific number, estimate the number. Explain in Part IV how the organization arrived at the estimate.

**Column (d).** Enter aggregate amount of cash grants, in U.S. dollars, provided to recipients in each region for each type of assistance. Cash grants include only grants or allocations paid by

cash, checks, money orders, electronic fund or wire transfers, and other charges against funds on deposit at a financial institution.

**Column (e).** Describe the manner of disbursement of cash grants, such as by cash payment, money order, electronic fund or wire transfer, other charges against funds on deposit at a financial institution, or other. List all that apply for each region.

**Columns (f).** Enter the fair market value of non-cash property, in U.S. dollars for each type of assistance. If multiple properties were transferred for the type of assistance, provide information for each.

**Column (g).** For non-cash property, provide a description of the property. If multiple properties were transferred, provide a description of each.

**Column (h).** Describe the method of valuation. Report property with a readily determinable market value at its fair market value. When fair market value cannot be readily determined, use an appraised or estimated value.

#### **Part IV Supplemental Information**

Use Part IV to provide narrative information required in Part I, line 2, regarding monitoring of funds. Use Part IV to describe the method used to account for expenditures in Part I, line 3, Column (f). Also use Part IV to provide other narrative explanations and descriptions, as needed. Identify the specific part and line(s) that the response supports. Part IV may be duplicated if more space is needed.

## 2008 Schedule G (Form 990 or 990-EZ) Instructions Supplemental Information Regarding Fundraising or Gaming Activities

Section references are to the Internal Revenue Code unless otherwise noted.

### General Instructions

#### Purpose of Schedule

Schedule G (Form 990 or 990-EZ) is used by an organization that files Form 990 or Form 990-EZ to report **professional fundraising services, fundraising events, and gaming.**

#### Who Must File

Any organization that answered "Yes" to Form 990, Part IV, *Checklist of Required Schedules*, lines 17, 18, or 19, or entered an amount in Form 990-EZ, Part 1, line 6, must complete the appropriate parts of Schedule G and attach Schedule G to Form 990 or Form 990-EZ, as applicable.

**Part I Fundraising Activities:** Complete Part 1 if the organization answered "Yes" to Form 990 Part IV, *Checklist of Required Schedules*, line 17, and reported more than \$15,000 on Form 990, Part IX, *Statement of Functional Expenses*, line 11(e).

- **Part II Fundraising Events:** Complete Part II if the organization answered "Yes" to Form 990, Part IV, *Checklist of Required Schedules*, line 18, and reported a total of more than \$15,000 on Form 990, Part VIII, *Statement of Revenue*, lines 1c and 8a in the aggregate.
- **Part III Gaming:** Complete Part III if the organization answered "Yes" to Form 990, Part IV, *Checklist of Required Schedules*, line 19, and reported more than \$15,000 on Form 990, Part VIII, *Statement of Revenue*, line 9a.
- **Form 990-EZ Filers:** Any organization that reported more than \$15,000 from fundraising events and gaming on Form 990-EZ, line 6a, must also complete and attach Schedule G, Part II and/or Part III (as applicable) to Form 990-EZ. Schedule G, Part I, is not required to be completed by Form 990-EZ filers.

If the organization is not required to file Form 990 or Form 990-EZ, it is not required to file Schedule G.

### Specific Instructions

#### **PART I Fundraising Activities** [Professional Fundraising Services > \\$15K](#)

Complete this part only if the organization reported more than \$15,000 on Form 990, Part IX, *Statement of Functional Expenses*, line 11(e). Form 990-EZ filers are not required to complete Part I.

**Line 1.** Check the box in front of each method of fundraising used by the organization to raise funds during the taxable year.

Seems like if you're filling out this part it's because you've paid more than \$15K in professional fundraising svcs so it would always be Yes.

**Line 2a.** Check "Yes" if at any time during the year the organization had an agreement with another person or entity to perform **professional fundraising services**. Do not include an officer, director, trustee or employee who conducts professional fundraising services solely in his capacity as an officer, director, trustee or employee of the organization.

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

**Line 2b Column (i).** If "Yes" to line 2a, list the ten highest paid individuals or entities who were each paid at least \$5,000 by the organization in the taxable year for **professional fundraising services**. Form 990-EZ filers are not required to complete this table.

**Column (ii)** Enter the *type(s)* of **fundraising activities** with respect to which the professional fundraiser performed services.

Report the **fundraising activities** consistently with terms used by the organization in the management of its fundraising program. For example, if an organization contracts with a single fundraiser to advise on and coordinate all of its direct mail fundraising, it might enter "consults on direct mail program." If a consultant were hired to perform data analysis for all aspects of an organization's public solicitation, it might enter "provides database consulting for direct mail, telephone and email."

**Column (iii)** For this purpose, custody or control means possession of the funds or the authority to deposit, direct the use of, or use the funds. Describe the custody or control arrangement in [Schedule O](#).

**Column (iv)** Enter the gross receipts connected to the services provided by the fundraiser listed in column (i) and received by the organization, or by the fundraiser on the organization's behalf, during the taxable year.

A professional fundraiser may deliver services in the taxable year and be properly reported in line 2b but have no receipts to report in column (iv). For example, an organization might retain a fundraiser to conduct a feasibility study for a capital campaign. The campaign, if there were to be one, could be conducted in, and produce receipts in, subsequent taxable years. Likewise, a fundraiser might be hired to plan and produce programming for a media campaign. Fees would be properly reported in the taxable year, but there might be no receipts to report until subsequent years when the programming actually airs. In each case, the organization may properly report a "-0-" in column (iv).

**Column (v)** Enter the dollar amounts in fees paid to or fees withheld by the fundraiser for its **professional fundraising services**.

If the agreement provides for the payment of fees and also for the payment of fundraising expenses, such as printing, paper, envelopes, postage, mailing list rental,

and equipment rental, the organization must report such amounts paid during the year in Schedule O and describe how the agreement distinguishes payments for professional fundraising services from expense payments or reimbursements. Also describe in Schedule O whether the organization entered into any arrangements with fundraisers under which the organization made payments exclusively for such expenses but not for professional fundraising services.

If the agreement does not distinguish between fees for **professional fundraising services** and payment of fundraising expenses, then the organization must report in column (v) the gross amount paid to (or withheld by) the fundraiser.

**Column (vi)** Subtract column (v) from column (iv).

**Line 3.** If the organization is registered or licensed, or has been notified that it is exempt from registration or licensing, in all states requiring registration or licensing for solicitation, it may answer "All states."

## **PART II Fundraising Events**

Complete this Part only if the organization reported a total of more than \$15,000 on Form 990, Part VIII, *Statement of Revenue*, lines 1c and 8a in the aggregate, or a total of more than \$15,000 on Form 990-EZ, line 6a. List only **fundraising events** with gross receipts greater than \$5,000 that the organization conducted at any time during the year.

Complete the table listing the two largest fundraising events with gross receipts greater than \$5000 each in columns (a) and (b). In column (c), report the total number of other events with gross receipts greater than \$5000 each and report revenues and expenses from these events in the aggregate. If no events other than those listed in columns (a) and (b), if any, exceeded the \$5000 threshold, state "None."

### **Revenue**

**Line 1. Gross Receipts.** Enter the total amount the organization received from event #1 and event #2 during the taxable year, without subtracting any costs or expenses or charitable contributions received in connection with the event. Enter the total amount the organization received from all other events with gross receipts over \$5,000 during the taxable year in the aggregate, without subtracting any costs, expenses, or charitable contributions received in connection with the events. Report the sum of columns (a), (b) and (c) in column (d).

**Line 2. Charitable Contributions.** Enter the total amount of contributions, gifts and similar amounts (including the total value of **non-cash contributions**) received by the organization for event #1 and event #2 during the taxable year. Enter the total amount of contributions, gifts and similar amounts received by the organization from all other **fundraising events** with gross receipts over \$5,000 during the taxable year in the aggregate. Report the sum of columns (a), (b) and (c) in column (d).

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

### **Direct Expense Items**

Enter the expense amount in the appropriate column (a through c) for events with gross receipts greater than \$5000 each. Catering and entertainment expenses should be included as other direct expenses. Report the sum of columns (a), (b) and (c) in column (d).

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

**Line 5. Non-cash Prizes.** Enter the fair market value of the non-cash prizes paid or given out for each **fundraising event**.

**Line 6. Rent/Facility Costs.** Enter the expenses the organization paid or incurred for the rent or lease of property or facilities.

**Line 7. Other Direct Expenses.** Enter the amount of other direct expense items not included on lines 4 through 6 of Part II (e.g., catering, entertainment, labor). The organization should retain in its records a schedule providing an itemized listing of all other direct expenses not included on lines 4 through 6. For labor costs and wages, include the total amount of compensation paid to **fundraising event** workers or paid to independent contractors for labor costs.

**Line 8. Direct Expense Summary.** Report the sum of columns (a), (b) and (c) in column (d).

**Line 9. Net Income Summary.** In column (d), enter the difference between lines 3(d) and 8(d).

**PART III – GAMING** >\$15K gaming income

Complete this part only if the organization reported more than \$15,000 on Form 990, Part VIII, *Statement of Revenue*, line 9a or on Form 990-EZ, line 6a.

**Column (a) Bingo and column (b) Pull tabs.** Treat all **bingo** as a single event for column (a) and all **pull tabs** as a single event for column (b).

**Column (c) Other Gaming.** Includes all other types of gaming not included in column (a) **Bingo**, or (b) **Pull tabs**.

Complete the table for each type of **gaming** conducted (columns (a) through (c)), report the gross revenue (gross receipts less contributions), direct expenses, and net gaming income or (loss) (gross revenue less direct expenses).

**Line 1. Gross Revenue.** Enter the amount of gross revenue from **gaming** for each type of gaming conducted without reduction for cash or non-cash prizes, cost of goods sold, compensation, fees, or other expenses. Report the sum of columns (a) through (c) in column (d).

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

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

**Line 3. Non-cash Prizes** Enter the fair market value of the non-cash prizes paid or given out for each type of gaming conducted.

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

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

The itemized listing of direct expenses not included on lines 2 through 4 should include labor costs and wages (including the total amount of compensation paid to gaming workers or paid to independent contractors for labor costs); employment taxes (including the amount of federal, state, and local payroll taxes paid for the year associated with **gaming** workers but only those that are imposed on the organization as an employer. This includes the employer's share of social security and Medicare taxes, the Federal unemployment tax (FUTA), state unemployment compensation taxes, and other state and local payroll taxes. Do not include taxes withheld from the employees' salaries and paid to various governmental units such as federal and state income taxes and the employees' share of social security and Medicare taxes) and excise taxes (including the amount of excise taxes paid for the year). Gaming may be subject to a wagering excise tax (imposed on the amount of the wager; see Form 730, *Tax on Wagering*) and an occupational tax (imposed on the persons engaged in receiving wagers; see Form 11C, *Occupational Tax and Registration Return for Wagering*).

**Line 6. Volunteer Labor.** If substantially all of the organization's work in conducting a type of **gaming** is performed by **volunteers**, check "Yes" and enter the percentage of total workers who are volunteers for each type of gaming conducted. The percentage is determined by dividing the number of volunteers for each type of gaming by the total number of workers for that type of gaming, both paid and unpaid. Leave column 6(d) blank.

**Line 7, column (d). Direct Expense Summary** Enter the sum of lines 2(d) through 5(d).

**Line 8, column (d). Net Gaming Income** Enter the difference between lines 1(d) and 7(d). If line 7 is more than line 1, enter the difference in parentheses.

**TIP:** For Form 990 filers, the amounts from line 1, column (d), line 7, column (d), and line 8 column (d), must equal the amounts reported on Form 990, Part VIII, *Statement of Revenue*, lines 9a, b, and c, respectively.

**Line 9.** List all state(s) in which the organization operated gaming during the taxable year. [Schedule O](#) provides additional space, if needed.

**Line 9a.** Check "Yes" only if the organization is licensed or otherwise registered to operate **gaming** in each state listed on Line 9.

**Line 9b.** If the organization is not licensed or otherwise registered to operate **gaming** in any state listed on Line 9, provide a narrative statement of explanation. Schedule O provides additional space, if needed.

**Line 10a.** Check “Yes” or “No.”

**Line 10b.** Provide a narrative statement of explanation for each state in which the organization’s license or registration has been revoked, suspended or terminated during the taxable year. Schedule O provides additional space, if needed.

**Line 11.** If the organization conducted gaming with nonmembers during the year, check “Yes.”

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

**Line 13a.** An organization should enter the percentage of **gaming** that it conducted during the year in a facility or facilities that it owned. The facility or facilities need not have been used exclusively for gaming.

**Line 13b.** An organization should enter the percentage of **gaming** that it conducted during the year in a facility or facilities that it did not own.

**Line 14.** Provide the person’s name and business address (or the organization’s business address if the books and records are kept by such person at a personal residence). The organization is not required to provide the address or telephone number of a personal residence of an individual.

**Line 15a.** An organization may pay its own employees to operate **gaming** or contract with a third party for such services. Check “Yes” or “No” to indicate whether the organization has a contract with a third party from which it receives gaming revenue.

**Line 15b.** If the organization checked “Yes” to line 15a, indicate the amount of **gaming** revenue received by the organization and the amount retained by the third party. If there is more than one third party operator, Schedule O provides additional space to report the additional operator(s), if needed.

**Line 15c.** If the organization checked “Yes” to line 15b, enter the name and address of the third-party. If there is more than one third party operator, Schedule O provides additional space to report the additional operator(s), if needed.

**Line 16.** Complete this line for the person who has overall supervision and management of the **gaming** operation. Generally, this person has responsibilities that may include record keeping, money counting, hiring and firing of workers and making the bank deposits for the gaming operation. If more than one person shares this responsibility, Schedule O provides additional space to report the additional person(s), if needed.

**Line 17a.** Some states require that charitable organizations make mandatory distributions from **gaming** proceeds to obtain and retain a valid gaming license. Check “Yes” or “No” to indicate whether the organization is required to make mandatory distributions from its gaming proceeds to retain its gaming license or registration in any state. Schedule O provides additional space, if needed.

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

For more information, see Publication 3079, *Gaming Publication for Tax-Exempt Organizations*.

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## 2008 Instructions for Schedule H (Form 990) Instructions Hospitals

Section references are to the Internal Revenue Code unless otherwise noted.

### General Instructions

#### Purpose of Schedule

Schedule H must be completed by an organization that operates at least one facility that is, or is required to be, licensed, registered, or similarly recognized by a state as a hospital. For 2008, organizations are required to complete Part V, *Facility Information*, and may complete the other Parts of the Schedule.

**TIP:** Although Parts I, II, III, IV, and VI are optional for 2008, organizations will be required to complete those parts beginning in 2009.

The organization must file a single Schedule H that aggregates information from the following:

1. Hospitals directly operated by the organization.
2. Hospitals operated by disregarded entities of which the organization is the sole member.
3. Other facilities or programs of the organization or any of the entities described in 1 or 2, even if provided by a facility that is not a hospital or if provided separately from the hospital's license.
4. Hospitals operated by any **joint venture** taxed as a partnership, to the extent of the organization's proportionate share of the **joint venture**. Proportionate share is defined as the ending capital account percentage listed on the Form 1065 Schedule K-1, Part II, Line J for the partnership tax year ending in the organization's tax year that is being reported on the organization's Form 990. If this Schedule K-1 is not available, the organization may use other business records to make a reasonable estimate, including the most recently available Schedule K-1 adjusted as appropriate to reflect facts known to the organization, or information used for purposes of determining its proportionate share of the venture for the organization's financial statements.
5. In the case of a group return filed by the organization, hospitals operated directly by members of a group exemption that are included in the group return, hospitals operated by a disregarded entity of which a member included in the group return is the sole member, hospitals operated by a joint venture taxed as a partnership to the extent of the group member's proportionate share (determined in the manner described in paragraph 4, above), and other facilities or programs of a member included in the group return even if such facilities are not hospitals or if such programs are provided separately from the hospital's license.
6. **EXAMPLE:** The organization is the sole member of a disregarded entity. The disregarded entity owns 50% of a **joint venture** taxed as a partnership. The partnership in turn owns 50% of another **joint venture** taxed as a partnership that operates a hospital and a freestanding outpatient clinic that is not part of the hospital's license. (Assume the respective proportionate shares of the partnerships based on capital account percentages listed on the partnerships' Forms 1065, Schedule K-1, Part II are also 50%.) The organization would report 25% (50% of 50%) of the hospital's and outpatient clinic's aggregate information on Schedule H.

Note that while information from all of the above sources is aggregated for purposes of Schedule H, the organization is required to report in Part V, *Facility Information*, each of its facilities that is required to be licensed, registered, or similarly recognized as a health care provider under state law, whether operated directly by the organization or indirectly through a disregarded entity or **joint venture** taxed as a partnership. In addition, the organization must report in Part VI summary information describing the number of other types of facilities for which it reports information on Schedule H (e.g., 2 rehabilitation clinics, 4 diagnostic centers).

Organizations are not to report information from foreign hospitals located outside the **United States** in Parts I, II, III, or V. Information from foreign **joint ventures** and partnerships *must* be reported in Part IV. Information concerning foreign hospitals and facilities *may* be described in Part VI.

The organization is not to report on Schedule H information from an entity that is organized as a separate legal entity from the organization and taxed as a corporation for federal income tax purposes (except for members of a group exemption included in a group return filed by the organization), even if such entity is affiliated with or otherwise related to the organization (e.g., is part of an affiliated health care system).

#### **Who Must File**

Any organization that answered “Yes” on Form 990, Part IV, *Checklist of Required Schedules*, line 20, must complete and attach Schedule H to Form 990.

For purposes of Schedule H, a hospital is a facility that is, or is required to be, licensed, registered, or similarly recognized by a state as a hospital. This includes a hospital that is operated through a disregarded entity or a **joint venture** taxed as a partnership. It does not include hospitals that are located outside the **United States**. It also does not include hospitals that are operated by entities organized as separate legal entities from the organization that are taxed as a corporation for federal income tax purposes (except for members of a group exemption included in a group return filed by the organization). If the organization operates multiple hospitals, or if it files a group return for a group that operates one or more hospitals, complete one Schedule H for all of the hospitals operated by the organization or the group, and report aggregate information from all such hospitals as described in *General Instructions*.

If the organization is not required to file Form 990, it is not required to file Schedule H. An organization that does not operate one or more facilities that satisfy the definition of a hospital, above, should not file a Schedule H.

**TIP:** The definition of hospital for Schedule A, Part I, Line 3, and the definition of hospital for Schedule H are not the same. Accordingly, an organization that checks Box 3 in Part I of Schedule A, *Public Charity Status and Public Support*, to report that it is a hospital or cooperative hospital service organization, must complete and attach Schedule H to Form 990 only if it meets the definition of hospital for purposes of Schedule H, as explained above.

#### **Specific Instructions**

##### **Part I – Charity Care and Certain Other Community Benefits at Cost (OPTIONAL FOR 2008)**

Part I requires reporting of charity care policies, the availability of community benefit reports, and the cost of certain charity care and other community benefit programs. Worksheets and

accompanying instructions are provided at the end of the instructions to this Schedule to assist in completing the table in Part I, line 7 ("Table").

**Line 1.** A "charity care policy" is a policy describing how the organization will provide "charity care," which means free or discounted health services provided to persons who meet the organization's criteria for financial assistance and are thereby deemed unable to pay for all or a portion of the services. "Charity care" does not include (i) bad debt or uncollectible charges that the hospital recorded as revenue but wrote off due to failure to pay by patients, or the cost of providing care to such patients; (ii) the difference between the cost of care provided under Medicaid or other means-tested government programs or under Medicare and the revenue derived therefrom; or (iii) contractual adjustments with any third party payors.

**Line 2.** Check only one of the three boxes. "Applied uniformly to all hospitals" means that all of the organization's hospitals use the same charity care policy. "Applied uniformly to most hospitals" means that the majority of the organization's hospitals use the same charity care policy. "Generally tailored to individual hospitals" means that the majority of the organization's hospitals use different charity care policies. If the organization only operates one hospital, check "applied uniformly to all hospitals."

**Line 3.** Answer Lines 3a, 3b, and 3c based upon the charity care eligibility criteria that apply to the largest number of the organization's patients based on patient contacts or encounters. For example, if the organization has two hospitals, use the charity care eligibility criteria that are used by the hospital which has the most patient contacts or encounters during the taxable year.

**Line 3a.** "Federal Poverty Guidelines" (FPG) are the Federal Poverty Guidelines established by the U.S. Department of Health and Human Services. If the facility has established a family or household income threshold that a patient must meet or fall below to qualify for free medical care, check the box in the "Yes" column and indicate the specific threshold by checking the appropriate box. For instance, if a patient's family or household income must be less than or equal to 250% of FPG for the patient to qualify for free care, then check the box marked "Other" and write in "250%."

**Line 3b.** If the facility has established a family or household income threshold that a patient must meet or fall below to qualify for discounted medical care, check the box in the "Yes" column and indicate the specific threshold by checking the appropriate box.

**Line 3c.** If applicable, describe the other income-based criteria, asset test, or other means test or threshold for free or discounted care in Part VI, Question 1 of this Schedule H. An "asset test" includes (i) a limit on the amount of total or liquid assets that a patient or the patient's family or household may own for the patient to qualify for free or discounted care, and/or (ii) a criterion for determining the level of discounted medical care patients may receive, depending on the amount of assets that they and/or their families or households own.

**Line 4.** "Medically indigent" means persons whom the organization has determined are unable to pay some or all of their medical bills because their medical bills exceed a certain percentage of their family or household income and/or assets (e.g., due to catastrophic costs or conditions), even though they have income or assets that otherwise exceed the generally applicable eligibility requirements for free or discounted care under the organization's charity care policy.

**Line 5a.** Answer "Yes" if the organization established or had in place at any time during the tax year an annual or periodic budgeted amount of free or discounted care to be provided under its charity care policy. If "no," skip to line 6a.

**Line 5b.** Answer "Yes" if the free or discounted care the organization provided in the applicable period exceeded the budgeted amount of costs or charges for that period. If "no," skip to line 6a.

**Line 5c.** Answer "Yes" if the organization denied financial assistance to any patient eligible for free or discounted care under its charity care policy solely because the organization's charity care budget was exceeded.

**Line 6a.** Answer "Yes" if the organization prepared an annual written report that describes the organization's programs and services that promote the health of the community or communities served by the organization. If the organization's community benefit report is contained in a report prepared by a **related organization**, answer "yes" and identify the **related organization** in Part VI. If "no," skip to line 7.

**Line 6b.** Answer "Yes" if the organization makes its annual community benefit report available to the public.

**TIP:** Some of the ways in which an organization can make its community benefit report available to the public are to post the report on the organization's website, to publish and distribute the report to the public by mail or at its facilities, or to submit the report to a state agency or other organization that makes the report available to the public.

**Lines 7a-7k.** Report in the Table (lines 7a-7k), at cost, the organization's charity care and certain other community benefits. To calculate the amounts to be reported in the Table, use the Worksheets or other equivalent documentation that substantiates the information reported consistent with the methodology used in the Worksheets. See the instructions to the Worksheets for definitions of the various types of community benefit (for example, community health improvement services, health professions education, subsidized health services, research) to be reported in lines 7a-7k.

**TIP:** If the organization completes Worksheets other than on an aggregate basis (e.g., facility by facility, joint venture by joint venture), the organization should aggregate all information from these Worksheets for purposes of reporting amounts in the Table. Note that only the portion of each **joint venture** or partnership that represents the organization's proportionate share, based on capital interest, may be reported on Lines 7a-7k (see aggregation instruction in *General Instructions*, above).

Use the organization's most accurate costing methodology (cost accounting system, cost to charge ratio, or other) to calculate the amounts reported in the Table. If the organization uses a cost to charge ratio, it may use *Worksheet 2, Ratio of Patient Care Cost to Charges*, for this purpose. See the instructions to Part VI, line 1, regarding an explanation of the costing methodology used to calculate the amounts reported in the Table.

Bad debt expense is not to be reported in the Table under any circumstances.

The following are descriptions of the type of information to be reported in each column of the Table:

**Column (a).** “Number of activities or programs” means the number of the organization’s activities or programs conducted during the year that involve the community benefit reported on the line. If this column is completed, report each activity and program on only one line so that it is not counted more than once. Reporting in this column is optional.

**Column (b).** “Persons served” means the number of patient contacts or encounters, in accordance with the filing organization’s records. Persons served may be reported in multiple rows, as services across different categories may be provided to the same patient. Reporting in this column is optional.

**Column (c).** “Total community benefit expense” means the total gross expense of the activity incurred during the year, calculated by using the pertinent Worksheets for each line item. “Total community benefit expense” includes both “direct costs” and “indirect costs.” “Direct costs” means salaries and benefits, supplies, and other expenses directly related to the actual conduct of each activity or program. “Indirect costs” means costs that are shared by multiple activities or programs, such as facilities and administration costs related to the organization’s infrastructure (e.g., space, utilities, custodial services, security, information systems, administration, materials management, and others).

**Column (d).** “Direct offsetting revenue” means revenue from the activity during the year that offsets the total community benefit expense of that activity, as calculated on the Worksheets for each line item. “Direct offsetting revenue” includes any revenue generated by the activity or program, such as payment or reimbursement for services provided to program patients. Direct offsetting revenue does not include restricted or unrestricted grants or contributions that the organization uses to provide community benefit.

**Example.** The organization receives a restricted grant from an unrelated organization that must be used by the organization to provide charity care. The amount of the restricted grant is not reportable as direct offsetting revenue in line 7a, column (d).

**Column (e).** “Net community benefit expense” -- for each line item this equals “Total community benefit expense” (column c) minus “Direct offsetting revenue” (column d). If the calculated amount is less than zero, report such amount as a negative number.

**Column (f).** “Percent of total expense” – for each line item, divide the “net community benefit expense” in column (e) by the sum of (1) the amount in Part IX, line 25, column (A) of the Form 990 and (2) the organization’s proportionate share of total expenses of all **joint ventures** for which it reports expenses in the Table in Part I, to the extent that such expenses are not already reported in Form 990, Part IX, line 25, column (A). Report the percentage to two decimal places (x.xx). Any bad debt expense included in the denominator should be removed prior to calculation, and the amount of bad debt expense that was included in Form 990, Part IX, line 25, column (A) but removed from this figure should be stated in Part VI.

**TIP:** The column (f) percent of total expense is based on column (e) “net community benefit expense,” rather than column (c) “total community benefit expense,” as a percentage of total expenses. Organizations that report amounts of direct offsetting revenue also might wish to report total community benefit expense (Part I, line 7, column (c)) as a percentage of total expenses. Although this percentage may not be reported in Part I, line 7, column (f), it may be reported in Schedule H, Part VI.

**Worksheets for Part I, Line 7 (“Charity Care and Certain Other Community Benefits At Cost”)**

Worksheets 1 through 8 are intended to assist the organization in completing Schedule H, Part I, lines 7a-7k. Use of the Worksheets is not required, and they should not be filed with the Form 990. The organization may use alternative, equivalent documentation, provided that the methodology described in these instructions (including the instructions to the Worksheets) is followed. Regardless of whether the Worksheets or alternative, equivalent documentation is utilized to compile and report the required information, such documentation must be retained by the organization to substantiate the information reported on Schedule H. The Worksheets or alternative, equivalent documentation are to be completed using the organization’s most accurate costing methodology, which may include a cost accounting system, cost to charge ratios, or some other method.

If the organization is filing a group return or has a disregarded entity or an ownership interest in one or more **joint ventures**, the organization may find it helpful to complete the Worksheets separately for the organization and for each disregarded entity, **joint venture** in which the organization had an ownership interest during the tax year, and group affiliate. In such case, the organization should aggregate all information from these Worksheets for purposes of completing the Table. Complete the Table by aggregating (1) amounts from the organization’s Worksheets, (2) amounts from disregarded entities and/or group affiliates, and/or (3) amounts from **joint ventures** that are attributable to the organization’s proportionate share of each **joint venture**, pursuant to the aggregation instruction in *General Instructions*.

See Worksheets 1-8 and specific instructions to these Worksheets.

**Part II -- Community Building Activities (OPTIONAL FOR 2008)**

Report in this Part the costs of the organization’s activities that it engaged in during the tax year to protect or improve the community’s health or safety, and that are not reportable in Parts I and III of this Schedule. An organization that reports information in this Part must describe, in Part VI, question 5, how its community building activities promote the health of the communities it serves. Activities that are reported in the Table in Part I may not be reported in this Part.

If the filing organization makes a grant to an organization to be used to accomplish one of the community building activities listed below, then the organization should include the amount of the grant on the appropriate line of the table in Part II. If the organization makes a grant to a **joint venture** in which it has an ownership interest to be used to accomplish one of the community building activities listed below, report the grant on the appropriate line in Part II, but do not include in Part II the organization’s proportionate share of the amount spent by the **joint venture** on such activities, to avoid double counting. Do not include any contribution made by the organization that was funded in whole or in part by a restricted grant, to the extent that such grant was funded by a **related organization**.

**Line 1.** “Physical improvements and housing” may include, but is not limited to, the provision or rehabilitation of housing for vulnerable populations, such as removing building materials that harm the health of the residents; neighborhood improvement or revitalization projects; provision of housing for vulnerable patients upon discharge from an inpatient facility; housing for low-income seniors; and the development or maintenance of parks and playgrounds to promote physical activity.

**Line 2.** “Economic development” may include, but is not limited to, assisting small business development in neighborhoods with vulnerable populations, and creating new employment opportunities in areas with high rates of joblessness.

**Line 3.** “Community support” may include, but is not limited to, child care and mentoring programs for vulnerable populations or neighborhoods, neighborhood support groups, violence prevention programs, and disaster readiness and public health emergency activities, such as community disease surveillance or readiness training beyond what is required by accrediting bodies or government entities.

**Line 4.** “Environmental improvements” may include, but are not limited to, activities to address environmental hazards that affect community health, such as alleviation of water or air pollution, safe removal or treatment of garbage or other waste products, and other activities to protect the community from environmental hazards. The organization may not include on this line or in this Part expenditures that it made to comply with environmental laws and regulations that apply to activities of (1) itself, (2) its disregarded entity or entities, (3) a joint venture in which it has an ownership interest, or (4) a member of a group exemption included in a group return of which the organization is also a member. Similarly, the organization may not include on this line or in this Part expenditures that it made to reduce the environmental hazards caused by, or the environmental impact of, its own activities or those of its disregarded entities, joint ventures, or group exemption members.

**Line 5.** “Leadership development and training for community members” may include, but is not limited to, training in conflict resolution, civic, cultural or language skills, and medical interpreter skills for community residents.

**Line 6.** “Coalition building” may include, but is not limited to, participation in community coalitions and other collaborative efforts with the community to address health and safety issues.

**Line 7.** “Community health improvement advocacy” may include, but is not limited to, efforts to support policies and programs to safeguard or improve public health, access to health care services, housing, the environment, and transportation.

**Line 8.** “Workforce development” may include, but is not limited to, recruitment of physicians and other health professionals to medical shortage areas or other areas designated as underserved, collaboration with educational institutions to train and recruit health professionals needed in the community (other than the health professions education activities reported in Part I, Line 7f).

**Line 9.** “Other” refers to community building activities that protect or improve the community’s health or safety that are not described in the categories listed in Lines 1-8 above.

Refer to the instructions to Part I, columns (a) through (f), for descriptions of the types of information that should be reported in each column of Part II.

If the organization is filing a group return or has a disregarded entity or an ownership interest in one or more **joint ventures**, the organization may find it helpful to complete the table in Part II separately for itself and for each disregarded entity, **joint venture** in which the organization had an ownership interest during the tax year, and group affiliate. The organization should

aggregate the amounts from all such tables, according to the aggregation instructions in *General Instructions*, and include the aggregated information in Part II.

### **Part III -- Bad Debt, Medicare, & Collection Practices (OPTIONAL FOR 2008)**

#### **Section A – Bad Debt Expense**

Section A requires the organization to report aggregate bad debt expense, at cost, provide an estimate of how much bad debt expense, if any, reasonably could be attributable to persons who likely would qualify for financial assistance under its charity care policy, and provide a rationale for what portion of bad debt, if any, the organization believes should constitute community benefit. In addition, the organization must report whether it has adopted Healthcare Financial Management Association (“HFMA”) Statement No. 15, and provide the text of its footnote, if applicable, to its audited financial statements that describes bad debt expense.

**Line 1.** Line 1 asks the organization to state whether it reports bad debt expense in accordance with HFMA “Board Statement 15: Valuation and Financial Statement Presentation of Charity Care and Bad Debts by Institutional Healthcare Providers.” Statement 15 has not been adopted by the AICPA. The IRS does not require organizations to adopt Statement 15 or use it to determine bad debt expense or charity care costs. Some organizations may rely on Statement 15 in reporting bad debt expense and charity care in their audited financial statements. Statement 15 provides instructions for recordkeeping, valuation, and disclosure for bad debts.

**Line 2.** Report bad debt expense at cost. Use the most accurate system and methodology available to the organization to report bad debt expense at cost. If using a cost accounting system or other costing methodology, enter the estimated cost of patient care services attributable to charges written off to bad debt. If using a cost to charge ratio methodology, filers may use Worksheet A (optional). If only a portion of a patient’s bill for services is written off as bad debt, include only the proportionate amount of the cost of providing those services that is attributable to bad debt. Include the organization’s proportionate share of bad debt expense of **joint ventures** in which it had an ownership interest during the tax year.

**Line 3.** Provide an estimate of the amount of cost reported in Line 2 that reasonably could be attributable to patients who likely would qualify for financial assistance under the hospital’s charity care policy as reported in Part I, lines 1-4, but for whom sufficient information was not obtained to make a determination of their eligibility. **DO NOT INCLUDE THIS AMOUNT IN PART I, LINE 7.** Organizations may use any reasonable methodology to estimate this amount, such as record reviews, an assessment of charity care applications that were denied due to incomplete documentation, analysis of demographics, or other analytical methods.

**Line 4.** In Part VI, provide the rationale and the costing methodology used to determine the amounts reported in lines 2 and 3. Describe how the organization accounts for discounts and payments on patient accounts in determining bad debt expense. Also describe the method the organization uses to determine the amount that reasonably could be attributable to patients who likely would qualify for financial assistance under the organization’s charity care policy if sufficient information had been available to make a determination of their eligibility.

Also, provide the footnote from the organization’s financial statements on bad debt expense, if applicable, or the footnotes related to “accounts receivable,” “allowance for doubtful accounts” or similar designations. If the footnote or footnotes address only the filing organization’s bad debt expense or “accounts receivable,” “allowance for doubtful accounts,” or similar

designations, provide the footnote or footnotes verbatim. If the organization's financial statements include a footnote on these issues that also includes other information, report in Part VI only the relevant portions of the footnote. If the organization is a member of a group with consolidated financial statements, the organization may summarize that portion, if any, of the footnote or footnotes that apply to the organization. If the organization's financial statements do not include a footnote that discusses bad debt expense, "accounts receivable," "allowance for doubtful accounts," or similar designations, include a statement in Part VI that the organization's audited financial statements do not include a footnote discussing these issues, and explain how the organization's financial statements account for bad debt, if at all.

**Worksheet A (optional)**  
**Estimated Bad Debt Expense (at Cost)**

This worksheet may be used to estimate the bad debt expense reported in Part III, line 2 using one of the cost accounting methods identified in the organization's response to Part III, line 4.

- 1. **Bad debt attributable to patient accounts** \$ \_\_\_\_\_
- 2. **Ratio of cost to charges (from worksheet 2 line 10)** \$ \_\_\_\_\_
- 3. **Estimated cost of bad debt attributable to patient accounts  
(line 1 X line 2)** \$ \_\_\_\_\_

**Enter value from Worksheet A, line 3 in Part III, line 2.**

**Section B – Medicare**

Section B requires reporting of (1) the organization's aggregate allowable costs to provide services reimbursed by Medicare, (2) aggregate Medicare reimbursements attributable to such costs, and (3) aggregate Medicare surplus or shortfall. Organizations are to include in Section B only those allowable costs and Medicare reimbursements that are reported in its Medicare Cost Report(s) for the year, including the organization's share of any such allowable costs and reimbursements from disregarded entities and **joint ventures** in which it has an ownership interest. The organization should describe what portion of its Medicare shortfall, if any, it believes should constitute community benefit, and explain its rationale for its position in Part VI. As described below, the organization also may disclose in Part VI the amount of any Medicare revenues and costs not included on its Medicare Cost Report(s) for the year, and may provide a reconciliation of the amounts reportable in Section B (including the surplus or shortfall reported on line 7) and the total revenues and costs attributable to all of the organization's Medicare programs.

**Line 5.** Enter all net patient service revenue associated with allowable costs the organization reports in its Medicare Cost Report(s) for the year, including payments for IME (except for Medicare Advantage IME), DSH, outliers, capital, bad debt, and any other amounts paid to the organization on the basis of its Medicare Cost Report. Do not include revenue related to subsidized health services as reported in Part I, Line 7(g) (see Worksheet 6), or direct Graduate Medical Education ("GME") as reported in Part I, line 7(f) (see Worksheet 5). If the organization has more than one Medicare provider number, aggregate the revenue attributable to costs reported on the Medicare Cost Report(s) submitted under each provider number, and report the aggregate revenues on line 5.

**Line 6.** Enter all Medicare allowable costs reported in the organization's Medicare Cost Report(s), except those already reported in Part I, Line 7g (subsidized health services) and costs associated with direct GME that are already reported in Part I, Line 7f (health professions education). This can be determined using Worksheet B below. If Worksheet B is not used, the organization still must subtract the costs attributable to subsidized health services and direct GME from the amount of Medicare allowable costs that it enters in line 6. If the organization has more than one Medicare provider number, it should aggregate the costs reported on the Medicare Cost Reports submitted under each provider number, and report the aggregate costs on line 6.

**Line 7.** Subtract the amount in line 6 from the amount in line 5. If the amount in line 6 exceeds the amount in line 5, report the excess amount (the shortfall) as a negative number.

**Line 8.** Check the box that best describes the costing methodology used to determine the Medicare allowable costs reported in the organization's Medicare Cost Report(s), as reflected on line 6. Describe this methodology in Part VI.

The organization must also describe in Part VI its rationale for treating the amount reported in Part III, line 7, or any portion of it, as community benefit. An organization's rationale must have a reasonable basis. **DO NOT INCLUDE THIS AMOUNT IN PART I, LINE 7.** Do not include any amount of Medicare-related expenses or revenue properly reported in Part 1, line 7g (subsidized health services) or any amount of Medicare-related expenses or revenue reported in Part 1, line 7f (health professions education) in this Part III, Section (B).

**TIP:** Lines 5, 6 and 7 do not include certain Medicare program revenues and costs, and thus may not reflect all of the organization's revenues and costs associated with its participation in Medicare programs. The organization may describe in Part VI the amounts of any Medicare revenues and costs that are not included in its Medicare Cost Report(s) for the year, including, for example, revenues and costs for freestanding ambulatory surgery centers, physician services billed by the organization, clinical laboratory services, and revenues and costs of Medicare Part C and Part D programs. The organization may report in Part VI a reconciliation of amounts reportable in Section B (including the surplus or shortfall reported on line 7) and all of the organization's total revenues and total expenses attributable to Medicare programs.

If the organization received any prior year settlements for Medicare-related services in the current taxable year, it may provide an explanation in Part VI.

**Worksheet B (optional)**

1. Total Medicare allowable costs (from Medicare Cost Report) \$ \_\_\_\_\_
2. Total Medicare allowable costs (from line 1) included in Worksheet 6 (Subsidized Health Services), Line 3A \$ \_\_\_\_\_
3. Total Medicare allowable costs (from line 1) included in Worksheet 5 (Health Professions Education), line 8 (direct GME) \$ \_\_\_\_\_
- 4 Total adjustments to Medicare allowable costs (line 2 plus line 3) \$ \_\_\_\_\_

5. Total Medicare allowable costs (line 1 minus line 4) \$ \_\_\_\_\_

Enter value from Worksheet B, Line 5 in Part III, Line 6.

**Section C – Collection Practices**

**Line 9a.** Answer “Yes” if the organization has a written debt collection policy on the collection of amounts owed by patients.

**Line 9b.** Answer “Yes” if the organization’s written debt collection policy contains provisions for collecting amounts due from patients, including those patients who likely would qualify under the organization’s charity care or financial assistance policies. These include provisions such as procedures for internal review of accounts prior to initiating legal action or continuing a collection action undertaken by an outside agency.

**Part IV -- Management Companies & Joint Ventures (OPTIONAL FOR 2008)**

List any **joint venture** or other separate entity (whether taxed as a partnership or a corporation), including joint ventures outside of the **United States**, of which the organization is a partner or shareholder, or any management company, (1) for which (i) persons who were at any time during the organization’s tax year officers, directors, trustees, or key employees of the organization, and (ii) physicians who were employed as physicians by, or had staff privileges with, one or more of the organization’s hospitals, owned in the aggregate more than 10% of the share of profits of such partnership or stock of such corporation, and (2) that either (a) provided management services used by the organization in its provision of medical care, or (b) provided medical care, or owned or provided real, tangible personal, or intangible property used by the organization or by others to provide medical care. Examples of such entities include an ancillary **joint venture** formed by the organization and its officers or physicians to conduct an exempt or unrelated business activity, a company owned by the organization’s officers or physicians that owns and leases to the organization a hospital or other medical care facility, and a company that owns and leases to entities other than the organization diagnostic equipment or intellectual property used to provide medical care. Do not include publicly traded entities or entities whose sole income is passive investment income from interest or dividends.

For purposes of Part IV, the aggregate percentage share of profits or stock ownership percentage of officers, directors, trustees, key employees, and physicians who are employed as physicians by, or have staff privileges with, one or more of the organization’s hospitals is measured as of the earlier of the close of the tax year of the organization or the last day the organization was a member of the **joint venture**. All stock, whether common or preferred, is considered stock for purposes of determining the stock ownership percentage. Provide all the information requested in the Table for each such entity.

**Column (a).** Name of entity. State the full legal name of the entity.

**Column (b).** Description of primary activity of entity. Describe the primary business activity or activities conducted by the management company, **joint venture** or separate entity.

**Column (c).** Organization’s profit percentage or stock ownership percentage. State the organization’s percentage share of profits in the partnership or stock in the entity that is owned by the organization.

**Column (d).** Officers, directors, trustees, or key employees' profit percentage or stock ownership percentage. State the percentage share of profits or stock in the entity owned by all of the organization's current officers, directors, trustees, or key employees.

**Column (e).** Physician's profit percentage or stock ownership percentage. State the percentage share of profits or stock in the entity owned by all physicians who are employees practicing as a physician or who have staff privileges with one or more of the organization's hospitals.

If a physician described above is also a current officer, director, trustee or key employee of the organization, include his or her profits or stock percentage in column (d) and omit it from column (e).

#### **Part V -- Facility Information (REQUIRED FOR 2008)**

Complete Part V by providing, in the left hand column, the name and address of each of the organization's facilities that, at any time during the tax year, was required to be licensed, registered, or similarly recognized as a health care facility under state law, whether such facility is operated directly by the organization or indirectly through a disregarded entity or **joint venture** taxed as a partnership. In the row for each facility, check all boxes that are applicable to that facility. More than one box may be checked for each facility.

The organization must list in Part VI the number of each type of facility, other than those that are required to be licensed, registered, or similarly recognized as a health care provider under state law and reported in Part V, for which the organization reports information on Schedule H (e.g., 2 rehabilitation clinics, 4 diagnostic centers, 3 skilled nursing facilities).

"Licensed hospital" is a facility that is licensed, registered, or similarly recognized by a state as a hospital.

"General medical and surgical" refers to a hospital that is primarily engaged in providing diagnostic and medical treatment (both surgical and nonsurgical) to inpatients with a wide variety of medical conditions, and that may provide outpatient services, anatomical pathology services, diagnostic X-ray services, clinical laboratory services, operating room services for a variety of procedures, and pharmacy services.

"Children's hospital" is a center for provision of health care to children, and includes independent acute care children's hospitals, children's hospitals within larger medical centers, and independent children's specialty and rehabilitation hospitals.

"Teaching hospital" is a hospital that provides training to medical students, interns, residents, fellows, nurses, and/or other health professionals and providers, provided that such educational programs are accredited by the appropriate national accrediting body.

"Critical access hospital" ("CAH") is a hospital that is designated as a CAH by a state that has established a State Medicare Rural Hospital Flexibility Program in accordance with Medicare rules.

"Research facility" is a facility that conducts **research**.

“ER—24 hours” refers to a facility that operates an emergency room 24 hours a day, 365 days a year.

“ER—other” refers to a facility that operates an emergency room for periods other than 24 hours a day, 365 days a year.

Complete the “Other (Describe)” column for each type of facility (e.g., outpatient physician clinic, long-term acute care facility, diagnostic center, rehabilitation clinic, skilled nursing facility) the organization owns or operates that is not described in the other columns of Part V.

## **Part VI -- Supplemental Information (OPTIONAL FOR 2008)**

### Question 1

**Part I, line 3c.** Provide, if applicable, the description called for in Part I, line 3c. Specifically, describe the income based criteria for determining eligibility for free or discounted care under the organization’s charity care policy. Also describe whether the organization uses an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care.

**Part I, line 6a.** If the organization’s community benefit report is contained in a report prepared by a **related organization**, rather than in a separate report prepared by the organization, identify the **related organization** in response to Part I, line 6a.

**Part I, line 7(g).** If applicable, describe in Part VI whether the organization included as subsidized health services in Part I, line 7(g) any costs attributable to a physician clinic, and report the amount of such costs that the organization included in Part I, line 7(g).

**Part I, line 7, column (f).** If applicable, state the amount of bad debt expense that was included in Form 990, Part IX, line 25, column (A), but removed from this figure for purposes of calculating the percentage in Schedule H, Part I, line 7, column (f).

**Part I, line 7 costing methodology.** Provide an explanation of the costing methodology used to calculate the amounts reported in the Table in Part I. If a cost accounting system was utilized, indicate whether the cost accounting system addresses all patient segments (e.g., inpatient, outpatient, emergency room, private insurance, Medicaid, Medicare, uninsured or self pay). Also, indicate whether a cost to charge ratio was used for any of the figures reported in the Table. Describe whether this cost to charge ratio was derived from the attached Worksheet 2, *Ratio of Patient Care Cost to Charges*, and, if not, what kind of cost to charge ratio was used and how it was derived. If some other costing methodology was utilized besides a cost accounting system, cost to charge ratio, or a combination of the two, describe the method used.

**Part III, line 4.** Provide the description called for with respect to Part III, Section A, line 4. Specifically, provide the rationale and the costing methodology used to determine the amount reported in Part III, Section A, lines 2 and 3. Describe how the organization accounts for discounts and payments on patient accounts in determining bad debt expense. Also describe the method the organization uses to determine the amount that reasonably could be attributable to patients who likely would qualify for financial assistance under the hospital’s charity care policy if sufficient information had been available to make a determination of their eligibility.

Also for Part III, Section A, line 4, provide, if applicable, the text of the footnote to the organization’s financial statements, or portion thereof, that describes bad debt expense. If the organization’s financial statements include a footnote on these issues that also includes other

information, report in Part VI only the relevant portions of the footnote. If the organization's financial statements do not contain such a footnote, state that the organization's financial statements do not include such a footnote, and explain how the financial statements account for bad debt, if at all.

**Part III, line 8.** Describe the costing methodology used to determine the Medicare allowable costs reported in the organization's Medicare Cost Report, as reflected in the amount reported in Part III, line 6. Describe, if applicable, the extent to which any shortfall reported in Part III, line 7 should be treated as community benefit, and the rationale for the organization's position.

**Part III, line 9b.** If the organization has a written debt collection policy and answered 'Yes' to Part III, Line 9b, describe the collection practices set forth in the policy for patients who are known to qualify for financial assistance under the organization's charity care policy.

**Part V.** List the number of each type of facility, other than those that are required to be licensed, registered, or similarly recognized as a health care provider under state law and reported in Part V, for which the organization reports information on Schedule H (e.g., 2 rehabilitation clinics, 4 diagnostic centers, 3 skilled nursing facilities).

#### Question 2

**Needs Assessment:** Describe whether, and if so how, the organization assesses the health care needs of the community or communities it serves.

#### Question 3

**Patient Education of Eligibility for Assistance:** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's charity care policy. For example, state whether the organization (1) posts its charity care policy, or a summary thereof, and financial assistance contact information in admissions areas, emergency rooms, and other areas of the organization's facilities in which eligible patients are likely to be present; (2) provides a copy of the policy, or a summary thereof, and financial assistance contact information to patients as part of the intake process; (3) provides a copy of the policy, or a summary thereof, and financial assistance contact information to patients with discharge materials; (4) includes the policy, or a summary thereof, along with financial assistance contact information, in patient bills; and/or (5) discusses with the patient the availability of various government benefits, such as Medicaid or state programs, and assists the patient with qualification for such programs, where applicable.

#### Question 4

**Community Information:** Describe the community or communities the organization serves, taking into account the geographic service area(s) (e.g., urban, suburban, rural), the demographics of the community or communities (e.g., population, average income, percentages of community residents with incomes below the federal poverty guideline, percentage of the hospital's and community's patients who are uninsured or Medicaid recipients), the number of other hospitals serving the community or communities, and whether one or more federally-designated medically underserved areas or populations are present in the community.

#### Question 5

**Community Building Activities:** Describe how the organization's community building activities, as reported in Part II, promote the health of the community or communities the organization serves.

#### Question 6

Provide any other information important to describing how the organization's hospitals or other health care facilities further its exempt purpose by promoting the health of the community or communities, including but not limited to:

- whether a majority of the organization's governing body is comprised of persons who reside in the organization's primary service area who are neither employees nor contractors of the organization, nor family members thereof;
- whether the organization extends medical staff privileges to all qualified physicians in its community for some or all of its departments; and
- whether and how the organization applies surplus funds to improvements in patient care, medical education, and research.

#### Question 7

If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served by the system. For purposes of this question, an 'affiliated health care system' is a system that includes affiliates that are under common governance or control, or that cooperate in providing health care services to their community or communities.

#### Question 8

Identify all states with which the organization files (or a **related organization** files on its behalf) a community benefit report. Report only those states in which the organization's own community benefit report is filed, either by the organization itself or by a **related organization** on the organization's behalf.

#### **Worksheet 1: Charity Care at Cost (Part I, Line 7a)**

"Charity care" – refer to instructions to Part I for the definition of charity care.

**Line 1.** Enter the amount of gross patient charges written off to charity care pursuant to the organization's charity care policies. "Gross patient charges" means the total charges at the organization's full established rates for the provision of patient care services before deductions from revenue are applied.

**Line 3.** Multiply line 1 by line 2, or enter estimated cost based on the organization's cost accounting. Organizations with a cost accounting system or a cost accounting method more accurate than the ratio of patient care cost to charges from Worksheet 2 may rely on that system or method to estimate charity care cost.

**Line 4.** Enter the amount of Medicaid provider taxes paid by the organization, if payments received from an uncompensated care pool or Medicaid Disproportionate Share Hospital ("DSH") program in the organization's home state are intended primarily to offset the cost of charity care. If such payments are primarily intended to offset the cost of Medicaid services, then report this amount in Worksheet 3, line 4, column (A). If the primary purpose of such taxes or payments has not been made clear by state regulation or law, then the organization may allocate portions of such taxes or payments proportionately between Worksheet 1, line 4 and Worksheet 3, line 4, column (A) based on a reasonable estimate of which portions are intended

for charity care and Medicaid, respectively. "Medicaid provider taxes" means amounts paid or transferred by the organization to one or more states as a mechanism to generate federal Medicaid DSH funds (the cost of the tax generally is promised back to organizations either through an increase in the Medicaid reimbursement rate or through direct appropriation).

**Line 6.** "Revenue from uncompensated care pools or programs" means payments received from a state, including Medicaid DSH funds, as direct offsetting revenue for charity care or to enhance Medicaid reimbursement rates for DSH providers. If such payments are primarily intended to offset the cost of Medicaid services, then report this amount in Worksheet 3, line 7, column (A). If the primary purpose of such payments has not been made clear by state regulation or law, then the organization may allocate portions of such payments proportionately between Worksheet 1, line 6 and Worksheet 3, line 7, column (A) based on a reasonable estimate of which portions are intended for charity care and Medicaid, respectively.

## **Worksheet 2: Ratio of Patient Care Cost to Charges**

Worksheet 2 may be used to calculate the organization's ratio of patient care cost to charges.

**Line 1.** Enter the organization's total operating expenses (excluding bad debt expense) from its most recent audited financial statement.

**Line 2.** Enter the cost of non-patient care activities. "Non-patient care activities" include health care operations that generate "other operating revenue" such as non-patient food sales, supplies sold to non-patients, and medical records abstracting. The cost of non-patient care activities does not include any total community benefit expense reported on Worksheets 1 through 8.

If the organization is unable to establish the cost associated with non-patient care activities, the organization can use "other operating revenue" from its most recent audited financial statement as a proxy for these costs. This proxy assumes no markup exists for other operating revenue compared to the cost of non-patient care activities. Alternatively, if other operating revenue provides a markup compared to the cost of non-patient care activities, the organization can assume such a markup exists when completing line 2.

**Line 3.** Enter the amount of Medicaid provider taxes paid by the organization that are included in line 1, so this expenditure is not double counted when the ratio of patient care cost to charges is applied.

**Line 4.** Enter the sum of the total community benefit expenses reported by the organization on Part I, Question 7, column (c), rows e, f, h, and i, so that these expenses are not double counted when the ratio of patient care cost to charges is applied.

Also include in line 4 the total community benefit expense reported on Part I, Question 7, column (c), rows a, b, c, and g, if the organization has not relied on the ratio of patient care cost to charges from this Worksheet to determine these expenses, but rather has relied on a cost accounting system or other cost accounting method to estimate costs of charity care, Medicaid or other means-tested government programs, or subsidized health services.

**Line 5.** Enter the gross expense of community building activities reported in Part II of Schedule H.

**Line 9.** Enter the amount of gross patient charges for any community benefit activities or programs for which the organization has not relied on the ratio of patient care cost to charges from this Worksheet to determine the expenses of such activities or programs. For example, if the organization uses a cost accounting system or another cost accounting method to estimate total community benefit expense for Medicaid or any other means tested government program, enter gross charges for those programs in Line 9.

**Worksheet 3: Unreimbursed Medicaid and Other Means Tested Government Programs (Part I, lines 7b and 7c)**

Use Worksheet 3 to report the net cost of Medicaid and other means tested government programs. A “means tested government program” is a government program for which eligibility depends on the recipient’s income and/or asset level.

“Medicaid” means the **United States** health program for individuals and families with low incomes and resources. “Other Means Tested Government Programs” means government-sponsored health programs where eligibility for benefits or coverage is determined by income and/or assets. Examples include:

- The State Children’s Health Insurance Program (SCHIP), a **United States** federal government program that gives funds to states in order to provide health insurance to families with children; and
- Other federal, state, or local health care programs.

**Line 1, column (A).** Enter the amount of gross patient charges for Medicaid services. Include gross patient charges for all Medicaid recipients, including those enrolled in managed care plans. In certain states, SCHIP functions as an expansion of the Medicaid program, and reimbursements from SCHIP are not distinguishable from regular Medicaid reimbursements. Hospitals that cannot distinguish their SCHIP reimbursements from their Medicaid reimbursements may report SCHIP charges, costs and offsetting revenue under column A.

**Line 1, column (B).** Enter the amount of gross patient charges for other means tested government programs.

**Line 3, column (A).** Enter the estimated cost for Medicaid services. Multiply line 1, column (A) by line 2, column (A), or enter estimated cost based on the organization’s cost accounting system or method. Organizations with a cost accounting system or a cost accounting method more accurate than the ratio of patient care cost to charges from Worksheet 2 may rely on that system or method to estimate the cost of Medicaid services. Organizations relying on a cost accounting system or method other than the ratio of patient care cost to charges from Worksheet 2 should use care not to double count community benefit expenses that are fully accounted for elsewhere in Part I, line 7 of Schedule H, such as the cost of health professions education, community health improvement services, community benefit operations, subsidized health services, and research.

**Line 3, column (B).** Enter the estimated cost for services provided to patients who receive health benefits from other means tested government programs.

**Line 4, column (A).** Enter the amount of Medicaid provider taxes paid by the organization, if payments received from an uncompensated care pool or Medicaid DSH program in the

organization's home state are intended primarily to offset the cost of Medicaid services. If such payments are primarily intended to offset the cost of charity care, then report this amount in Worksheet 1, line 4. If the primary purpose of such taxes or payments has not been made clear by state regulation or law, then the organization may allocate portions of such taxes or payments proportionately between Worksheet 1, line 4 and Worksheet 3, line 4, column (A) based on a reasonable estimate of which portions are intended for charity care and Medicaid, respectively.

**Line 6, column (A).** Enter the amount of “Net patient service revenue” for Medicaid services, including revenue associated with Medicaid recipients enrolled in managed care plans. Do not include Medicaid reimbursement for *direct* Graduate Medical Education (GME) costs, which should be reported on Worksheet 5, line 9. Include Medicaid reimbursement for *indirect* GME costs, including the indirect (IME) portion of children’s health GME (the direct portion of children’s health GME should be reported on line 10 of Worksheet 5). “Net patient service revenue” means payments expected to be received from patients or third-party payers for patient services performed during the year. “Net patient service revenue” also includes revenue recorded in the organization’s audited financial statements for services performed during prior years. Organizations may disclose in Part VI the amount of prior year Medicaid revenue included in Part I, Line 7b.

Amounts received from the Medicaid program as “reimbursement for direct GME” or “indirect medical education reimbursement” (IME) should be considered as either direct GME or IME consistent with the way the Medicaid program in the hospital’s home state classifies the funds.

**Line 7, column (A).** Enter revenue received from uncompensated care pools or programs if payments received from an uncompensated care pool or Medicaid DSH program in the organization’s home state are intended primarily to offset the cost of Medicaid services. If such payments are primarily intended to offset the cost of charity care, then report this amount in Worksheet 1, line 6. If the primary purpose of such payments has not been made clear by state regulation or law, then the organization may allocate portions of such payments proportionately between Worksheet 1, line 6 and Worksheet 3, line 7, column (A) based on a reasonable estimate of which portions are intended for charity care and Medicaid, respectively.

**Worksheet 4: Community Health Improvement Services and Community Benefit Operations (Part I, Line 7e)**

Use Worksheet 4 to report the net cost of community health improvement services and community benefit operations.

“Community health improvement services” means activities or programs carried out or supported for the express purpose of improving community health that are subsidized by the health care organization. Such services do not generate inpatient or outpatient bills, although there may be a nominal patient fee or sliding scale fee for these services.

“Community benefit operations” means activities associated with community health needs assessments as well as community benefit planning and administration. Community benefit operations also include the organization’s activities associated with fund raising or grant-writing for community benefit programs.

Activities or programs may not be reported if they are provided primarily for marketing purposes and the program is more beneficial to the organization than to the community; for instance, if the

activity or program is designed primarily to increase referrals of patients with third-party coverage, required for licensure or accreditation, or restricted to individuals affiliated with the organization.

To be reported, community need for the activity or program must be established. Community need may be demonstrated through:

- A community needs assessment developed or accessed by the organization,
- Documentation that demonstrated community need and/or a request from a public agency or community group was the basis for initiating or continuing the activity or program, or
- The involvement of unrelated, collaborative tax-exempt or government organizations as partners in the activity or program.

Community benefit activities or programs also seek to achieve objectives, including: improving access to health services, enhancing public health, advancing generalizable knowledge, and relief of government burden. This includes activities or programs that:

- Are available broadly to the public and serve low-income consumers,
- Reduce geographic, financial, or cultural barriers to accessing health services, and if ceased to exist would result in access problems (e.g., longer wait times or increased travel distances),
- Address federal, state or local public health priorities (such as eliminating disparities in health care among different populations),
- Leverage or enhance public health department activities (such as childhood immunization efforts),
- Otherwise would become the responsibility of government or another tax-exempt organization, or
- Advance generalizable knowledge through education or research that benefits the public.

**Line 1, rows a through j, column (A).** Enter the name of each reported community health improvement activity or program and total community benefit expense for each. Include both direct costs and indirect costs in total community benefit expense. Use additional worksheets if the organization reports more than 10 community health improvement activities or programs.

**Line 3, rows a through d, column (A).** Enter the name of each reported community benefit operations activity or program and total community benefit expense for each. Include both direct costs and indirect costs in total community benefit expense. Use additional worksheets if the organization reports more than four community benefit operations activities or programs.

Report total community benefit expense, direct offsetting revenue, and net community benefit expense for each line item.

#### **Worksheet 5: Health Professions Education (Part I, line 7f)**

Use Worksheet 5 to report the net cost of health professions education.

“Health professions education” means educational programs that result in a degree, certificate, or training that is necessary to be licensed to practice as a health professional, as required by

state law; or continuing education that is necessary to retain state license or certification by a board in the individual's health profession specialty. It does not include education or training programs available exclusively to the organization's employees and medical staff or scholarships provided to those individuals. However, it does include education programs if the primary purpose of such programs is to educate health professionals in the broader community. Costs for medical residents and interns may be included, even if they are considered "employees" for purposes of Form W-2 reporting.

Examples of health professions education activities or programs that should and should not be reported are as follows.

Activity or Program	Report	Example Rationale
Scholarships for community members	Yes	More benefit to community than organization
Scholarships for staff members	No	More benefit to organization than community
Continuing medical education for community physicians	Yes	Accessible to all qualified physicians
Continuing medical education for own medical staff	No	Restricted to own medical staff members
Nurse education if graduates are free to seek employment at any organization	Yes	More benefit to community than organization
Nurse education if graduates are required to become the organization's employees	No	Program designed primarily to benefit the organization

**Lines 1 through line 6.** Include both direct and indirect costs.

Direct costs of health professions education include:

- Stipends, fringe benefits of interns, residents, and fellows in accredited graduate medical education programs; salaries and fringe benefits of faculty directly related to intern and resident education
- Salaries and fringe benefits of faculty directly related to teaching of medical students
- Salaries and fringe benefits of faculty directly related to teaching of students enrolled in nursing programs that are licensed by state law or, if licensing is not required, accredited by the recognized national professional organization for the particular activity
- Salaries and fringe benefits of faculty directly related to teaching of students enrolled in allied health professions education programs, that are licensed by state law or, if licensing is not required, accredited by the recognized national professional organization for the particular activity, including, but not limited to programs in pharmacy, occupational therapy, dietetics, and pastoral care
- For continuing health professions education open to all qualified individuals in the community, the salaries and fringe benefits of faculty for teaching continuing health

professions education, including payment for development of on-line or other computer-based training that is accepted as continuing health professions education by the relevant professional organization

- Grants made by the hospital to support health professions education programs run by other tax-exempt entities
- Scholarships provided by the organization to community members

Direct costs of health professions education do not include costs related to Ph.D. students and post-doctoral students, which are to be reported on *Worksheet 7, Research*.

**Line 8.** Enter Medicare reimbursement for direct GME, including reimbursement for approved nursing and allied health education activities and direct GME reimbursement received for services provided to Medicare Advantage patients. For a children's hospital that receives Children's GME payments from HRSA, count that portion of the payment that is equivalent to Medicare direct GME. Do not include indirect GME reimbursement provided by Medicare.

**Line 9.** Enter Medicaid reimbursement for direct GME, including only that portion of Medicaid GME payment that is equivalent to Medicare GME and can be explicitly segregated by the organization from other Medicaid net patient revenue. Do not include indirect GME reimbursement provided by Medicaid, which is to be reported on *Worksheet 3: Unreimbursed Medicaid and Other Means Tested Government Programs*.

**Line 10.** Enter revenue received for continuing health professions education reimbursement or tuition.

**Line 11.** Enter other revenue received for continuing health professions education activities.

#### **Worksheet 6: Subsidized Health Services (Part I, line 7g)**

Use Worksheet 6 to calculate the net cost of subsidized health services. Complete Worksheet 6 for each subsidized health service and report on Part I the total amount for all subsidized health services combined.

"Subsidized health services" means clinical services provided despite a financial loss to the organization. The financial loss is measured after removing losses, measured by cost, associated with bad debt, charity care, Medicaid, and other means tested government programs. Losses attributable to these items are not included when determining which clinical services are subsidized health services because they are reported as community benefit elsewhere in Part I or as bad debt in Part III. Losses attributable to these items are also excluded when measuring the losses generated by the subsidized health services. In addition, in order to qualify as a subsidized health service, the organization must provide the service because it meets an identified community need. A service meets an identified community need if it is reasonable to conclude that if the organization no longer offered the service, the service would be unavailable in the community, the community's capacity to provide the service would be below the community's need, or the service would become the responsibility of government or another tax-exempt organization.

Subsidized health services generally include qualifying inpatient programs (such as neonatal intensive care, addiction recovery and inpatient psychiatric units) and ambulatory programs

(such as emergency and trauma services, satellite clinics designed to serve low-income communities, and home health programs). Subsidized health services generally exclude ancillary services that support inpatient and ambulatory programs, such as anesthesiology, radiology, and laboratory departments. Subsidized health services include services or care provided by physician clinics and skilled nursing facilities if such clinics or facilities satisfy the general criteria for subsidized health services set forth above. An organization that includes any costs associated with physician clinics as subsidized health services in Part I, line 7g must describe that it has done so and report in Part VI the amount of such costs included in Part I, line 7g.

**Line 3, column (A), column (B), column (C), and column (D).** Enter the estimated cost for each subsidized health service. For column B, enter bad debt amounts attributable to the subsidized health service measured by cost. For column C, enter amounts attributable to the subsidized health service for patients who are recipients of Medicaid and other means tested government programs measured by cost. For column D, enter charity care amounts attributable to the subsidized health service measured by cost. Multiply line 1 by line 2 or enter estimated cost based on the organization's cost accounting. Organizations with a cost accounting system or a cost accounting method more accurate than the ratio of patient care cost to charges from Worksheet 2 may rely on that system or method to estimate the cost of each subsidized health service.

#### **Worksheet 7: Research (Part I, line 7h)**

Use Worksheet 7 to report the net cost of **research** that it conducts.

**Research** means any study or investigation of which the goal is to generate generalizable knowledge that is made available to the public, such as about underlying biological mechanisms of health and disease, natural processes or principles affecting health or illness; evaluation of safety and efficacy of interventions for disease such as clinical trials and studies of therapeutic protocols; laboratory based studies; epidemiology, health outcomes and effectiveness; behavioral or sociological studies related to health, delivery of care, or prevention; studies related to changes in the health care delivery system; and communication of findings and observations (including publication in a medical journal). The organization may include the cost of internally funded **research** that it conducts, as well as the cost of **research** it conducts that is funded by a tax-exempt or governmental entity.

The organization may not include in Part I, line 7(h) the direct or indirect costs of **research** that is funded by an individual or an organization that is not a tax-exempt or government entity. However, the organization may describe in Part VI any **research** it conducts that is not funded by tax-exempt or government entities, including the cost of such **research**, the identity of the funder, how the results of such **research** are made available to the public, if at all, and whether the results are made available to the public at no cost or nominal cost.

Examples of costs of **research** include, but are not limited to: salaries and benefits of researchers and staff (including stipends for research trainees: either Ph.D. candidates or fellows); facilities (including research, data, and sample collection and storage; animal facilities); equipment; supplies; tests conducted for research rather than patient care; statistical and computer support; compliance (e.g., accreditation for human subjects protection; biosafety; HIPAA); and dissemination of research results.

**Line 1.** For Worksheet 7, organizations should define “direct costs” pursuant to guidelines and definitions published by the National Institutes of Health.

**Line 2.** For Worksheet 7, organizations should define “indirect costs” pursuant to guidelines and definitions published by the National Institutes of Health.

### **Worksheet 8: Cash and In-Kind Contributions to Community Groups (Part I, line 7i)**

Use Worksheet 8 to report cash contributions or grants and the cost of in-kind contributions. Do not include any contributions that were funded in whole or in part by a restricted grant, to the extent that such grant was from a **related organization**, as illustrated in the examples below.

“Cash and in-kind contributions” means contributions made by the organization to health care organizations and other community groups that are restricted to one or more of the community benefit activities described in the Table in Part I (and the Worksheets and instructions thereto). “In-kind contributions” include the cost of hours donated by staff to the community while on the organization’s payroll, indirect cost of space donated to tax-exempt community groups (such as for meetings), and the financial value (generally measured at cost) of donated food, equipment, and supplies.

Report cash contributions and grants made by the organization to entities and community groups that share the organization’s goals and mission. Do not report (a) cash or in-kind contributions contributed by employees, or emergency funds provided by the organization to the organization’s employees; (b) loans, advances, or contributions to the capital of another organization; or (c) unrestricted grants or gifts to another organization that may, at the discretion of the grantee organization, be used other than to provide the type of community benefit described in the Table.

**Special rule for grants to joint ventures.** If the organization makes a grant to a **joint venture** in which it has an ownership interest to be used to accomplish one of the community benefit activities reportable in the Table, report the grant on line 7(i), but do not include the organization’s proportionate share of the amount spent by the **joint venture** on such activities in any other part of the Table, to avoid double counting.

**Example 1.** The filing organization (A) and its related foundation (B) are related organizations. B makes a grant to A which must be used by A to conduct a community needs assessment in a community served by A. A may report the cost of conducting the community needs assessment in Part I, line 7(e), column (c) in the year it conducts the needs assessment, but A need not report the restricted grant from B in Part I, line 7(e), column (d). The same result obtains if B is unrelated to A, or if the grant is unrestricted rather than required to be used by A to provide community benefit.

**Example 2.** Same facts as in Example 1, except A may also use the grant from B to make a grant to another organization (C), which must be used by C to provide community benefit. A makes such a grant to C. A may not report the grant to C in Part I, line 7(i) because it is funded by a related organization, but A need not report the grant from B in Part I, line 7, column (d) for any line 7 item. This is the result regardless of whether B and C are related organizations.

**Example 3.** The filing organization (A) is a related organization with respect to each of B, C, and D. Each of the organizations files a Form 990 and a Schedule H. A makes a restricted grant to B that is restricted to one or more of the community benefit activities described in the

Table in Part I (and the Worksheets and instructions thereto). A's grant is not funded by a related organization. B makes a restricted grant to C that is funded by A's restricted grant. C makes an unrestricted grant to D that is funded by B's restricted grant. Under these circumstances, A may report the grant to B on A's Schedule H, Part I, line 7(i), but neither B nor C may report their respective grants to C and D on Part I, line 7(i) of their own Schedule H. If D uses the grant funds to make a grant that is restricted to one or more of the community benefit activities described in the Table in Part I, D may report the grant in line 7(i).

DRAFT

## Form 990 Schedule H--Community Benefit Worksheets

These worksheets can be used to account for and report community benefit programs and services in Part I, Line 7 of Form 990, Schedule H, *Hospitals*.

### Worksheets

- 1 Charity Care at Cost
- 2 Ratio of Patient Care Cost to Charges
- 3 Unreimbursed Medicaid and Other Means Tested Government Programs
- 4 Community Health Improvement Services and Community Benefit Operations
- 5 Health Professions Education
- 6 Subsidized Health Services
- 7 Research
- 8 Cash and In-Kind Donations to Community Groups

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<b>Worksheet 1</b>		<b>Schedule H Total</b>
<b>Charity Care at Cost - Schedule H, Part I, line 7a</b>		
<b>Gross patient charges</b>		
1	Amount of gross patient charges written off pursuant to charity care policies	\$
<b>Total community benefit expense</b>		
2	Ratio of patient care cost to charges (from Worksheet 2, if used)	
3	Estimated cost (either line 1 x line 2, or from cost accounting)	\$
4	Medicaid provider taxes	\$
5	Total community benefit expense (add lines 3 and 4)	\$ <sup>1</sup>
<b>Direct offsetting revenue</b>		
6	Revenues from uncompensated care pools or programs	\$ <sup>2</sup>
7	<b>Net community benefit expense (line 5 minus line 6)</b>	\$ <sup>3</sup>
8	<b>Total expense</b>	\$ <sup>4</sup>
9	<b>Percent of total expense (line 7 ÷ line 8)</b>	% <sup>5</sup>

<sup>1</sup> Enter value on Schedule H, Part I, Question 7, Row a, Column c

<sup>2</sup> Enter value on Schedule H, Part I, Question 7, Row a, Column d

<sup>3</sup> Enter value on Schedule H, Part I, Question 7, Row a, Column e

<sup>4</sup> Enter amount from Form 990 Part IX, Line 25, Column A - including the organization's share of expenses of all joint ventures

<sup>5</sup> Enter value on Schedule H, Part I, Question 7, Row a, Column f

<b>Worksheet 2</b>	
<b>Ratio of Patient Care Cost to Charges (may be used for other worksheets)</b>	
<b>Patient Care Cost</b>	
1 Total operating expense	\$
Less: Adjustments	
2 Non patient-care activities	\$
3 Medicaid provider taxes	\$
4 Total community benefit expense	\$
5 Total community building expense	
6 Total adjustments (add lines 2-5)	\$
7 Adjusted patient care cost (line 1 minus line 6)	\$
<b>Patient Care Charges</b>	
8 Gross patient charges	\$
Less: Adjustments	
9 Gross charges for community benefit programs	\$
10 Adjusted patient care charges (line 8 minus line 9)	\$
<b>Calculation of Ratio of Patient Care Costs to Charges</b>	
11 Ratio of patient care cost to charges (line 7 ÷ line 10)	

Worksheet 3 Unreimbursed Medicaid and Other Means Tested Government Programs - Schedule H, Part I, lines 7b and 7c		Schedule H Total	
		Medicaid (A)	Other means tested government programs (B)
1	Gross patient charges from the programs	\$	\$
<b>Total community benefit expense</b>			
2	Ratio of patient cost to charges (from Worksheet 2, if used)		
3	Cost (either line 1 x line 2, or from cost accounting)	\$	\$
4	Medicaid provider taxes	\$	\$
5	Total community benefit expense (add lines 3 and 4)	\$	\$
<b>Direct offsetting revenue</b>			
6	Net patient service revenue	\$	\$
7	Payments from uncompensated care pools or programs	\$	\$
8	Other revenue	\$	\$
9	Total direct offsetting revenue (add lines 6-8)	\$	\$
10	<b>Net community benefit expense (line 5 minus line 9)</b>	\$	\$
11	<b>Total expense</b>	\$	\$
12	<b>Percent of total expense (line 10 ÷ line 11)</b>	%	%

- <sup>1</sup> Enter value on Schedule H, Part I, Question 7, Row b, Column c  
<sup>2</sup> Enter value on Schedule H, Part I, Question 7, Row b, Column d  
<sup>3</sup> Enter value on Schedule H, Part I, Question 7, Row b, Column e  
<sup>4</sup> Enter amount from Form 990 Part IX, Line 25, Column A - including the organization's share of expenses of all joint ventures  
<sup>5</sup> Enter value on Schedule H, Part I, Question 7, Row b, Column f  
<sup>6</sup> Enter value on Schedule H, Part I, Question 7, Row c, Column c  
<sup>7</sup> Enter value on Schedule H, Part I, Question 7, Row c, Column d  
<sup>8</sup> Enter value on Schedule H, Part I, Question 7, Row c, Column e  
<sup>9</sup> Enter amount from Form 990 Part IX, Line 25, Column A - including the organization's share of expenses of all joint ventures  
<sup>10</sup> Enter value on Schedule H, Part I, Question 7, Row c, Column f

Worksheet 4 Community Health Improvement Services and Community Benefit Operations - Schedule H, Part I, line 7e		Total Community Benefit Expense (A)	Direct Offsetting Revenue (B)	Net Community Benefit Expense (C) = (A) - (B)
1	Community Health Improvement Services	\$	\$	\$
	a	\$	\$	\$
	b	\$	\$	\$
	c	\$	\$	\$
	d	\$	\$	\$
	e	\$	\$	\$
	f	\$	\$	\$
	g	\$	\$	\$
	h	\$	\$	\$
	i	\$	\$	\$
	j	\$	\$	\$
2	Schedule H Subtotal (add lines 1a - 1j)	\$	\$	\$
3	Community Benefit Operations	\$	\$	\$
	a	\$	\$	\$
	b	\$	\$	\$
	c	\$	\$	\$
	d	\$	\$	\$
4	Schedule H Subtotal (add lines 3a - 3d)	\$	\$	\$
5	Schedule H Total (add lines 2 and 4)	\$	\$	\$
6	Total expense			\$
7	Percent of total expense (line 5(C) ÷ line 6)			%

<sup>1</sup> Enter values from Columns (A), (B), and (C) on Schedule H, Question 7, Row e, Columns c, d, and e

<sup>2</sup> Enter amount from Form 990 Part IX, Line 25, Column A - including the organization's share of expenses of all joint ventures

<sup>3</sup> Enter value on Schedule H, Question 7, Row e, Column f

<b>Worksheet 5</b>		<b>Schedule H Total</b>
<b>Health Professions Education - Schedule H, Part I, line 7f</b>		
<b>Total community benefit expense</b>		
1	Medical students	\$
2	Interns, Residents and Fellows	\$
3	Nursing	\$
4	Other allied health professions	\$
5	Continuing health professions education	\$
6	Other students	\$
7	Total community benefit expense (add lines 1-6)	\$ <sup>1</sup>
<b>Direct offsetting revenue</b>		
8	Medicare reimbursement for direct GME	\$
9	Medicaid reimbursement for direct GME	\$
10	Continuing health professions education reimbursement/tuition	\$
11	Other revenue	
12	Total direct offsetting revenue (add lines 8-11)	\$ <sup>2</sup>
13	<b>Net community benefit expense (line 7 minus line 12)</b>	\$ <sup>3</sup>
14	<b>Total expense</b>	\$ <sup>4</sup>
15	<b>Percent of expense (line 13 ÷ line 14)</b>	% <sup>5</sup>

<sup>1</sup> Enter value on Schedule H, Question 7, Row f, Column c

<sup>2</sup> Enter value on Schedule H, Question 7, Row f, Column d

<sup>3</sup> Enter value on Schedule H, Question 7, Row f, Column e

<sup>4</sup> Enter amount from Form 990 Part IX, Line 25, Column A - including the organization's share of expenses of all joint ventures

<sup>5</sup> Enter value on Schedule H, Question 7, Row f, Column f

Worksheet 6 Subsidized Health Services - Part I, line 7g		Total Subsidized Health Service Program (A)	Bad Debt (B)	Medicaid and Other Means Tested Government Programs (C)	Charity Care (D)	Schedule H Amount (E) = (A) - (B) - (C) - (D)
Program Name: _____						
1	Gross patient charges from program(s)	\$	\$	\$	\$	\$
<b>Total community benefit expense</b>						
2	Ratio of patient cost to charges (from Worksheet 2, if used)					
3	Cost (either line 1 x line 2, or from cost accounting)	\$	\$	\$	\$	\$ <sup>1</sup>
<b>Direct offsetting revenue</b>						
4	Net patient service revenue	\$	\$	\$	\$	\$
5	Other revenue	\$	\$	\$	\$	\$
6	Total direct offsetting revenue (add lines 4 and 5)	\$	\$	\$	\$	\$ <sup>2</sup>
7	<b>Net community benefit expense</b> (line 3 minus line 6)	\$	\$	\$	\$	\$ <sup>3</sup>
8	<b>Total expense</b>					\$ <sup>4</sup>
9	<b>Percent of expense (line 7(D) ÷ line 8)</b>					% <sup>5</sup>

- <sup>1</sup> Enter sum of Worksheet 6 values on Schedule H, Question 7, Row g, Column c
- <sup>2</sup> Enter sum of Worksheet 6 values on Schedule H, Question 7, Row g, Column d
- <sup>3</sup> Enter sum of Worksheet 6 values on Schedule H, Question 7, Row g, Column e
- <sup>4</sup> Enter amount from Form 990 Part IX, Line 25, Column A - including the organization's share of expenses of all joint ventures
- <sup>5</sup> Enter value on Schedule H, Question 7, Row g, Column f

<b>Worksheet 7</b>		<b>Schedule H Total</b>
<b>Research - Part I, line 7h</b>		
<b>Total community benefit expense</b>		
1 Direct costs	\$	
2 Indirect costs	\$	
3 Total community benefit expense (add lines 1 and 2)	\$	<sup>1</sup>
<b>Direct offsetting revenue</b>		
4 Other revenue	\$	<sup>2</sup>
5 Net community benefit expense (line 3 minus line 4)	\$	<sup>3</sup>
6 Total expense	\$	<sup>4</sup>
7 Percent of expense (line 5 ÷ line 6)		<sup>5</sup> %

<sup>1</sup> Enter value on Schedule H, Question 7, Row h, Column c

<sup>2</sup> Enter value on Schedule H, Question 7, Row h, Column d

<sup>3</sup> Enter value on Schedule H, Question 7, Row h, Column e

<sup>4</sup> Enter amount from Form 990 Part IX, Line 25, Column A - including the organization's share of expenses of all joint ventures

<sup>5</sup> Enter value on Schedule H, Question 7, Row h, Column f

<b>Worksheet 8</b>			
<b>Cash and In-Kind Donations to Community Groups - Part I, line 7i</b>			
	<b>Cash Contributions (A)</b>	<b>In-Kind Contributions (B)</b>	<b>Schedule H Total (C) = (A) + (B)</b>
<b>1 Total community benefit expense</b>	\$	\$	\$ <sup>1</sup>
<b>Direct offsetting revenue</b>			
<b>2 Other revenue</b>	\$	\$	\$ <sup>2</sup>
<b>3 Net community benefit expense (line 1 minus line 2)</b>	\$	\$	\$ <sup>3</sup>
<b>4 Total expense</b>			\$ <sup>4</sup>
<b>5 Percent of total expense (line 3 ÷ line 4)</b>			% <sup>5</sup>

<sup>1</sup> Enter value on Schedule H, Question 7, Row I, Column (c)

<sup>2</sup> Enter value on Schedule H, Question 7, Row I, Column (d)

<sup>3</sup> Enter value on Schedule H, Question 7, Row I, Column (e)

<sup>4</sup>

<sup>5</sup> Enter amount from Form 990 Part IX, Line 25, Column A - including the organization's share of expenses of all joint ventures

<sup>5</sup> Enter value on Schedule H, Question 7, Row I, Column (f)

## 2008 Schedule I (Form 990) Instructions

### Grants and Other Assistance to Organizations, Governments and Individuals in the U.S.

Section references are to the Internal Revenue Code unless otherwise noted.

#### General Instructions

##### Purpose of Schedule

Schedule I (Form 990) is used by an organization that files Form 990 to provide information on **grants or other assistance** made by the filing organization during the tax year to organizations, governments, and individuals in the United States. Report activities conducted by the organization directly or indirectly through a disregarded entity, or through a **joint venture** taxed as a partnership.

**Grants and other assistance** include awards, prizes, allocations, stipends, scholarships, fellowships, research grants, and similar payments and distributions. Grants or other assistance does not include salaries or other compensation to employees. Grants or other assistance also does not include grants to affiliates that are not organized as legal entities separate from the filing organization, or grants made to branch offices, accounts, or employees located in the United States.

*Organizations in the United States* include nonprofits or other exempt organizations, partnerships, corporations, or other business entities that are created or organized in the United States or under the laws of the United States or of any State, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, Guam, American Samoa, and the United States Virgin Islands, and an estate or trust other than a foreign estate or trust.

*Governments in the United States* include the U.S. government, and any State, including the District of Columbia and any possession of the United States, or political subdivisions thereof. A grant to a U.S. government agency must be included on this schedule regardless of where the agency is located or operated.

*Individuals in the United States* include persons who are U.S. citizens or residents of the United States, but do not include U.S. citizens or residents of the United States living or residing outside the United States at the time the grant is paid or distributed.

Use Schedule I-1 to report additional information for Parts II or III of Schedule I. Use as many Schedules I-1 as needed.

Except as noted regarding grants to individuals, **grants and other assistance to foreign organizations, foreign governments, and foreign individuals**, should not be reported on this schedule, but should be reported on Schedule F (Form 990), *Statement of Activities Outside the United States*.

##### Who Must File

File Form 990 (not EZ or N) and more than \$5K in grants to organizations OR to individuals.

Any organization that answered "Yes," on Form 990, Part IV, *Checklist of Required Schedules*, line 21 or 22, must complete Part I, and either Part II or Part III of Schedule I, and attach Schedule I to Form 990. [More than \\$5K in grants to organizations OR to individuals.](#)

If an organization is not required to file Form 990, it is not required to file Schedule I.

## Specific Instructions

### Part I General Information on Grants and Assistance

Complete this Part if the organization answered "Yes" on Form 990, Part IV, *Checklist of Required Schedules*, lines 21 or 22.

**Lines 1 and 2.** Indicate "Yes" or "No" regarding whether the organization maintains records to substantiate amounts, eligibility, and selection criteria used for grants. In general terms, describe how the organization monitors its grants to ensure that such grants are used for proper purposes and are not otherwise diverted from the intended use. For example, the organization may describe periodic reports required or field investigations conducted. Use Part IV for the organization's narrative response to line 2.

### Part II Grants and Other Assistance to Organizations and Entities

Complete the table if the organization answered "Yes" on Form 990, Part IV, *Checklist of Required Schedules*, line 21. A "Yes" response to Form 990, Part IV, line 21 means that the organization reported more than \$5,000 on Form 990, Part IX, *Statement of Functional Expenses*, line 1. Enter information only for each recipient U.S. organization or government entity that received more than \$5,000 aggregate of grants or assistance from the organization during the tax year.

**TIP:** Do not complete the table if the organization checked the box on Schedule I, Part II, that no one recipient received more than \$5,000 from the organization.

Enter the details of each organization or entity on a separate line of Part II. If there are more organizations or entities to report in Part II than space available, report the additional organizations or entities in Part I of Schedule I-1. Use as many Schedules I-1 as needed.

**Column (a).** State the full legal name and mailing address of each recipient organization or government entity.

**Column (b).** Enter the Employer Identification Number (EIN) of the grant recipient. [New recordkeeping. Sub-types of public charity?](#)

**Column (c).** If applicable, enter the section of the Internal Revenue Code under which the organization receiving the assistance is tax-exempt, if it is so exempt (e.g., a school described in section 501(c)(3), or a social club described in section 501(c)(7)). If a recipient is a government entity, indicate such. If a recipient is neither a tax-exempt nor a government entity, leave column (c) blank.

**Column (d).** Enter total dollar amount of cash grants to each recipient organization or entity for the tax year. Cash grants include grants and allocations paid by cash, checks, money orders,

electronic fund or wire transfers, and other charges against funds on deposit at a financial institution.

**Columns (e) and (f).** Enter the fair market value of non-cash property. Describe the method of valuation. Report property with a readily determinable market value (e.g., market quotations for securities) at its fair market value. For marketable securities registered and listed on a recognized securities exchange, measure market value by the average of the highest and lowest quoted selling prices or the average between the bona fide bid and asked prices, on the date the property is distributed to the grantee. When fair market value cannot be readily determined, use an appraised or estimated value.

**Column (g).** For non-cash property or assistance, enter a description of the property or assistance. List all that apply. Examples of non-cash assistance include medical supplies or equipment, pharmaceuticals, blankets, books or other educational supplies.

**Column (h).** Describe the purpose or ultimate use of the grant funds. Do not use broad terms such as charitable, educational, religious or scientific. Rather, use more specific descriptions such as general support, payments for nursing services, or laboratory construction. Enter the type of assistance, such as medical, dental, or free care for indigent hospital patients. In the case of disaster assistance, the description should include a description of the disaster and the assistance provided (e.g., food, shelter, and clothing for Organization A's assistance to Hurricane Katrina disaster victims).

**Line 2.** Add the number of recipient organizations listed in line 1 that (a) have been recognized by the Internal Revenue Service as exempt from federal income tax as described in section 501(c)(3) or, (b) are government units or entities in the United States. Enter the total.

**Line 3.** Enter total number of recipient organizations listed in line 1 that are not described in line 2. This number should include organizations that are exempt under section 501(c) other than section 501(c)(3).

Do not include in Line 3 any of the following organizations, regardless of whether such organizations have received a determination letter from the Internal Revenue Service recognizing them as exempt from federal income tax, unless the filing organization has knowledge that such recipient organizations do not qualify for exemption:

- Churches, including synagogues, temples, and mosques
- Integrated auxiliaries of churches and conventions or associations of churches
- Any organization that has gross revenues not more than \$5,000.

Grants to the above organizations should be included in Line 2.

### **Part III Grants and Other Assistance to Individuals**

Complete this table if the organization answered "Yes" on Form 990, Part IV, *Checklist of Required Schedules*, line 22. A "Yes" response on Form 990, Part IV, line 22 means that the organization reported more than \$5,000 on Form 990, Part IX, *Statement of Functional Expenses*, Line 2.

Enter information for **grants or other assistance** directly made to or for the benefit of individual recipients. Do not complete Part III for grants or assistance provided to individuals through another organization or entity. Instead, complete Part II above. For example, report a payment to a hospital designated to cover the medical expenses of a particular individual in Part III. Report a contribution to a hospital designated to provide some service to the general public or to unspecified charity patients in Part II.

Enter the details of each type of assistance to individuals on a separate line of Part III. If there are more types of assistance than space available, report the additional assistance transactions in Part II of Schedule I-1. Use as many Schedules I-1 as needed.

**Column (a).** Specify type(s) of assistance provided, or describe the purpose or use of grant funds. Do not use broad terms such as charitable, educational, religious, or scientific. Rather, use more specific descriptions, such as scholarships for students attending school in a particular county or attending a particular school; provision of books or other educational supplies; food, clothing, and shelter for indigents or direct cash assistance to indigents, etc. In the case of specific disaster assistance, the type of assistance provided and identification of the disaster should be included; e.g., food, shelter, and clothing for immediate relief for Hurricane Katrina disaster victims.

**Column (b).** Enter the number of recipients for each type of assistance. If the organization is unable to determine the actual number, provide an estimate of the number. Explain in Part IV how the organization arrived at the estimate.

**Column (c).** Enter aggregate dollar amount of cash grants for each type of grant or assistance. Cash grants include only grants and allocations paid by cash, checks, money orders, electronic fund or wire transfers, and other charges against funds on deposit at a financial institution.

**Columns (d) and (e).** Enter the fair market value of non-cash property. Describe the method of valuation. Report property with a readily determinable market value (e.g., market quotations for securities) at its fair market value. For marketable securities registered and listed on a recognized securities exchange, measure market value by the average of the highest and lowest quoted selling prices or the average between the bona fide bid and asked prices, on the date the property is distributed to the grantee. When fair market value cannot be readily determined, use an appraised or estimated value.

**Column (f).** For non-cash grants or assistance, enter descriptions of the property. List all that apply. Examples of non-cash assistance include, but are not limited to, medical supplies or equipment, pharmaceuticals, blankets, and books or other educational supplies.

#### **Part IV Supplemental Information**

Use Part IV to provide narrative information required in Part I, line 2, regarding monitoring of funds. Also use Part IV to provide other narrative explanations and descriptions, as needed. Identify the specific part and line(s) that the response supports. Part IV may be duplicated if more space is needed.

## 2008 Schedule J (Form 990) Instructions Compensation Information

1) paid anyone >\$150K who is listed on Core Form Part VII, Line 1a; OR  
2) required to list any "formers" on Core Form Part VII, Line 1a; OR  
3) required to list anyone on Core Form Part VII, Line 1a who was paid or accrued by an unrelated organization for services to you.

Section references are to the Internal Revenue Code unless otherwise noted.

### General Instructions

#### Purpose of Schedule

Schedule J (Form 990) is used by an organization that files Form 990 to report **compensation** information for certain **officers, directors**, individual **trustees, key employees** and **highest compensated employees**, and information on certain of the organization's compensation practices.

Use Schedule J-1 to report additional information for Part II of Schedule J. Use as many Schedules J-1 as needed. [kind of like Schedule O - narrative space](#)

Use Schedule J-2 as a continuation sheet to list persons and report compensation that did not fit in the space provided in Form 990, Part VII, Section A. Do not use Schedule J-2 as a continuation sheet for Schedule J.

#### Who Must File

Any organization that answered "Yes" to Form 990, Part IV, line 23, must complete Schedule J, *Compensation Information*. Do not file Schedule J for institutional trustees.

If an organization is not required to file Form 990, it is not required to file Schedule J.

### Specific Instructions

#### Overview

Part I asks questions regarding certain of the organization's **compensation** practices. Part I generally pertains to all **officers, directors, trustees** and **employees** of the organization listed in Form 990, Part VII, Section A ("listed persons"), regardless of whether the organization answered "yes" to line 23 of Part IV for all such individuals. However, only the organizations that are described in "Who Must File" above must complete Part I. Part I, lines 1, 2, 7, and 8 require reporting on the compensation practices of the filing organization, but not of related organizations. Lines 3 through 6 require information regarding both the filing organization and its **related organizations**. Part I lines 5-8 must be completed only by section 501(c)(3) and 501(c)(4) organizations.

Part II requires detailed compensation information for individuals for whom the organization answered "yes" to line 23 of Form 990 Part IV. Not all persons listed in Form 990, Part VII, Section A will necessarily be listed in Schedule J, Part II.

Part III is used to provide explanations of answers as required in Parts I or II.

Unless stated otherwise, all questions in this Schedule pertain to activity during the calendar year ending with or within the organization's **tax year**.

#### Part I: Questions Regarding Compensation.

For purposes of Part I, a "listed person" is a person listed in Form 990, Part VII, Section A.

**Line 1a. Certain benefits.** Check the appropriate box(es) if the organization provided any of the listed benefits to any of the persons listed in Form 990, Part VII, Section A, regardless of whether such benefits are reported as **compensation** on Form W-2, Box 5 or Form 1099-MISC, Box 7. For each of the listed benefits provided to or for a listed person, provide in Part III of this Schedule relevant information regarding these items, which may include, for example:

- the type of benefit;
- the listed person who received the benefit, or a description of the types (e.g., all **directors**) and number of listed persons that received the benefit; and
- whether the benefit, or any part of it, was treated as taxable compensation to the listed person. *be careful if not - most of them look taxable except gross up which is just a method (and the resulting total should be cleared as reasonable)*

“First-class travel” refers to any travel on a passenger airplane, train or boat with first-class seat or accommodations, for which a listed person or his or her companion is availed the first-class accommodations and any portion of the cost above the lower-class fare is paid by the

organization. First-class travel does not include intermediate classes between first class and coach, such as business class on commercial airlines. Bump-ups to first class free of charge or as a result of using frequent flyer benefits, or similar arrangements that are at no additional cost to the organization, may be disregarded.

“Charter travel” refers to travel on an airplane, train or boat under a charter or rental arrangement. Charter travel also includes any travel on an airplane or boat that is owned or leased by the organization.

“Travel for companions” refers to any travel of a listed person’s guest that is not traveling primarily for bona fide business purposes of the organization. It also refers to any travel of a listed person’s **family members**, whether or not for bona fide business purposes.

“Tax indemnification” and “gross-up payments” refer to the organization’s payment or reimbursement of any tax obligations of a listed person.

“Discretionary spending account” refers to an account or sum of money under the control of a listed person with respect to which he or she is not accountable to the organization under an **accountable plan**, whether or not actually used for any personal expenses. Accountable plans are discussed in the instructions for Part II below.

“Housing allowance or residence for personal use” refers to any payment for, or provision of, housing by the organization for personal use by a listed person.

“Payments for business use of personal residence” refer to any payment by the organization for the use of all or part of a listed person’s residence for any purpose of the organization.

“Health or social club dues or initiation fees” refer to any payment of dues by the organization for the membership of a listed person in a health or fitness club or a social or recreational club, whether or not such clubs are tax-exempt. It does not include membership fees for an organization described in section 501(c)(3) or 501(c)(6) unless such organization provides health, fitness, or recreational facilities available for the regular use of a listed person. “Health club dues” do not include provision by the organization of an on-premises athletic facility described in section 132(j)(4), or provision by a school of an athletic facility available for general use by its students, faculty, and employees. “Dues” include the entrance fee, periodic fees, and amounts paid for use of such facilities.

“Personal services” are any services for the personal benefit of a listed person or the family or friends of a listed person, whether provided regularly (on a full-time or part-time basis) or as needed, whether provided by an **employee** of the organization or independent contractor (and whether the independent contractor is an individual or an organization). They include, but are not limited to, services of a babysitter, bodyguard, butler, chauffeur, chef, concierge or other person who regularly runs non-incidental personal errands, escort, financial planner, handyman, landscaper, lawyer, maid, masseur/masseuse, nanny, personal trainer, personal advisor or counselor, pet sitter, physician or other medical specialist, tax preparer, and tutor for non-business purposes. Personal services do not include services provided to all employees on a nondiscriminatory basis under a qualified employee benefit plan.

**Line 1b. Written policy.** If the organization provided any of the benefits listed in line 1a to one or more listed persons, answer “Yes” if the organization followed a written policy regarding the payment, provision or reimbursement of all such benefits to listed persons. If the organization did not follow a written policy for payment, provision or reimbursement of any listed benefits, explain in Part III (1) who determined the organization would provide such benefits and (2) the decision-making process. [presumably, policy should address when such things paid, required documentation, who approves, and how reported \(typically taxable income\)](#)

**Line 2. Substantiation.** Answer “Yes” if the organization required substantiation of all expenses or benefits listed in line 1, in accordance with the rules for accountable plans discussed below, prior to reimbursing or allowing all such expenses incurred by all **officers, directors, and trustees**, including the CEO, Executive Director, or other **top management official** (hereafter referred to as top management official). An organization may answer “Yes” if it checked the “discretionary spending account” box on Line 1 and it required substantiation of expenses under the rules for **accountable plans** for all listed benefits in line 1 other than for discretionary spending accounts.

**Line 3. Methods of establishing compensation.** Check the appropriate box(es) to indicate which methods, if any, the organization used to establish the **compensation** of the organization’s **top management official**. Do not check any box(es) for methods used by a related organization (rather than the filing organization) to establish the filing organization’s compensation of its top management official, but explain in Schedule J, Part III that the organization relied on a **related organization** that used one or more of the methods described below to establish the top management official’s compensation.  
[c3’s and c4’s paying at this level should \(MUST\) understand Section 4958](#)

“Compensation committee” refers to a committee of the organization’s **governing body** responsible for determining the top management official’s compensation package, whether or not the committee has been delegated the authority to make an employment agreement with the top management official on behalf of the organization. The compensation committee may also have other duties.

“Compensation consultant” refers to a person outside the organization that advises the organization regarding the top management official’s compensation package, holds himself or herself out to the public as a compensation consultant or performs valuations of non-profit executive compensation on a regular basis, and is qualified to make valuations of the type of services provided. The consultant is independent if he or she does not have a **family relationship** or **business relationship** with the top management official, and if a majority of his or her appraisals made during his or her taxable year are performed for persons other than the organization, even if the consultant’s firm also provides tax, audit, and other professional services to the organization.

“Form 990 of other organizations” refers to compensation information reported in Forms 990, 990-EZ, or 990-PF of similarly situated organizations.

“Written employment agreement” refers to one or more recent or current written employment agreements to which the top management official and another organization are or were parties, written employment agreements involving similarly situated top management officials with similarly situated organizations, or written employment offers to the top management official from other organizations dealing at arm’s length.

“Compensation survey or study” refers to a study of top management official compensation or functionally comparable positions in similarly situated organizations.

“Approval by the board or compensation committee” refers to the ultimate decision by the governing body or compensation committee on behalf of the organization as to (1) whether to enter into an employment agreement with the top management official, and (2) the terms of such agreement.

**Line 4. Severance, change of control, supplemental retirement, and equity-based compensation.** List in Part III of this Schedule the names of listed persons paid amounts during the year by the filing organization or a **related organization** under any arrangement described in lines 4a through 4c, and report the amounts paid during the year to each such listed person. Also describe in Part III the terms and conditions of any arrangement described in lines 4a through 4c in which one or more listed persons participated during the year, regardless of whether any payments to the listed person were made during the year.

**Line 4a. Severance or change-of-control payments.** Answer “Yes” if a listed person received a severance or change-of-control payment from the organization or a **related organization**. A severance payment is a payment made if the right to the payment is contingent solely upon the person’s severance from service in specified circumstances, such as upon an involuntary separation from service. Payments under a change-of-control arrangement are made in connection with a termination or change in the terms of employment resulting from a change in control of the organization. Treat as a severance payment any payment to a listed person in satisfaction or settlement of a claim for wrongful termination or demotion.

*This last reason is most defensible of all of them in California (some charitable benefit).*

**Line 4b. Supplemental nonqualified retirement plan.** Answer “Yes” if a listed person participated in or received payment from any supplemental nonqualified retirement plan established, sponsored, or maintained by or for the organization or a **related organization**. A supplemental nonqualified retirement plan is a nonqualified retirement plan that is not generally available to all **employees** but is available only to a certain class or classes of management or highly compensated employees. For this purpose, include as a supplemental nonqualified retirement plan a plan described in section 457(f), but do not include a plan described in section 457(b).

**Line 4c. Equity-based compensation.** Answer “Yes” if a listed person participated in or received payment from the organization or a **related organization** of any equity-based compensation (such as stock, stock options, stock appreciation rights, restricted stock, or phantom or shadow stock), or participated in any equity compensation plan or arrangement sponsored by the organization or a related organization, whether the compensation is determined by reference to equity in a partnership, limited liability company, or corporation.

careful! explicitly prohibited by IRC501(c)(3) and arguably other 501(c) sections by IRS enforcement, though not in code; % of gross may work if structured in advance to promote exempt purposes

Equity-based compensation does not include compensation contingent on the revenues or net earnings of the organization, which are addressed by lines 5 and 6 below.

Example. A, a listed person, is an employee of the organization (B). B owns an interest in a for-profit subsidiary (C) that is a stock corporation. As part of A's compensation package, B provides stock options to A that permit A to obtain C stock for a price other than the fair market value of the C stock at the time of the acquisition of the stock by A. This is an equity-based compensation arrangement for purposes of line 4c. The same would be true if C were a partnership, limited liability company, or publicly traded corporation and B provided A a profits interest, capital interest, or stock in C under similar terms.

**Line 5. Compensation contingent on revenues.** Answer "Yes" if the organization paid or accrued with respect to a listed person any **compensation** determined in whole or in part by the revenues (gross or net) of one or more activities of the organization or a related organization, or by the revenues (gross or net) of the organization or a **related organization** as a whole. For this purpose, net revenues means gross revenues less certain expenses, but does not mean net income or net earnings. Describe such arrangements in Part III.

Example. A, a listed person, is a physician employed by the organization (B). As part of A's compensation package, A is to be paid a bonus equal to x% of B's net revenues from a particular department operated by B for a specified period of time. This arrangement is a payment contingent on revenues of the organization, and must be reported for line 5 purposes, regardless of whether the payment is conditioned on achieving a certain revenue target. However, if instead the bonus payment is a specific dollar amount (for instance, \$5,000) to be paid only if a gross revenue or net revenue target of the department is achieved, the payment is not contingent on revenues of the organization for this purpose.

**Line 6. Compensation contingent on net earnings.** Answer "Yes" if the organization paid or accrued with respect to a listed person any **compensation** determined **in whole or in part** by the net earnings of one or more activities of the organization or a **related organization**, or by the net earnings of the organization or a related organization as a whole. Describe such arrangements in Part III.

Example. A, a listed person, is an employee of the organization (B). As part of A's compensation package, A is to be paid a bonus equal to x% of B's net earnings for a specified period of time. This arrangement is a payment contingent on net earnings of the organization for line 6 purposes, regardless of whether the payment is conditioned on achieving a certain net earnings target. However, if instead the bonus payment is a specific dollar amount to be paid only if a net earnings target is achieved, the payment is not contingent on the net earnings of the organization for this purpose.

**Line 7. Other non-fixed payments.** Answer "Yes" if the organization provided any non-fixed payments, not described in lines 5 and 6, with respect to a listed person. Describe such arrangements in Part III. A **fixed payment** is an amount of cash or other property specified in the contract, or determined by a **fixed formula** specified in the contract, which is to be paid or transferred in exchange for the provision of specified services or property. A fixed formula may incorporate an amount that depends upon future specified events or contingencies, provided that no person exercises discretion when calculating the amount of a payment or deciding whether to make a payment (such as a bonus). Amounts paid or accrued with respect to any listed person that are not fixed amounts as defined above are non-fixed payments. For example, any amount paid to a person under a reimbursement arrangement where discretion is exercised

are Equity-based payments in Line 4c considered a form of non-fixed payment? Don't think so...fixed formula would be % of Equity...this appears to be getting at truly discretionary payments more like **bonuses; and even bonuses could be a fixed formula - incentive at beginning of year**

by any person with respect to the amount of expenses incurred or reimbursed is a non-fixed payment. See Regulations section 53.4958-4(a)(3).

Exception: Amounts payable pursuant to a qualified pension, profit-sharing, or stock bonus plan under section 401(a), or pursuant to an employee benefit program that is subject to and satisfies coverage and nondiscrimination rules under the Internal Revenue Code (e.g., sections 127 and 137), other than nondiscrimination rules under section 9802, are treated as fixed payments for purposes of line 7, regardless of the organization's discretion with respect to the plan or program. The fact that a person contracting with the organization is expressly granted the choice whether to accept or reject any economic benefit is disregarded in determining whether the benefit constitutes a fixed payment for purposes of line 7.

This is a specific exemption from Section 4958 - known colloquially as the "first bite" rule.

**Line 8. Initial contract exception.** Answer "Yes" if any amounts from the organization reported in Form 990, Part VII were paid pursuant to a contract that was subject to the **initial contract** exception described in Regulations section 53.4958-4(a)(3). Describe such arrangements in Part III. Fixed payments made pursuant to an "initial contract" are not subject to section 4958. An initial contract is a binding written contract between the organization and a person who was not a disqualified person (within the meaning of section 4958(f)(1)) with respect to the organization immediately prior to entering into the contract. See the instructions to line 7 for the definition of fixed payments. For purposes of completing line 8, disregard payments pursuant to a contract that was reviewed and approved by the organization pursuant to the rebuttable presumption procedure described in Regulations section 53.4958-6(c).

## Part II: Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

Schedule J, Part II requires listing of certain individuals listed in Form 990, Part VII, Section A, as described below. Report in Part II **compensation** for the calendar year ending with or within the organization's **tax year** paid to or earned by the following individuals:

- Each of the organization's former **officers**, former **directors**, former **trustees**, former **key employees**, and former five **highest compensated employees** listed in Form 990, Part VII, Section A;
- Each of the organization's current officers, directors, trustees, key employees, and five highest compensated employees for whom the sum of Form 990, Part VII, Section A, columns (D), (E), and (F) is greater than \$150,000; and
- Each of the organization's current or former officers, directors, trustees, key employees, or five highest compensated employees who received or accrued compensation for services rendered to the organization from an **unrelated organization**, and who is required to be reported in response to line 5 of Form 990, Part VII, Section A.

**TIP:** All current **key employees** listed in Form 990, Part VII, Section A must also be reported in Schedule J, Part II, because their **reportable compensation**, by definition, exceeds \$150,000.

Do not list any individuals in Schedule J, Part II that are not listed in Form 990, Part VII, Section A. Do not list in Part II **management companies** or other organizations providing services to the organization. Do not list highest compensated **independent contractors** reported in Form 990, Part VII, Section B.

For each individual listed, report compensation on two rows: compensation from the organization on the first row, and compensation from all related organizations on the second

row. “**Related organizations**” are explained in the instructions for Schedule R, Related Organizations and Unrelated Partnerships. Any type and amount of compensation from related organizations that was excluded from Form 990, Part VII, Section A pursuant to the \$10,000-per-related-organization exception must be included in Schedule J, Part II, columns (C) and/or (D). If there is no compensation to report in a particular column, enter -0-.

If the organization answered “yes” to Form 990, Part VII, Section A, line 5, then report such compensation from the unrelated organization on Schedule J as if it were received from the organization, and report the name of the unrelated organization in Part III of this Schedule.

For a table showing how and where to report certain types of compensation on Schedule J, see the instructions to Line 1 of Form 990, Part VII, Section A.

Any type and amount of “other compensation” that was excluded from Form 990, Part VII, Section A pursuant to the \$10,000-per-item exception for certain “other compensation” items must be included in Schedule J, Part II, columns (C) and/or (D).

For purposes of the following Schedule J, Part II instructions, a “listed person” is a person required to be listed in Schedule J, Part II.

If there are more individuals to report in Part II than space available, report the additional individuals in Part 1 of Schedule J-1. Use as many Schedules J-1 as needed.

**Column (A). Name.** State the name of each person who must be listed in Schedule J, Part II.

**Column (B). Breakdown of W-2 and 1099-MISC compensation.**

Amounts reported in Form 990, Part VII, Section A, columns (D) and (E) must be broken out between Schedule J, Part II, columns (B)(i), (B)(ii), and B(iii), according to the instructions below.

TIP: For certain kinds of **employees**, such as certain members of the clergy and religious workers who are not subject to Social Security and Medicare taxes as employees, Box 5 of Form W-2 may be blank. In such case, the amount required to be reported in Box 1 of Form W-2 for listed persons must be reported, as appropriate, in Part II, columns (B)(i), B(ii), and B(iii).

**Column (B)(i). Base compensation.** Report the listed person’s base compensation that is included in Box 5 of Form W-2 (or in Box 1, if no compensation is reported for that person in Box 5), or Box 7 of Form 1099-MISC, issued to the person. Base compensation means non-discretionary payments to a person agreed upon in advance, contingent only on the payee’s performance of agreed-upon services (such as salary or fees).

**Column (B)(ii). Bonus and incentive compensation.** Report the listed person’s bonus and incentive compensation that is included in Box 5 of Form W-2 (or in Box 1, if no compensation is reported for that person in Box 5), or Box 7 of Form 1099-MISC, issued to the person. Examples include payments based on satisfaction of a performance target (other than mere longevity of service), and payments at the beginning of a contract before services are rendered (i.e., signing bonus).

**Column (B)(iii). Other reportable compensation.** Report all other payments to the listed person included in Box 5 of Form W-2 (or in Box 1, if no compensation is reported for that

person in Box 5), or Box 7 of Form 1099-MISC issued to the person but not reflected in columns (B)(i) or (ii). Examples may include, but are not limited to, current-year payments of amounts earned in a prior year, payments under a severance plan, payments under an arrangement providing for payments upon the change in ownership or control of the organization or similar transaction, and awards based on longevity of service.

**Column (C). Deferred compensation.** Report all current-year deferrals of **compensation** for the listed person under any retirement or other **deferred compensation** plan, whether qualified or nonqualified, that is established, sponsored, or maintained by or for the organization or a **related organization**. Report as deferred compensation the annual increase in actuarial value, if any, of a defined benefit plan, but do not report earnings accrued on deferred amounts in a defined contribution plan. Do not report in column (C) any payments to a listed person of **compensation** that are included in Box 5 of Form W-2 (or in Box 1, if no compensation is reported for that person in Box 5), or Box 7 of Form 1099-MISC, issued to the person for the calendar year ending with or within the organization's **tax year**. Report a reasonable estimate if actual numbers are not readily available.

For this purpose, deferred compensation is compensation that is earned or accrued in, or is attributable to, one year and deferred to a future year for any reason, whether or not funded, vested, or subject to a substantial risk of forfeiture. This includes earned but unpaid incentive compensation deferred pursuant to a deferred compensation plan. Note that different rules may apply for determining whether an arrangement provides for deferred compensation for purposes of Code provisions such as sections 83, 409A, 457(f), or 3121(v).

Do not report deferred compensation in column (C) before it is earned under the principles described below. For this purpose, deferred compensation is generally treated as earned in the year that services are rendered, except when entitlement to payment is contingent on satisfaction of specified performance criteria (other than mere longevity of service) under the deferred compensation plan. If the payment of an amount of deferred compensation requires the employee to perform services for a period of time, the amount is treated as accrued and earned ratably over the course of the service period, even though the amount is not funded and may be subject to a substantial risk of forfeiture until the service period is completed.

Report deferred compensation for each listed person in Schedule J regardless of whether such compensation is deferred as part of a deferred compensation plan that is administered by a separate trust, as long as the plan is established, sponsored, or maintained by or for the organization or a related organization for the benefit of the listed person.

The examples below illustrate when deferred compensation is considered earned, as well as when and how it is to be reported in Schedule J, Part II. In these examples, assume that the amounts deferred are not reported in Form W-2, Box 5 prior to the year for which it is paid.

Example 1. Executive participates in Organization A's nonqualified deferred compensation plan. Under the terms of the plan beginning January 1 of calendar year 1, she earns for each year of service an amount equal to 2% of her base salary of \$100,000 for that year. These additional amounts are deferred and are not vested until Executive has completed three years of service with Organization A. In year 4 the deferred amounts for years 1 through 3 are paid to Executive. For each of the years 1 through 3, Organization A reports \$2000 of deferred compensation for Executive in column (C). For year 4, Organization A reports \$6000 in column (B)(iii) and \$6000 in column (F).

Example 2. Under the terms of his employment contract with Organization B beginning July 1 of calendar year 1, Executive is entitled to receive \$50,000 of additional compensation after he has completed five years of service with the organization. The compensation is contingent only on the longevity of service. The \$50,000 is treated as accrued and earned ratably over the course of the five years of service, even though it is not funded or vested until Executive has completed the five years. Organization B makes payment of \$50,000 to Executive in calendar year 6. Organization B reports \$5000 of deferred compensation in column (C) for calendar year 1 and \$10,000 for each of calendar years 2-5. For calendar year 6 Organization B reports \$50,000 in column (B)(iii) and \$45,000 in column (F).

Example 3. Executive participates in Organization C's incentive compensation plan. The plan covers calendar years 1 through 5. Under the terms of the plan, Executive is entitled to earn 1% of Organization C's total productivity savings for each year during which Organization C's total productivity savings exceed \$100,000. Earnings under the incentive compensation plan will be payable in year 6, to the extent funds are available in a certain "incentive compensation pool." For the years 1 and 2, Organization C's total productivity savings are \$95,000. For each of the years 3, 4 and 5, Organization C's total productivity savings are \$120,000. Accordingly, Executive earns \$1200 of incentive compensation in each of years 3, 4 and 5. She does not earn anything under the incentive compensation plan in years 1 and 2 because the relevant performance criteria were not met in those years. Although the amounts earned under the plan for years 3, 4, and 5 are dependent upon there being a sufficient incentive compensation pool from which to make the payment, Organization C reports \$1200 of deferred compensation in column (C) in years 3, 4 and 5. In year 6, Organization C pays \$3,600 attributable to years 3, 4 and 5, and reports \$3600 in column (B)(ii) and \$3600 in column (F).

[This is actually a pretty decent overview of taxable and non-taxable benefits. Pub 15 goes into a lot more detail.](#)

**Column (D). Nontaxable benefits.** Nontaxable benefits are benefits specifically excluded from taxation under the Internal Revenue Code, e.g., under section 119. Report the value of all nontaxable benefits provided to or for the benefit of the listed person, other than benefits disregarded for purposes of section 4958 under Regulations section 53.4958-4(a)(4). Common nontaxable and section 4958 disregarded benefits, referred to below as "fringe benefits," are discussed in detail below.

Depending on the type of benefit, fringe benefits may be provided only to employees or also to persons other than **employees**, such as **directors, trustees, and independent contractors**. Fringe benefits may be entirely personal in nature or may combine personal and business elements.

The taxability of a benefit may depend upon the form in which it is provided. For example, a cash housing allowance is ordinarily reportable in Form W-2, Box 5. Under section 119, housing provided for the convenience of the employer may be excludable, and the fair rental value of in-kind housing provided to certain school employees may be part taxable and part excludable, depending on facts and circumstances. Taxable benefits must be reported in Form W-2.

The following benefits provided for a listed person must be reported in column (D) to the extent not reported as taxable **compensation** in Form W-2, Box 5 (or in Box 1, if no compensation is reported for that person in Box 5) or Form 1099-MISC, Box 7:

- value of housing provided by the employer;
- educational assistance.
- health insurance;

- medical reimbursement programs;
- life insurance;
- disability benefits;
- long-term care insurance;
- dependent care assistance;
- adoption assistance;
- payment or reimbursement by the organization of (or payment of liability insurance premiums for) any penalty, tax, or expense of correction owed under chapter 42 of the Code, any expense not reasonably incurred by the person in connection with a civil judicial or civil administrative proceeding arising out of the person's performance of services on behalf of the organization, or any expense resulting from an act or failure to act with respect to which the person has acted willfully and without reasonable cause.

The list above is not exclusive.

**Disregarded benefits.** Disregarded benefits under Regulations section 53.4958-4(a)(4) need not be reported in column (D). Disregarded benefits generally include fringe benefits excluded from gross income under section 132. These benefits include the following:

- No-additional cost service;
- Qualified employee discount;
- Working condition fringe;
- De minimis fringe;
- Qualified transportation fringe;
- Qualified moving expense reimbursement;
- Qualified retirement planning services; and
- Qualified military base realignment and closure fringe.

**De minimis fringe.** A de minimis fringe is a property or service the value of which, after taking into account the frequency with which similar fringes are provided by the employer to the employees, is so small as to make accounting for it unreasonable or administratively impractical.

**Working condition fringe.** A working condition fringe is any property or service provided to an **employee** to the extent that, if the employee paid for the property or service, the payment would be deductible by the employee under section 162 (ordinary and necessary business expense) or 167 (depreciation). In some cases, property provided to **employees** may be used partly for business and partly for personal purposes, such as automobiles. In that case the value of the personal use of such property is taxable **compensation**, and the value of the use for business purposes properly accounted for is a working condition fringe benefit.

**Accountable plan amounts as working condition fringes.** Expense reimbursements and allowances provided to employees under an **accountable plan** are a working condition fringe. An accountable plan is a reimbursement or other expense allowance arrangement that meets the following rules:

1. the expenses covered under the plan must be reasonable employee business expenses that are deductible under section 162 or other provisions of the Code,
2. the employee must adequately account to the employer for the expenses within a reasonable period of time, and

Note that it doesn't actually require a WRITTEN plan or policy, although having one will certainly make it easier to comply when the boss wants to pull a fast one! :)

3. the employee must return any excess allowance or reimbursement within a reasonable period of time. See Regulations section 1.62-2 and Publication 535 (*Business Expenses*), for explanation of accountable plans.

The method by which benefits under an accountable plan are provided (whether reimbursement, cash advances with follow-up accounting, or charge by the employee on company credit card) is not material. Payments that do not qualify under the accountable plan rules, such as payments for which the employee did not adequately account to the organization, or allowances that were more than the payee spent on serving the organization, constitute **compensation**.

**Directors** and **trustees** are treated as employees for purposes of the working condition fringe provisions of section 132. Therefore, treat cash payments to directors or trustees made under circumstances substantially identical to the accountable plan provisions as a section 132 working condition fringe.

See Publication 15-B (*Employer's Guide to Fringe Benefits*), Publication 521 (*Moving Expenses*), and a chapter entitled *Unreimbursed Employee Expenses* in Publication 529 (*Miscellaneous Deductions*), for further explanation of section 132 fringe benefits and for determining whether a given section 132 fringe benefit is available to non-employees, such as directors and trustees, or to persons who no longer work for the organization.

**Column (F). Compensation reported in prior Form 990.** Report in column (F) any payment reported in this year's column (B) to the extent such payment was already reported as **compensation** to the listed person in a prior Form 990, 990-EZ, or 990-PF. For this purpose, the amount must have been reported as compensation specifically for the listed person on the prior form; inclusion of the amount in the organization's compensation expense reported in its Statement of Functional Expenses in Form 990, Part IX is not sufficient. Do not include in column (F) amounts that were reported in a prior Form 990 but that were forfeited or repaid by the listed person or otherwise recovered by the organization during this **tax year**, and which are not reported in column (B) for this year.

### **Part III Supplemental Information**

Use Part III to provide narrative information, explanations, or descriptions required for Part I, lines 1a, 1b, 3, 4a, 4b, 4c, 5a, 5b, 6a, 6b, 7, and 8. Also use Part III to provide other narrative explanations and descriptions, as applicable. Identify the specific part and line(s) that the response supports.

## 2008 Schedule K (Form 990) Instructions Supplemental Information on Tax Exempt Bonds

### General Instructions

#### Purpose of Schedule

Schedule K (Form 990) is used by an organization that files Form 990 to provide certain information on their outstanding liabilities associated with tax exempt bond issues.

Use Schedule O to provide additional information or comments relating to the information provided on this schedule. For example, an organization may use Schedule O to describe certain assumptions which are used to complete Schedule K when the information provided is not fully supported by existing records.

#### Who Must File

Any organization that answered "Yes" to question 24a of Form 990, Part IV, *Checklist of Required Schedules* must complete and attach Schedule K to Form 990. This means that the organization reported an outstanding tax exempt bond issue which both had an outstanding principal amount in excess of \$100,000 as of the last day of the tax year and was issued after December 31, 2002.

Up to five separate outstanding tax-exempt liabilities can be reported on each Schedule K. Schedule K may be duplicated, if needed, to report more than five liabilities. If the organization is not required to file Form 990, it is not required to file Schedule K.

#### Period Covered

The filing organization may complete Schedule K (Form 990) with respect to any tax-exempt liability using the same period as the Form 990 with which it is filed. In the alternative, the filing organization may use any other 12-month period or periods selected by the organization and used consistently for an obligation for purposes of Schedule K and computations in accordance with the requirements under sections 141-150. Under this alternative, the organization may use a different 12-month period with respect to each liability or obligation reported on a Schedule K, provided such alternative 12-month periods are sufficiently described in Schedule O.

### Specific Instructions

#### Definitions

**Tax-exempt bond.** This is an obligation issued by or on behalf of a governmental issuer on which the interest paid is excluded from the holder's gross income under section 103. For this purpose, a bond can be in any form of indebtedness under federal tax law, including a bond, note, loan or lease-purchase agreement.

**Qualified 501(c)(3) bond.** This is a tax-exempt bond the proceeds of which are used by a 501(c)(3) organization in furtherance of its charitable purpose. Requirements generally applicable to a qualified 501(c)(3) bond under section 145 include: (1) all property financed by the bond issue is to be owned by a 501(c)(3) organization or a governmental unit; and (2) at least 95% of the net proceeds of the bond issue are used by either a governmental unit or a 501(c)(3) organization in activities which do not

constitute unrelated trade or businesses (determined by applying section 513). See section 145.

**Bond issue.** This is an issue of two or more bonds which are: (1) sold at substantially the same time; (2) sold pursuant to the same plan of financing; and (3) payable from the same source of funds. See Regulations section 1.150-1(c).

**Governmental issuer.** A State or local governmental unit which issues a tax-exempt bond.

**On behalf of issuer.** A corporation organized under the general nonprofit corporation law of a state whose obligations are considered obligations of a State or local governmental unit. See Rev. Proc. 82-26, 1982-1 C.B. 476, for a description of the circumstances under which the Service will ordinarily issue an advance ruling that the obligations of a nonprofit corporation were issued on behalf of a State or local governmental unit. See also: Rev. Rul. 63-20, 1963-1 C.B. 24; Rev. Rul. 59-41, 1959-1 C.B. 13; and Rev. Rul. 54-296, 1954-2 C.B. 59. An “on behalf of issuer” also includes a constituted authority organized by a State or local governmental unit specifically to issue tax-exempt bonds in order to further public purposes. See Rev. Rul. 57-187, 1957-1 C.B. 65.

**Gross Proceeds.** The term “gross proceeds” generally means any sale proceeds, investment proceeds, transferred proceeds, and replacement proceeds of an issue. See Regulations section 1.148-1(b),(c).

**Proceeds.** The term “proceeds” generally means the sale proceeds of an issue (other than those sale proceeds used to retire bonds of the issue that are not deposited in a reasonably required reserve or replacement fund). Proceeds also include any investment proceeds from investments that accrue during the project period (net of rebate amounts attributable to the project period). See Regulations section 1.141-1(b).

**Defeasance escrow.** A defeasance escrow is an irrevocable escrow established to redeem the bonds on their earliest call date in an amount that, together with investment earnings, is sufficient to pay all the principal of, and interest and call premiums on, bonds from the date the escrow is established to the earliest call date. See Regulations section 1.141-12(d)(5). A defeasance escrow may be established for several purposes, including the remediation of nonqualified bonds. However, for purposes of completing Schedule K, an escrow established with proceeds of a refunding issue to defease a prior issue is referred to as a *refunding issue*.

**Refunding escrow.** A refunding escrow means one or more funds established as part of a single transaction or a series of related transactions, containing proceeds of a refunding issue and any other amounts to provide for payment of principal or interest on one or more prior issues. See Regulations section 1.148-1(b).

**Refunding issue.** A refunding issue is an issue of obligations the proceeds of which are used to pay principal, interest, or redemption price on another issue (a prior issue), including the issuance costs, accrued interest, capitalized interest on the refunding issue, a reserve or replacement fund, or similar costs, if any, properly allocable to that refunding issue. A *current refunding issue* is a refunding issue that is issued not more than 90 days before the last expenditure of any proceeds of the refunding issue for the

payment of principal or interest on the prior issue. An *advance refunding issue* is a refunding issue that is not a current refunding issue. See Regulations sections 1.150-1(d)(1), (3), and (4).

**Private Business Use.** Private business use means use by your organization or another 501(c)(3) organization in an unrelated trade or business as defined by section 513. Private business use also generally includes any use by a nongovernmental person other than a 501(c)(3) organization unless otherwise permitted through an exception or safe harbor provided under the Regulations or a revenue procedure.

#### **Special Rules for Refundings of Pre-2003 Issues**

Bonds issued after December 31, 2002, to refund bonds issued before January 1, 2003, have special reporting requirements for this Schedule. Such refunding bonds are subject to the generally applicable reporting requirements of Parts I, II and IV of the Schedule. However, the organization need not complete Part III with respect to such refunding bonds or the bonds they refunded. These special rules do not apply to bonds issued after December 31, 2002, to refund bonds that were also issued after 2002.

**Example 1** (refunding of pre-2003 bonds). Bonds issued in 1998 were refunded in 2008. As of December 31, 2008, the last day of the organization's tax year, the refunding bonds had an outstanding principal amount exceeding \$100,000. For the organization's Schedule K completed for its 2008 tax year, it must list the refunding issue in Part I and report all required information in that Part, including the date of issue of the refunded bonds. The organization need not complete Parts II and IV with respect to the refunding bonds for 2008 because such Parts are optional for that reporting year. Beginning with the organization's 2009 tax year, the organization must list the refunding bond issue in Part I for each year the outstanding principal amount exceeds \$100,000 as of the last day of such year, and must provide all Part I, Part II and Part IV information regarding such refunding issue. Because the refunded bonds were issued prior to 2003, the organization need not complete Part III regarding the refunding bond issue or the refunded bonds in 2008 or in later tax years.

**Example 2** (refunding of post-2002 bonds). Bonds issued in 2003 were refunded in 2006. As of December 31, 2008, the last day of the organization's tax year, the refunding bonds had an outstanding principal amount exceeding \$100,000. For the organization's Schedule K completed for its 2008 tax year, it must list the refunding issue in Part I and report all required information in that Part, including the date of issue of the refunded bonds. The organization need not complete Parts II and IV with respect to the refunding bonds for 2008 because those Parts are optional for that reporting year. Beginning with the organization's 2009 tax year, the organization must list the refunding bonds in Part I for each year the outstanding principal amount exceeds \$100,000 as of the last day of such year, and must provide all Part I, Part II, Part III, and Part IV information regarding such refunding bonds.

#### **Part I Bond Issues (Required for 2008)**

In Part I, provide the requested information for each outstanding tax-exempt bond issue (including refunding bonds) which both had an outstanding principal amount in excess of \$100,000 as of the last day of the tax year or other selected 12-month period and was issued after December 31, 2002. Use one row for each issue, and use the Part I row designation for a particular issue (e.g., "A" or "B") consistently throughout Parts I through IV of Schedule K. The information provided in columns (a) through (e) should be

consistent with the corresponding information included on the Form 8038, *Information Return for Tax-Exempt Private Activity Bond Issues*, filed by the governmental issuer upon the issuance of the bond issue. Complete multiple Schedule Ks if necessary to account for all outstanding tax-exempt bond issues.

**Columns (a) and (b):** Provide the name and EIN of the issuer of the bond issue. The issuer's name is the name of the entity which issued the bond issue (typically a state or local governmental unit). The issuer's name and EIN should be identical to the name and EIN listed on the Form 8038, Part I, lines 1 and 2 filed with respect to the bond issue.

**Column (c):** Enter the CUSIP (Committee on Uniform Securities Identification Procedures) number on the bond with the latest maturity. The CUSIP number should be identical to the CUSIP number listed on the Form 8038, Part I, line 8 filed with respect to the bond issue. If the bond issue was not publicly offered and there is no assigned CUSIP number, then write "None."

**Column (d):** Enter the issue date of the obligation. The issue date should be identical to the issue date listed on the Form 8038, Part I, line 6 filed with respect to the bond issue. The issue date generally is the date on which the issuer receives the purchase price in exchange for delivery of the evidence of indebtedness (e.g., a bond). In no event is the issue date earlier than the first day on which interest begins to accrue on the bond for Federal income tax purposes. See Regulations section 1.150-1(b).

**Column (e):** Enter the issue price of the obligation. The issue price should generally be identical to the issue price listed on the Form 8038, Part III, line 21(b) filed with respect to the bond issue. The issue price is generally determined under Regulations section 1.148-1(b). If the issue price is not identical to the issue price listed on the filed Form 8038, use Schedule O to explain the difference.

**Column (f):** Describe the purpose of the bond issue, such as to construct a hospital or provide funds to refund a prior issue. If any of the bond proceeds were used to refund a prior issue, enter the date of issue for each of the refunded issues. If the issue has multiple purposes, state each purpose. If the issue financed various projects or activities corresponding to a related purpose, only state the purpose once. For example, if proceeds are used to acquire various items of office equipment, the amount of such expenditures should be aggregated and identified with the stated purpose of "office equipment." Alternatively, if proceeds are used to construct and equip a single facility, the expenditures should be aggregated and identified with the stated purpose of "construct & equip facility" where the identification of the facility is distinguishable from other bond-financed facilities, if any. Use Schedule O if additional space is needed for this purpose.

**Column (g):** Indicate whether a defeasance or refunding escrow has been established to irrevocably defease the bond issue.

**Column (h):** Answer "yes" if the organization acted as an "on behalf of issuer" in issuing the bond issue. Answer "no" if the organization only acted as the borrower of the bond proceeds pursuant to a conduit loan with the governmental unit issuing the bond issue.

## **Part II Proceeds (Optional for 2008)**

Complete for each bond issue listed in rows A through E of Part I.

**Line 1:** Enter the total amount of proceeds of the bond issue as of the end of the 12-month period used in completing this Schedule.

**Line 2:** Enter the amount of gross proceeds of the bond issue deposited into a reasonably required reserve or replacement fund, sinking fund, or pledged fund. See Regulations sections 1.148-1(c)(2), (3) and 1.148-2(f).

**Line 3:** Enter the amount of proceeds of the bond issue deposited into either a refunding or defeasance escrow. For this purpose, proceeds deposited into a refunding escrow are irrevocably pledged to refund a prior bond issue (the refunded issue). Unless the amount of proceeds of the bond issue used to currently or advance refund a prior issue exceeds the amount reported on Form 8038, Part IV, lines 27 and 28 filed with respect to the bond issue, the aggregate amount listed on those lines may be entered here. Also for this purpose, proceeds are typically used to fund the establishment of a defeasance escrow for the purpose of remediating nonqualified bonds.

**Line 4:** Enter the amount of unspent proceeds of the bond issue other than those amounts identified in Part II, lines 2 and 3.

**Line 5:** Enter the amount of proceeds of the bond issue used to pay bond issuance costs, including (but not limited to) underwriters' spread as well as fees for trustees and bond counsel. Issuance costs are costs incurred in connection with, and allocable to, the issuance of a bond issue. See Regulations section 1.150-1(b) for an example list of issuance costs.

**Line 6:** Enter the amount of proceeds of the bond issue used to finance working capital expenditures. A working capital expenditure is any cost that is not a capital expenditure (e.g., current operating expenses). See Regulations section 1.150-1(b).

**Line 7:** Enter the amount of proceeds of the bond issue used to finance capital expenditures. Capital expenditures include costs incurred to acquire, construct, or improve land, buildings, and equipment. See Regulations section 1.150-1(b).

**Line 8:** Provide the year in which construction, acquisition or rehabilitation of the financed project was substantially completed. A project may be treated as substantially completed when, based upon all the facts and circumstances, the project has reached a degree of completion which would permit its operation at substantially its design level and it is, in fact, in operation at such level. See Regulations section 1.150-2(c). If the bond issue financed multiple projects, provide the latest year in which construction, acquisition or rehabilitation of each of the financed projects was substantially completed. For example, if a bond issue financed the construction of three projects which were substantially completed in 2003, 2004 and 2005, respectively, then enter "2005." If the bond issue financed working capital expenditures, provide the latest year in which the proceeds of the issue were allocated to those expenditures.

**Line 9:** Indicate whether the bond issue is a current refunding issue.

**Line 10:** Indicate whether the bond issue is an advance refunding issue.

**Line 11:** Indicate whether the final allocation of proceeds of the bond issue has been made. Proceeds of a bond issue must be accounted for using any reasonable, consistently applied accounting method. See Treasury Regulation section 1.148-6.

**Line 12:** Indicate whether the organization maintains adequate books and records to support the final allocation of proceeds. Answer this question only with respect to the tax year applicable to this Schedule.

**Part III Private Business Use (Optional for 2008)**

Complete for each bond issue listed in rows A through E of Part I that is not a post-December 31, 2002, bond issue consisting of refunding bonds which refund a pre-January 1, 2003, issue. A refunding bond issue for this purpose also includes allocations and treatment of bonds of a multipurpose issue as a separate refunding issue under Regulation section 1.141-13(d).

**Line 1:** Indicate whether the organization was at any time during the year a partner in a partnership or a member of a limited liability company which both owned property that was financed by the bond issue and included as partner(s) or member(s) entities other than a 501(c)(3) organization.

**Line 2:** Indicate whether there are any lease arrangements with respect to the property financed by the bond issue which may result in private business use. The lease of financed property to a nongovernmental person other than a 501(c)(3) organization is generally private business use. See Regulations section 1.141-3(b)(3).

**Line 3a:** Indicate whether any management or service contract which may result in private business use was effective at any time during the year with respect to property financed by the bond issue. For this purpose, answer "Yes," even if the organization has determined that the management or service contract meets the safe harbor available under Rev. Proc. 97-13, 1997-1 C.B. 632, and will not result in actual private business use. A management or service contract with respect to financed property may result in private business use of the property, based on all of the facts and circumstances. A management or service contract with respect to financed property generally results in private business use of that property if the contract provides for compensation for services rendered with compensation based, in whole or in part, on a share of net profits from the operation of the facility. See Regulations section 1.141-3(b)(4).

**Line 3b:** Indicate whether any research agreement which may result in private business use was effective at any time during the year with respect to property financed by the bond issue. For this purpose, answer "Yes," even if the organization has determined that the research agreement meets the safe harbor available under Rev. Proc. 2007-47, 2007-29 I.R.B. 108, and will not result in actual private business use. An agreement by a nongovernmental person to sponsor research performed by the organization may result in private business use of the property used for the research, based on all the facts and circumstances. A research agreement with respect to financed property will generally result in private business use of that property if the sponsor is treated as the lessee or owner of financed property for federal income tax purposes. See Regulations section 1.141-3(b)(6).

**Line 3c:** Indicate whether the organization routinely engages bond counsel or other outside counsel to review any management or service contracts or research agreements relating to the financed property. If there are no such agreements, enter "None." Answer this question only with respect to the tax year applicable to this Schedule.

**Line 4:** Report the average percentage during the year of the property financed by the bond issue that was used in a private business use by a nongovernmental person other than a 501(c)(3) organization. Report the yearly average percentage to the nearest tenth of a percentage point (for example, 8.9%). For this purpose, do not include as private business use any use relating to either a management or service contract identified in line 3a which the organization has determined meets the safe harbor under Rev. Proc. 97-13 or a research agreement identified in line 3b which the organization has determined meets the safe harbor under Rev. Proc. 2007-47.

**Line 5:** Report the average percentage during the year of the property financed by the bond issue that was used in an unrelated trade or business activity (a private business use) by your organization, another 501(c)(3) organization, or a state or local government. Report the yearly average percentage to the nearest tenth of a percentage point (for example 8.9%). For this purpose, do not include as private business use any use relating to either a management or service contract identified in line 3a which the organization has determined meets the safe harbor under Rev. Proc. 97-13 or a research agreement identified in line 3b which the organization has determined meets the safe harbor under Rev. Proc. 2007-47.

**Line 7:** Indicate whether the organization has adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities. Answer this question only with respect to the tax year applicable to this Schedule.

#### **Part IV Arbitrage (Optional for 2008)**

Complete for each bond issue listed in rows A through E of Part I.

**Line 1:** Indicate whether a Form 8038-T, *Arbitrage Rebate, Yield Restriction and Penalty in Lieu of Arbitrage Rebate*, has been filed with respect to the bond issue.

**Line 2:** Indicate whether the bond issue is a variable rate issue. A variable rate issue is an issue that contains a bond that has a yield that is not fixed and determinable on the issue date.

**Lines 3a, 3b and 3c:** In general, payments made or received by a governmental issuer or borrower of bond proceeds under a qualified hedge are taken into account to determine the yield on the bond issue. A hedge may be entered into before, at the same time as, or after the date of issue. See Regulations section 1.148-4(h). Indicate whether the organization or the governmental issuer has entered into a qualified hedge and identified it on the entity's books and records. If the answer to line 3a is "yes," enter the name of the provider of the hedge and the term of the hedge to the nearest tenth of a year (for example, 2.4 years) on lines 3b and 3c.

**Lines 4a-4d:** Indicate whether any gross proceeds of the bond issue were invested in a guaranteed investment contract ("GIC"). A GIC includes any nonpurpose investment that has specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate, and also includes any agreement to supply investments on two

or more dates (for example, a forward supply contract). If the answer in line 4a is "yes," enter the name of the provider of the GIC on line 4b, the term of the GIC to the nearest tenth of a year on line 4c, and indicate whether the regulatory safe harbor for establishing fair market value provided in Regulations section 1.148-5(d)(6)(iii) was satisfied on line 4d.

**Line 5:** Indicate if any gross proceeds were invested beyond a temporary period. For example, the 3-year temporary period applicable to proceeds spent on expenditures for capital projects or the 13-month temporary period applicable to proceeds spent on working capital expenditures. See Treasury Regulations section 1.148-2(e).

**Line 6:** Indicate if the bond issue qualified for an exception to rebate set forth in Regulations sections 1.148-7 or 1.148-8. For example, the 2-year spending exception described under section 1.148-7(e).

DRAFT

**New schedule with complex instructions. Sensitive area. Do not guess at meanings.**

**2008 Schedule L (Form 990 or 990-EZ) Instructions  
Transactions with Interested Persons**

Section references are to the Internal Revenue Code unless otherwise noted.

**General Instructions**

**Purpose of Schedule**

Schedule L (Form 990 or 990-EZ) is used by an organization that files Form 990 or Form 990-EZ to provide information on certain financial transactions or arrangements between the organization and disqualified persons under section 4958 or other interested persons. Schedule L is also used to determine whether a member of the organization's **governing body** is an independent member for purposes of Form 990, Part VI, line 1b.

**Who Must File**

The following chart sets forth which organizations must complete all or a part of Schedule L and attach Schedule L to Form 990 or Form 990-EZ.

Type of filer:	Answering "Yes" to:	Must file:
501(c)(3) or (4) organization	Form 990, Part IV, line 25a or 25b (regarding <b>excess benefit transactions</b> )	Schedule L, Part I
501(c)(3) or (4) organization	Form 990-EZ, Part V, line 40b (regarding excess benefit transactions)	Schedule L, Part I
All organizations	Form 990, Part IV, line 26 (regarding loans)	Schedule L, Part II
All organizations	Form 990-EZ, Part V, line 38a (regarding loans)	Schedule L, Part II
All organizations	Form 990, Part IV, line 27 (regarding grants)	Schedule L, Part III
All organizations	Form 990, Part IV, line 28a, 28b, or 28c (regarding business transactions)	Schedule L, Part IV

Because only (c)(3) public charities and (c)(4) organizations are covered by "excess benefit transaction" rules (IRC 4958).

**Supplemental information.** Use Schedule O if the organization needs additional space to explain a transaction or to provide the detailed information required by Schedule L.

**Specific Instructions**

For Parts I, II and III, report all transactions regardless of amount. Part IV instructions provide individual and aggregate reporting thresholds below which reporting is not required with respect to an interested person. Parts III and IV contain separate **reasonable effort** instructions which organizations may rely on to satisfy reporting requirements for those Parts.

annoyingly enough,

There is a separate definition of interested person for each Part of the Schedule, so a person who is an interested person for one Part may not be an interested person for other Parts of the Schedule. Each reportable transaction is to be reported in only one Part of Schedule L, as described below.

As before, biggest risk for most earnest community-based organizations is in area of "automatic" excess benefit transactions - compensatory reasoning that wasn't reported as such. "Aw we don't pay her enough let's just get her a nice laptop." So subtle it's almost better not to know. Two choices: ignore the past and do it right in the future, or face it, get ahead of it and make the correction and then report. The rules are actually written so that if the correction is complete and good faith, they'll likely abate all penalties, especially for small potatoes automatic.

### **Part I Excess Benefit Transactions**

The big action so far...the Caracci case, the IRS

(To be completed by section 501(c)(3) and (c)(4) organizations.) didn't do very well, although in their compensation

\*\* If you think the answer is "yes, then get specialized legal advice before filing." study they said they assessed big 4958 excise taxes.

**Line 1.** For each **excess benefit transaction** involving an organization described in section 501(c)(3) or 501(c)(4), regardless of amount:

- Identify the **disqualified person(s)** that received an excess benefit in the transaction;
- Identify the organization manager(s), if any, that participated in the transaction, knowing that it was an **excess benefit transaction**;
- Describe the transaction; and
- State whether the transaction has been corrected.

**Excess benefit transaction.** An **excess benefit transaction** is a transaction in which an **applicable tax-exempt organization** directly or indirectly provides to or for the use of a disqualified person an economic benefit the value of which exceeds the value of the consideration received by the organization for providing such benefit. Applicable tax-exempt organizations are generally limited to organizations which (without regard to any excess benefit) are 501(c)(3) public charities or 501(c)(4) organizations, or organizations that had such status at any time during the 5-year period ending on the date of the excess benefit transaction.

Section 501(c)(3) and 501(c)(4) organizations should refer to the instructions for Form 990 Part IV, line 25 (or Form 990-EZ Part V, line 40b) before completing Schedule L, Part I. For more information on excess benefit transactions and section 4958, see Appendix G and Publication 557.

**Line 2.** Enter the amount of taxes imposed under section 4958 on organization managers and/or disqualified persons, whether or not assessed by the IRS, unless abated. Form 4720 must be filed to report and pay the tax on excess benefit transactions.

### **Part II Loans to and from Interested Persons**

Report details on loans, including salary advances and other advances and receivables (referred to collectively as "loans"), as described in Form 990, Part IV, line 26 or Form 990-EZ, Part V, line 38a. Report only loans between the organization and interested persons that are outstanding as of the end of the organization's **tax year**. Report each loan separately and regardless of amount.

In addition to loans originally made between the organization and an interested person, report also loans originally between the organization and a third party or between an interested person and a third party that were transferred so as to become a debt outstanding between the organization and an interested person.

**Interested persons.** For Form 990 filers, interested persons for purposes of Part II are as follows:

- Current or former **officers, directors, trustees, key employees**, and five **highest compensated employees** listed in Form 990 Part VII, Section A are interested persons for all organizations.
- For organizations described in section 501(c)(3) or (4), **disqualified persons** as described in section 4958(f)(1) are also interested persons.

- For organizations described in section 509(a)(3), disqualified persons as described in section 4958(c)(3)(B) are also interested persons.

For Form 990-EZ filers, interested persons for purposes of Part II are current officers, directors, trustees, and key employees listed in Form 990-EZ, Part IV.

**Exceptions.** Do not report the following in Part II:

- **excess benefit transactions** reported in Schedule L, Part I
- **advances under an accountable plan** as described in the Schedule J, Part II instructions *e.g. a completely routine travel advance that happens to straddle the reporting year*
- **pledges receivable** that would qualify as charitable contributions when paid
- **accrued but unpaid compensation owed by the organization**
- loans from a credit union made to an interested person on the same terms as offered to other members of the credit union
- receivables outstanding that were created in the ordinary course of the organization's business on the same terms as offered to the public (such as receivables for medical services provided by a **hospital** to an officer of the hospital)

**Column (a).** Identify the interested person that was the debtor or creditor on the loan. Also, state the organization's purpose for engaging in the transaction (e.g., "compensation package").

**Column (b).** Check either "to" or "from," whichever is applicable.

**Column (c).** State the original dollar amount owed (the loan principal).

**Column (d).** State the balance due as of the end of the organization's **tax year**, including outstanding principal, accrued interest, and any applicable penalties and collection costs. For Form 990 filers, the sum total indicated in column (d) must equal the total of Form 990, Part X (Balance Sheet), lines 5 and 6, column (B) (for amounts owed to the organization), and line 22, column (B) (for amounts owed by the organization).

**Column (e).** Answer "Yes" if any payment by the debtor was past due as of the end of the organization's **tax year**, or if the debtor otherwise is in default under the terms and conditions of the loan.

**Column (f).** State whether the organization's governing body (or a committee of the governing body) approved the loan transaction. *Too often, when a generous CEO makes a zero interest loan for cash flow, because there's no interest, there's no board approval or note. This will look bad*

**Column (g).** State whether the loan is evidenced by a promissory note or other written agreement signed by the debtor. *on these questions (rightfully).*

### **Part III Grants or Assistance Benefiting Interested Persons**

Report each grant or other assistance (including provision of goods, services, or use of facilities), regardless of amount, provided by the organization to any interested person at any time during the organization's **tax year**. Examples of grants are scholarships, fellowships, internships, prizes, and awards. A grant includes the gift portion of a part-sale, part-gift transaction.

**TIP:** See the **reasonable effort** instruction, below, applicable to Part III.

**Interested person.** For purposes of Part III, an “interested person” means a current or former officer, director, trustee, or key employee listed in Form 990, Part VII, Section A; a substantial contributor; or a related person.

For purposes of Schedule L, Part III, a “substantial contributor” is a person that contributed during the organization’s **tax year** at least \$5,000 and is required to be reported by name in Schedule B, Schedule of Contributors, for the organization’s tax year. Thus, organizations not required to file Schedule B are not required to report transactions with substantial contributors and their related persons in Schedule L, Part III.

A “related person,” in turn, means:

- a member of the organization’s grant selection committee,
- a **family member** of any of the organization’s current or former **officers, directors, trustees, or key employees** listed in Form 990, Part VII, Section A, of substantial contributors, or of members of the organization’s grant selection committee,
- a 35% controlled entity (as defined in section 4958(f)(3)) of any of the organization’s current or former officers, directors, trustees, or key employees listed in Form 990, Part VII, Section A; of a substantial contributor; or of a member of the organization’s selection committee, or
- an **employee** (or child of an employee) of a substantial contributor or of a 35% controlled entity of a substantial contributor, but only if the employee (or child of an employee) received the grant or assistance by the direction or advice of the substantial contributor or 35% controlled entity, or pursuant to a program funded by the substantial contributor that was intended primarily to benefit such employees (or their children).

**Exceptions.** Do not report the following in Part III:

- **excess benefit transactions** reported in Schedule L, Part I
- loans reported (or not required to be reported) in Schedule L, Part II
- business transactions that do not contain any gift element and that are engaged in to serve the direct and immediate needs of the organization, such as payment of **compensation** (including taxable and nontaxable fringe benefits treated as compensation) to an **employee** or consultant in exchange for services of comparable value. Some such transactions may be reportable in Schedule L, Part IV.
- compensation to a person listed in Form 990, Part VII, Section A (including taxable and nontaxable fringe benefits treated as compensation)
- grants to employees (and their children) of a substantial contributor or 35% controlled entity of a substantial contributor, awarded on an objective and nondiscriminatory basis based on pre-established criteria and review by a selection committee, as described in Regulations section 53.4945-4(b).
- grants or assistance provided to an interested person as a member of the charitable class or other class (such as a member of a section 501(c)(5), (c)(6), or (c)(7) organization) that the organization intends to benefit in furtherance of its exempt purpose, if provided on similar terms as provided to other members of the class, such as short-term disaster relief or trauma counseling. However, grants for travel, study, or other similar purposes (such as to achieve a specific objective, produce a report or other similar product, or improve or enhance a literary, artistic, musical, scientific, teaching, or other similar capacity, skill, or talent of the grantee) like those described in section 4945(d)(3) are not excluded from reporting under this exception.

**Column (a).** Enter the name of the interested person that benefited from the grant or assistance. If the person has status as an interested person only because the person is a substantial contributor, a **family member** of a substantial contributor, a 35% controlled entity of a substantial contributor, or an **employee** of a substantial contributor or 35% controlled entity of a substantial contributor, then enter the term “substantial contributor” or “related to substantial contributor” (as the case may be) instead of the interested person’s name, in order to protect the confidentiality of the substantial contributor.

**Column (b).** Describe the relationship between the interested person that benefited from the grant or assistance and the organization, such as “spouse of Director John Smith.” If “substantial contributor” was entered in column (a), enter “substantial contributor” here as well. If “related to substantial contributor” was entered in column (a), then describe the relationship without referring to specific names, for example: “child of employee of 35% controlled entity of substantial contributor.”

If an interested person has interested person status other than by being a substantial contributor or related to a substantial contributor, then make no reference to the substantial contributor status. For example, if grantee Jane Smith is both a substantial contributor and the spouse of Director John Smith, then she must be listed by name in column (a), and column (b) must state “spouse of Director John Smith” or words to similar effect. [Presumably to preserve donor anonymity.](#)

**Column (c).** State the total dollar amount of grants provided to the interested person during the organization’s **tax year**. Also describe the type of assistance and estimate its value.

**Reasonable effort.** The organization is not required to provide information about a grant or assistance to an interested person if it is unable to secure the information regarding interested person status after making a **reasonable effort** to obtain it. An example of a reasonable effort for Part III is for the organization to distribute a questionnaire annually to each current or former **officer, director, trustee, and key employee** listed in Form 990, Part VII, Section A, and each member of a grant selection committee that includes the name, title, date, and signature of each person reporting information and contains the pertinent instructions and definitions for Schedule L, Part III. The organization is not expected to distribute such a questionnaire to a substantial contributor or a related person to a substantial contributor, except (1) where the substantial contributor or such related person advises the organization as to the specific recipients of grants or assistance, or (2) with respect to programs of the organization intended primarily to benefit **employees** (or their children) of the substantial contributor or their 35% controlled entities.

Example. A substantial contributor to the organization states that he would like Mr. X and Ms. Y to be beneficiaries of a grant. The organization inquires of the substantial contributor whether Mr. X or Ms. Y are interested persons with respect to the organization because of a family or business relationship they have with the substantial contributor (using the pertinent instructions and definitions), and the substantial contributor replies in writing that they are not. Whether they actually are interested persons or not, the organization has made a reasonable effort in this situation.

#### **Part IV Business Transactions Involving Interested Persons**

Report in Part IV business transactions for which payments were made during the organization’s **tax year** between the organization and an interested person, if such payments **exceeded the reporting thresholds** described below, and regardless of when the transaction was entered into by the parties. In general, an organization must report in Part IV with respect to an interested person if: (1) all payments during the year between the organization and the

[This is a brief summary....two pages down there are two pages just on thresholds, along with 7 examples. ~:-{](#)

interested person exceeded \$100,000; (2) all payments during the year from a single transaction between such parties exceeded the greater of \$10,000 or 1% of the filing organization's total revenues; or (3) **compensation** payments by the organization paid to a **family member** of certain persons exceeded \$10,000.

See the **reasonable effort** instruction, below, applicable to Part IV. Special rules permit individual or aggregate transaction reporting.

**Business transactions.** Business transactions include but are not limited to contracts of sale, lease, license, and performance of services, whether initiated during the organization's **tax year** or ongoing from a prior year. Business transactions also include **joint ventures**, whether new or ongoing, in which either the profits or capital interest of the organization and of the interested person each exceeds 10%. The organization's charging of membership dues to its **officers, directors**, etc. are not considered business transactions for purposes of Part IV.

**Interested persons.** An interested person **for purposes of Schedule L, Part IV** is a current or former **officer, director, trustee, or key employee** listed in Form 990, Part VII, Section A, or any of the following:

- A **family member** of a current or former officer, director, trustee, or key employee listed in Form 990, Part VII, Section A
- An entity more than 35% owned, directly or indirectly, individually or collectively, by (1) one or more current or former officers, directors, trustees, or key employees listed in Form 990, Part VII, Section A, and/or (2) their family members
- An entity (other than a tax-exempt organization under section 501(c)) of which a current or former officer, director, trustee, or key employee listed in Form 990, Part VII, Section A was serving at the time of the transaction as (1) an officer, (2) a director, (3) a trustee, (4) a key employee, (5) a partner or member with an ownership interest in excess of 5% if the entity is treated as a partnership, or (6) a shareholder with an ownership interest in excess of 5% if the entity is a professional corporation

**Certain management company transactions with former officers, etc.** A business transaction reportable in Schedule L, Part IV also includes a transaction between the organization and a **management company** of which a former **officer, director, trustee, or key employee** of the organization (within the last five **tax years**, whether or not listed in Form 990, Part VII, Section A) is a direct or indirect 35% owner, or an officer, director, trustee, or key employee.

**Ownership.** Ownership is measured by stock ownership (voting power or value, whichever greater) of a corporation, profits or capital interest (whichever greater) in a partnership or limited liability company, beneficial interest in a trust, or control of a nonprofit organization. Ownership includes indirect ownership (e.g., ownership in an entity that has ownership in the entity doing business with the organization); there may be ownership through multiple tiers of entities. The constructive ownership rules of section 267(c) apply for this purpose.

**Reporting thresholds.** In reporting transactions in Part IV, the organization is not required to report transactions with an individual or organization for a dollar amount that did not exceed the greater of \$10,000 or 1% of the organization's total revenue for the organization's **tax year** (the amount reported in Form 990, Part VIII, line 12, column (A)), except in either of the following cases:

- (1) total payments for all transactions between the parties during the organization's tax year exceeded \$100,000 (in such case, report all transactions between the parties regardless of the individual amounts of such individual transactions)
- (2) the transaction was the organization's payment of **compensation** to a **family member** of a current **officer, director, trustee, or key employee** of the organization (in such case, payment of **reportable compensation** must be reported if in excess of \$10,000 for the organization's tax year).

Aggregate all payments during the tax year between the parties under the same contract or transaction. For instance, if a director of the organization is a greater than 5% partner of a law firm (or greater than 5% shareholder if the law firm is a professional corporation) and the organization pays the law firm an amount of more than 1% of the organization's total revenue during the organization's tax year under a contract for a particular case or legal matter (if the amount exceeds \$10,000), treat all payments under such arrangement as a single reportable business transaction.

**Aggregate reporting.** The organization may aggregate multiple individual transactions between the same parties, or list them separately. If aggregation is chosen, report the aggregate amount in column (c) and describe the various types of transactions (e.g., "consulting," "rental of real property") in column (d).

**Exceptions.** Do not report the following in Part IV:

- **excess benefit transactions** reported in Schedule L, Part I;
- loans reported (or not required to be reported) in Schedule L, Part II;
- grants and other assistance reported (or not required to be reported) in Schedule L, Part III (however, this exception does not apply to transactions covered by the business transaction exception described in Part III instructions, above; such transactions may need to be reported in Part IV); or
- **compensation** reported in Form 990, Part VII, Section A.

**Examples:**

Example (1). T, a family member of an officer of the organization, serves as an employee of the organization and receives during the organization's tax year compensation of \$15,000, which is not more than 1% of the organization's total revenue. The organization is required to report T's compensation as a business transaction in Schedule L, Part IV because T's compensation to a family member of an officer exceeds \$10,000, unless T's compensation were already reported in Form 990, Part VII.

Example (2). X, the child of a current director listed in Form 990, Part VII, Section A, is a first-year associate at a law partnership that the organization pays \$150,000 during the organization's tax year. Given that X has no ownership interest in the law firm and is not an officer, director, trustee, or key employee of the firm, the organization is not required to report this business transaction in spite of X's employment relationship to the law firm.

Example (3). Same facts as in Example (2), except that X is a partner of the law firm and has an ownership interest in the law firm of 5.25% of the profits. The organization must report the business transaction due to X's greater than 5% ownership interest in the law firm and the dollar amount in excess of the \$100,000 aggregate threshold.

Example (4). Same facts as in Example (3), except that the law firm entered into the transaction with the organization before X's parent became a director of the organization. The organization must report all payments made during its tax year to the law firm for the transaction.

Example (5). Same facts as in Example (3), except that X is the child of a former director listed in Form 990, Part VII, Section A. The organization is required to report the business transaction, as family members of former directors listed in Part VII are interested persons.

Example (6). Same facts as in Example (3), except that the organization pays \$75,000 in total during the organization's tax year for 15 separate transactions to collect debts owed to the organization. None of the transactions involves payments to the law partnership in excess of \$10,000. The organization is not required in this instance to report the business transaction, because the dollar amounts do not exceed either the \$10,000 transaction threshold or the \$100,000 aggregate threshold.

Example (7). Same facts as in Example (6), except that the organization pays \$105,000 instead of \$75,000. Because the aggregate payments for the business transactions exceed \$100,000, the organization must report all the business transactions. The organization may report the transactions on an aggregate basis or list them separately.

**Column (a).** Enter the name of the interested person involved in the direct or indirect business relationship with the organization.

**Column (b).** State the relationship between the interested person and the organization, such as, for example:

- **key employee** of the organization
- **family member** of Freda Jones, former director
- entity more than 35% owned by (1) Freda Jones, former director, and (2) Lisa Lee, President
- partnership more than 5% owned by Freda Jones, former director

**Column (c).** The dollar amount of the transaction is the cash and/or fair market value of other assets and services provided by the organization during the **tax year**, net of reimbursement of expenses.

**Column (d).** Describe the transaction(s) by type, such as employment or **independent contractor** arrangement, rental of property, or sale of assets.

**Column (e).** State "Yes" if all or part of the consideration paid by the organization is based on a percentage of revenues of the organization. For instance, state "Yes" if a management fee is based on a percentage of revenues, or a legal fee owed to outside attorneys by a public interest law firm is a percentage of the amount collected.

**Reasonable effort.** The organization is not required to provide information about a business transaction with an interested person if it is unable to secure the information regarding interested person status after making a **reasonable effort** to obtain it. An example of a reasonable effort for Part IV is for the organization to distribute a questionnaire annually to each current or former **officer, director, trustee, and key employee** listed in Form 990, Part VII, Section A that includes the name, title, date, and signature of each person reporting information and contains the pertinent instructions and definitions for Schedule L, Part III. The organization

is not required to distribute such a questionnaire to organizations or individuals with which it does business , but who are not current or former officers, directors, trustees, or key employees of the organization, in order to have made a reasonable effort for this purpose.

DRAFT

biggest concern is with donor over-valuation of difficult-to-value items, as well as with charities accepting gifts as favors to donors when they have no need or business with the difficult-to-value (and sell) item

## 2008 Schedule M (Form 990) Instructions Non-Cash Contributions

Section references are to the Internal Revenue Code unless otherwise noted.

### General Instructions

#### Purpose of Schedule

Schedule M (Form 990) is used by an organization that files Form 990 to report the types of **non-cash contributions** received during the year by the organization and provide reporting of certain information regarding such contributions. The Schedule requires reporting of the quantity and reported financial statement amount of non-cash contributions received by type of property. Report non-cash donated items even if sold immediately after received. Do not report non-cash contributions received by the organization in a prior year, or donations of services or the use of facilities.

Given that IRS wants to know this now, it's going to lead to more complex (and proper) auction accounting than in the past.

#### Who Must File

Any organization that answered "Yes" to Form 990, Part IV, *Checklist of Required Schedules*, lines 29 or 30, must complete Schedule M and attach Schedule M to Form 990. This means an organization that reported more than \$25,000 of aggregate **non-cash contributions** on Form 990, Part VIII, *Statement of Revenue*, line 1g, or that during the year received contributions of **works of art, historical treasures**, or other similar assets, or **qualified conservation contributions**, regardless of whether it reported any revenues for such contributions in Part VIII.

If an organization is not required to file Form 990, it is not required to file Schedule M.  
no 990-EZ filers: good for first year

### Specific Instructions

#### Part I Types of Property

**Column (a).** Check the box in column (a) if the organization received during the year any contributions of the property type identified.

**Column (b).** In column (b) for each type of property received during the year enter the number of contributions or the number of items contributed, determined in accordance with the organization's recordkeeping practices. Explain in Part II of this Schedule whether the organization is reporting the number of contributions or the number of items received, or a combination of both methods. As described below, for each **security**, such as publicly traded stock, treat each separate gift (rather than each share received) as an item for this purpose.

Organizations that receive contributions of books and publications, clothing and household goods are not required to complete column (b) for those items reported on lines 4 and 5. e.g. thrift store operators

**Columns (c) and (d).** In column (c), enter the revenues reported on Form 990, Part VIII, line 1g, for the appropriate property type. If none were reported, enter "0." In column (d) describe the method the organization used to determine the amount reported in Part VIII,

GAAP governs when recorded / reported except there are in-kind gifts reportable for GAAP and not for tax (certain services and facilities)

line 1g. (e.g., cost or selling price of the donated property, sale of comparable properties, replacement cost, opinions of experts, etc.). See Publication 561, Determining the Value of Donated Property, for more information.

**Example 1:**

A used car in poor condition is donated to a local high school for use by students studying car repair. A used car guide shows the dealer retail value for this type of car in poor condition is \$1,600. However, the guide shows the price for a private party sale of the car is only \$750. The fair market value of the car is considered to be \$750, which is the amount the organization reported in Form 990, Part VIII, line 1g. In column (c), the organization should report \$750. In column (d) the organization should enter "sale of comparable properties and/or opinion of expert" as the method used to determine fair market value.

**Example 2:**

An organization primarily receives bulk donations of clothing, household goods and other similar items, intended for resale. Under its permitted financial reporting practices, it does not recognize or record revenue at the time of receipt of the contribution, but instead records such items in inventory and reports contribution revenues at the time of sale based on prior inventory turnover experience. In column (c) the organization may report the amount that represents the total estimated amount of annual sales revenue for each type of property received under its permitted financial reporting method, and in column (d) report "resale value or annual sales revenue" as the method of determining revenue.

Museums and other organizations that do not report contributions of **works of art**, **historical treasures**, and other similar items as revenues, as permitted under generally accepted accounting principles should enter "0" in column (c) and should leave column (d) blank. The organization may explain in Part II that a zero amount was reported in Form 990, Part VIII, *Statement of Revenue*, line 1g, because the museum did not capitalize its collections, as allowed under **SFAS 116**.

An organization that receives **qualified conservation contributions** may report column (c) revenue consistent with a permitted method it uses for financial reporting purposes.

*This is one case where the donor's deduction is much higher than the value - easement represents decline of value - often carried for \$1 on charity's balance sheet in order not to lose track.*

**Lines 1-3. Art**

**Line 1. Works of art** include paintings, sculptures, prints, drawings, ceramics, antiques, decorative arts, textiles, carpets, silver, photography, film, video, installation and multimedia arts, rare books and manuscripts, historical memorabilia and other similar objects. Art does not include collectibles which are reported on line 18.

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

**Line 3.** A contribution of a fractional interest in art is a contribution, not in trust, of an undivided portion of a donor's entire interest in a work of art. A contribution of the donor's entire interest must consist of a part of each and every substantial interest or right the donor owns in such work of art and must extend over the entire term of the donor's interest in the property. A gift generally is treated as a gift of an undivided portion

of a donor's entire interest in property if the donee is given the right, as a tenant in common with the donor, to possession, dominion, and control of the property for a portion of each year appropriate to its interest in such property. For each work of art or item, report in column (b) the fractional interest for each year an interest is received with respect to the underlying work of art or item. See section 170(o) for special rules for fractional gifts.

**Line 4.** Enter information about contributions of all books and publications. Do not include rare books and manuscripts reported on line 1, collectibles that are reported on line 18, and archival records that are reported on lines 25-28.

**Line 5.** Enter information about clothing items and **household goods** which were in good used condition or better.. Clothing items and household goods which were not in good used condition or better are to be reported as a separate type in "other" beginning with line 25.

**Lines 6 and 7.** On line 6 include only contributions of motor vehicles manufactured primarily for use on public streets, roads, and highways. Do not include in lines 6 or 7 contributions of the donor's stock in trade or property held by the donor primarily for sale to consumers in the ordinary course of a trade or business. The organization is required to file Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes, with the donor and the IRS for certain of such contributions reported on these lines. See Form 990 Part V, line 7h.

**Line 8.** "Intellectual property" is any patent, copyright (other than a copyright described in section 1221(a)(3) or 1231(b)(1)(C)), trademark, trade name, trade secret, know-how, software (other than software described in section 197(e)(3)(A)(i)), or similar property.

Certain contributions of intellectual property may require the organization to file a Form 8899, Notification of Income from Donated Intellectual Property, with the donor and the IRS with respect to such contribution. See Form 990 Part V, line 7g.

**Line 9. Publicly traded securities** means **securities** for which (as of the date of the contribution) market quotations are readily available on an established securities market. For each security, treat each separate gift (rather than each share received) as a contribution for this purpose. Include on this line interests in publicly traded partnerships, limited liability companies or trusts, as well as in publicly traded corporations.

**Line 10.** "Closely held stock" means shares of stock issued by a corporation that is not publicly traded. For each **security**, treat each separate gift (rather than each share received) as a contribution for this purpose.

**Line 11.** On this line enter information about contributions of interests in a partnership, limited liability company, or trust, which is not publicly traded. For each **security**, treat each separate gift (rather than each share received) as an item for this purpose.

**Line 12.** On this line enter information about contributions of **securities** that are not publicly traded securities, closely held stock, or partnership, limited liability company, or trust interests, reported on lines 9-11. For each security, treat each separate gift (rather than each share received) as a contribution for this purpose.

**Lines 13-14.** A **qualified conservation contribution** is a contribution of a qualified real property interest exclusively for conservation purposes. A “qualified real property interest” means any of the following interests in real property:

1. The entire interest of the donor,
2. A remainder interest,
3. A restriction (e.g., an easement), granted in perpetuity, on the use which may be made of the real property.

A “conservation purpose” means:

1. The preservation of land areas for outdoor recreation by, or the education of, the general public,
2. The protection of a relatively natural habitat of fish, wildlife, plants, or similar ecosystems,
3. The preservation of open space (including farmland and forest land) where such preservation is for the scenic enjoyment of the general public or is in accordance with governmental conservation policy, or
4. The preservation of an historically important land area or a certified historic structure.

See section 170(h) for additional information, including special rules with respect to the conservation purpose requirement for buildings in registered historic districts.

**Line 13.** On this line enter information about contributions of a qualified real property interest that is a restriction with respect to the exterior of a **certified historic structure**. A certified historic structure is any building or structure listed in the National Register as well as any building certified as being of historic significance to a registered historic district. See section 170(h)(4)(B) for special rules that apply to contributions made after August 17, 2006.

**Line 14.** On this line enter information about **qualified conservation contributions** other than those entered on line 13. This includes **conservation easements** to preserve land areas for outdoor recreation by or for the education of the general public, to protect a relatively natural habitat or ecosystem, to preserve open space, or to preserve an historically important land area.

**Line 15.** On this line enter information about contributions of residential real estate. Include information about contributions (not in trust) of a remainder interest in a personal residence which was not the donor’s entire interest in the property. The term “personal residence” includes any property used by the donor as a personal residence but is not limited to the donor’s principal residence. The term “personal residence” also includes stock owned by the donor as a tenant-stockholder in a cooperative housing corporation if the dwelling the donor is entitled to occupy as a tenant-stockholder is used by the donor as a personal residence.

**Line 16.** On this line enter information about contributions of commercial real estate, such as a commercial office building. Include information about contributions (not in trust) of a remainder interest in a farm which was not the donor’s entire interest in the property. The term farm refers to land used for the production of crops, fruits, or other

agricultural products or for the maintenance of livestock. A farm includes the improvements located on the farm property.

**Line 17.** On this line enter information about real estate interests not reported on lines 15 or 16.

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

**Line 19.** On this line enter information about food items, including food inventory contributed by corporations and other businesses.

[food banks will need to develop a method, probably using USDA rules \(instructions are silent\)](#)

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

**Line 21.** For purposes of this schedule, **“taxidermy property”** means any work of art that is the reproduction or preservation of an animal, in whole or in part; is prepared, stuffed, or mounted to recreate one or more characteristics of the animal, and contains a part of the body of the dead animal.

**Line 22.** On this line enter information about historical artifacts such as furniture, fixtures, textiles and household items of an historic nature. Do not include works of art or historical treasures reported on lines 1-3 and archeological artifacts reported on line 24.

**Line 23.** “Scientific specimens” includes living plant and animal specimens and objects or materials that are examples of natural and physical sciences, such as rocks and minerals, or that relate to, or exhibit, the methods or principles of science.

**Line 24.** On this line enter information about archeological and ethnographical artifacts, other than **works of art** or **historical treasures** reported on lines 1-3 and historical artifacts reported on line 22. An archaeological artifact is any object that is over 250 years old and is normally discovered as a result of scientific excavation, clandestine or accidental digging for exploration on land or under water. Ethnological artifacts are objects which are the product of a tribal or non-industrial society, and important to the cultural heritage of a people because of its distinctive characteristics, comparative rarity or its contribution to the knowledge of the origins, development or history of that people.

**Lines 25-28.** Use lines 25-28 to separately report other types of property that are not described above or reportable on previous lines. This includes items that did not satisfy specific charitable deduction requirements applicable to the contribution of such type of property, but which were contributed to the organization, such as clothing and household goods that were not in good used or better condition, and conservation easements that the organization knows do not constitute qualified conservation contributions. Self created items, such as personal papers and manuscripts, including archival records, are to be listed separately as a type. “Archival records” are defined as materials of any kind created or received by any person, family, or organization in the conduct of their affairs that are preserved because of the enduring value of the information they contain or as evidence of the functions and responsibilities of their creator. Donations of items used by

This is the only mention of auctions. I interpret it to mean that reportable property goes on whatever line if donated for use at auction. But note that facility use is not reportable for tax, so a donated week in a Hawaii condo for use at auction will have a cost of goods sold for GAAP but not for Tax. Very confusing.

the organization at a charitable auction, (other than goods sold by the charity at the auction) such as food served at the event or floral centerpieces, etc. may be separately reported on these lines. **Non-cash contributions** do not include donations of services or use of facilities which are reportable in Schedule D, Part XI, Line 5, and may also be reported in the narrative section of Part III, line 4 of the Form 990.

**Line 29.** Enter the number of Forms 8283 received by the organization during the year for contributions for which the organization completed Part IV, Donee Acknowledgement, of such form. If the organization does not keep complete records of such forms, do not provide an estimate and leave line 29 blank. *Sounds risky. Better keep records!*

This is likely to be abusive...3 years is the length when the donor's value is not limited to the resale by charity. If not in charitable use during that time sounds like just to help donor.

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

**Line 31.** Answer "Yes" if the organization has a gift acceptance policy that requires the review of any non-standard contributions. A non-standard contribution includes a contribution of an item that is not reasonably expected to be used to satisfy or further the organization's exempt purpose (aside from the need of such organization for income or funds) and for which (a) there is no ready market to which the organization may go to liquidate the contribution and convert it to cash and (b) the value of the item is highly speculative or difficult to ascertain. For example, the contribution of a taxpayer's successor member interest of the type described in Notice 2007-72, I.R.B. 2007-36 (September 4, 2007) is a non-standard contribution for this purpose.

**Line 32a-b.** Answer "Yes" to line 32a if the organization hires or uses third parties or related organizations to solicit, process, or sell **non-cash contributions**. An organization that answers "Yes" to line 32a must describe these arrangements in Part II.

**Line 33.** If applicable, describe in Part II why the organization did not report revenue in column (c) for a type of property for which column (a) is checked.

#### **Part II Supplemental Information**

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

It seems pretty clear, but the instructions do not explicitly say it, that an organization which has, say, Net Assets at Year End of \$50,000 and during the year the Net Asset balance was never over \$80,000, but the organization made a number of grants in the amount of \$25,000 or more is NOT covered here. (Example: a public charity which raises money and regrants but operates with thin Net Assets.

## 2008 Schedule N (Form 990 or 990-EZ) Instructions Liquidation, Termination, Dissolution or Significant Disposition of Assets

### General Instructions

#### Purpose of Schedule

Schedule N (Form 990 or 990-EZ) is used by an organization that files Form 990 or Form 990-EZ to provide information relating to going out of existence or disposing of more than 25 percent of its net assets through a contraction, sale, exchange, or other disposition.

An organization that liquidated, terminated, or dissolved and ceased operations other than to wind up its affairs must complete Part I of this Schedule. An organization must report a **significant disposition of net assets** in Part II. An organization that has terminated its operations and has no plans for future activities need only complete Part I and not Part II of this Schedule.

Use Schedule N-1 to report additional information for Parts I or II of Schedule N. Use as many Schedules N-1 as needed.

#### Who Must File

Any organization that answered "Yes" to Form 990, Part IV, *Checklist of Required Schedules*, lines 31 or 32, or Form 990-EZ, line 36, must complete and attach Schedule N to Form 990 or Form 990-EZ, as applicable.

If an organization is not required to file Form 990 or 990-EZ, it is not required to file Schedule N.

### Specific Instructions

#### Part I Liquidation, Termination or Dissolution

If the organization answered "Yes" to Form 990, Part IV, line 31, it must complete Part I. An organization answered "Yes" to Form 990, Part IV, line 31, if it ceased operations and has no plans to continue any activities or operations in the future. This includes an organization that has dissolved, liquidated, terminated, or merged into a successor organization.

**CAUTION:** An organization must provide support of its liquidation, termination, dissolution, or merger by attaching a certified copy of its articles of dissolution or merger, resolutions, and plans of liquidation or merger. An organization also must attach any other relevant documentation, such as a determination letter from the IRS ruling that the organization is no longer exempt under section 501(a), or a private letter ruling from the IRS approving the organization's proposed dissolution or liquidation, as provided in instructions for line 4a, below.

**Line 1.** List assets transferred in the liquidation, termination, dissolution, or merger.

This schedule in general strikes me as the IRS stepping in to do the work that Attorneys General should be doing under their duty to watch over assets held in trust for public benefit. I know that IRS got authority to share information with states, and perhaps this is just to gather info in cases where the state isn't paying attention. In California, charities must get permission and/or notify the Attorney General BEFORE doing any such transfer-out of substantially all of their assets.

If there are more transactions to report in Part I than space available, report the additional transactions in Part I of Schedule N-1. Use as many Schedules N-1 as needed.

**Column (a).** Assets may be aggregated into categories and should be sufficiently described. Separately list related transaction expenses of at least \$10,000. A transaction expense consists of a payment to a professional or other third party for services rendered to assist in the transaction or in the winding down of the organization's activities, such as attorney or accountant fees. Brokerage fees should not be included in this category, but should be taken into account in the fair market value figure in column (c).

**Column (b).** Enter the date of distribution of assets or the date when the transaction expense was paid.

**Column (c).** Enter the fair market value of the asset distributed or the amount of transaction expense paid.

**Column (d).** Enter the method of valuation for the asset distributed. Methods of valuation include appraisals, comparables, book value, actual cost (with or without depreciation), and outstanding offers (among other methods). For transaction expenses, provide the method for determining the amount of the expense, such as an hourly rate or fixed fee.

**Columns (e) and (f).** Enter the name, address, and **EIN** of each recipient of assets distributed or transaction expenses paid. For membership organizations that transfer assets to individual members, the names of individual members need not be reported. Rather, the members may be aggregated into specific classes of membership, or they may be aggregated into one group, if there is only one class of membership.

**Column (g).** Enter the section of the Internal Revenue Code under which the transferee organization is tax-exempt, if it is so exempt. For recipients that are not tax-exempt, enter the type of entity. Examples of types of entity are government agencies or units, or a limited liability corporation (LLC). Report "individual" if the recipient is not an entity.

**Line 2.** Report whether any officer, director, trustee or key employee listed in Form 990, Part VII, Section A, is (or is expected to become) involved in a successor or transferee organization by governing, controlling, or having a financial interest in that organization. "Having a financial interest" includes receiving payments from a successor or transferee organization as an employee, independent contractor, or in any other capacity.

**Line 2a.** Check "Yes" if any officer, director, trustee, or key employee listed in Form 990, Part VII, Section A, is (or is expected to become) a director or trustee of a successor or transferee organization.

**Line 2b.** Check "Yes" if any officer, director, trustee, or key employee listed in Form 990, Part VII, Section A, is (or is expected to become) an employee of, or independent contractor for, a successor or transferee organization.

**Line 2c.** Check “Yes” if any officer, director, trustee, or key employee listed in Form 990, Part VII, Section A, is (or is expected to become) an owner, whether direct or indirect, in a successor or transferee organization.

**Line 2d.** Check “Yes” if any officer, director, trustee, or key employee listed in Form 990, Part VII Section A, has received or is expected to receive compensation or any similar payment as a result of the liquidation, termination, or dissolution of the organization, whether paid by the organization or a successor or transferee organization. For this purpose, “compensation or any similar payment” includes a severance payment, a “change in control” payment, or any other payment that would not have been made to the individual if the dissolution, liquidation, or termination of the organization had not occurred.

**Line 2e.** If the organization checked “Yes” to any of the questions in line 2, provide the name of the person involved, and explain in Part III the nature of the listed person’s relationship with the successor or transferee organization and the type of benefit received or to be received by the person.

**Line 3.** Check “Yes” if the organization’s assets were distributed in accordance with its governing instrument.

**Line 4.** Check “Yes” to line 4a if the organization requested or received a determination letter from EO Determinations that the organization’s exempt status was terminated or it is no longer exempt under section 501(a). Attach a copy of the organization’s request, and if applicable, a copy of the EO Determinations response. Enter the date of such EO Determinations letter in line 4b.

**Line 5a.** Check “Yes” if the organization is required to notify a state attorney general or other appropriate state official of the organization’s intent to dissolve, liquidate, or terminate.

[see my comments two pages back](#)

**Line 5b.** Check “Yes” if the organization provided the notice described in line 5a.

**Line 6.** Check “Yes” if the organization discharged or paid all of its liabilities in accordance with state law.

**Line 7a.** Check “Yes” and complete line 7b if the organization had any **tax-exempt bonds** outstanding during the year.

**Line 7b.** Check “Yes” and complete Line 7c if tax-exempt bond liabilities were discharged or defeased during the year.

**Line 7c.** If the organization checked “Yes” on Line 7b, explain in Part III how the bond liabilities were discharged, defeased or otherwise settled during the year. Also provide an explanation if any bond liabilities were discharged, defeased or otherwise settled other than in accordance with the Code or applicable state law. If the organization avoided the need for a defeasance of bonds, such as through the transfer of assets to another section 501(c)(3) organization, provide the name of the transferees of such assets, the CUSIP number of the **bond issue**, and a description of the terms of such arrangements, in Part III.

**TIP:** An organization that completes Part I does not complete Part II.

**Part II Sale, Exchange, Disposition or Other Transfer of more than 25 Percent of the Organization's Assets**

If an organization answered "Yes" to Form 990, Part IV, line 32, it must complete Part II. An organization answered "Yes" to Form 990, Part IV, line 32, if it has undergone a **significant disposition of net assets** during the year. A significant disposition of the organization's net assets includes a sale, exchange, disposition, or other transfer of more than 25 percent of the fair market value of its net assets during the year, regardless of whether the organization received full and adequate consideration. A significant disposition of net assets involves:

1. one or more dispositions during the organization's tax year amounting to more than 25 percent of the fair market value of the organization's net assets as of the beginning of its tax year; or
2. one of a series of related dispositions or events commenced in a prior year, that when combined comprise more than 25 percent of the fair market value of the organization's net assets as of the beginning of the tax year when the first disposition in the series was made. Whether a significant disposition occurred through a series of related dispositions or events depends on the facts and circumstances in each case. [I'll say! There are plenty organizations reporting negative Net Assets - what if they spend a dime? See comment at beginning of Sched N instructions.](#)

Examples of the types of transactions required to be reported in Part II as significant dispositions of net assets include:

- taxable or tax-free sales or exchanges of exempt assets for cash or other consideration (such as a social club described in section 501(c)(7) selling land or an exempt organization selling assets it had used to further its exempt purposes);
- sales, contributions or other transfers of assets to establish or maintain a partnership, joint venture or a corporation (for-profit or nonprofit) regardless of whether such sales or transfers are governed by section 721 or section 351, and whether or not the transferor receives an ownership interest in exchange for the transfer;
- sales of assets by a partnership or joint venture in which the organization has an ownership interest;
- transfers of assets pursuant to a reorganization in which the organization is a surviving entity; and
- a contraction of net assets resulting from a grant or charitable contribution of assets to another organization described in section 501(c)(3).

The following types of situations are not required to be reported in Part II:

- the change in composition of publicly traded securities held in an exempt organization's passive investment portfolio;

- asset sales made in the ordinary course, such as gross sales of inventory;
- a decrease in the value of net assets due to market fluctuations in the value of assets held by the organization; and
- transfers to a disregarded entity of which the organization is the sole member.

For purposes of Schedule N, net assets means total assets less total liabilities. The determination of a **significant disposition of net assets** is made by reference to the fair market value of the organization's net assets at the beginning of the tax year (in the case of a series of related dispositions that commenced in a prior year, at the beginning of the tax year during which the first disposition was made).

**Line 1.** Refer to the instructions for line 1, columns (a) -1(g) in Part I, above.

If there are more transactions to report in Part II than space available, report the additional transactions in Part II of Schedule N-1. Use as many Schedules N-1 as needed.

**Line 2.** Refer to the instructions for line 2 of Part I, above.

**Part III Supplemental Information**

Use Part III to provide the narrative information required in Part I, lines 2e and 7c, or Part II, line 2e. Also use Part III to provide additional narrative explanations and descriptions to support or supplement any responses in Part I or II. Identify the specific part and line(s) that the response supports. Part III may be duplicated if more space is needed.

My marked up Schedule O has a list of every reference I found in the forms or instructions to what should be reported there.

## **2008 Schedule O Instructions**

### **Supplemental Information to Form 990**

Section references are to the Internal Revenue Code unless otherwise noted.

#### **General Instructions**

##### **Purpose of Schedule**

Schedule O (Form 990) is used by an organization that files Form 990 to provide the IRS with narrative information required for responses to specific questions on Form 990, or to explain the organization's operations or responses to various questions. It allows organizations to supplement information reported on Form 990.

##### **Who Must File**

- Any organization that files Form 990, to provide the required narrative responses for specific questions on Form 990.
- Any organization that is required to file Schedule G (Form 990 or 990-EZ), Schedule K (Form 990), Schedule L (Form 990 or 990-EZ), or Schedule R (Form 990), to provide the required narrative responses to specific questions on these schedules.
- Any organization that wants to supplement information provided to questions on Form 990 or to explain its operations or responses to questions on Form 990.
- If an organization is not required to file Form 990, it is not required to file Schedule O.

##### **Specific Instructions**

Use as many continuation sheets of Schedule O (page 2 of Schedule O) as needed.

Complete the required information on the appropriate line of Form 990 prior to using Schedule O.

Identify clearly the specific Part and line(s) of Form 990 or Form 990 Schedule that each response supports.

Follow the Part, Schedule, and line sequence of Form 990.

Late returns. If the return is not filed by the due date (including any extension granted), use Schedule O to provide a statement giving the reasons for not filing on time.

Page 1, Item B, Amended Return. If the organization checked the Amended Return box in Item B, in the Heading on page 1 of Form 990, use Schedule O to list each Part or Schedule, and line item, of the Form 990 that was amended.

Page 1, Item H, Group Return. If the organization answered "Yes" to Form 990, Item H(a) but "No" to Item H(b), in the Heading on page 1, it should use a separate attachment to list the name, address, and **EIN** of each affiliated organization included in the **group return**. **DO NOT USE Schedule O**. See *General Instructions for Group Returns* on Form 990.

Parts III, V, VI, VII, and XI. Use Schedule O to provide narrative information required for the following questions on Form 990:

- Part III, Statement of Program Service Accomplishments (Page 2 of Form 990)
  - “Yes” response to line 2.
  - “Yes” response to line 3.
  - Other program services in line 4d.
- Part V, Statements Regarding Other IRS Filings and Tax Compliance (Page 5 of Form 990)
  - “No” response to line 3b
- Part VI, Governance, Management, and Disclosure (Page 6 of Form 990)
  - Section A:
    - Material differences in voting rights in line 1a.
    - Description of reasonable efforts undertaken in regard to line 2.
    - “Yes” responses to lines 2-7.
    - “No” responses to lines 8 or 9b.
    - Description of process for review, if any, in line 10.
    - “Yes” response to line 11.
  - Section B:
    - “Yes” response to line 12c.
    - Description of process for determining compensation in lines 15a and 15b.
  - Section C:
    - Description for making documents public in lines 18 and 19.
- Part VII, Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors (Page 7 of Form 990)
  - Section A:
    - Estimate of average hours per week (if any) devoted to related organizations.
- Part XI, Financial Statements and Reporting (Page 11 of Form 990)
  - Change in accounting method, or description of other accounting method used, in line 1.
  - Change in committee oversight review from prior year in line 2c.
  - “No” response to line 3b.

Schedule G (Form 990 or 990-EZ). If applicable, use Schedule O to describe payments of fundraising expenses or reimbursements, as required in Part I, line 2b, column (v).

Schedule K (Form 990). If applicable, use Schedule O to describe the organization’s use of alternative 12-month reporting periods with respect to bond issues reported on Schedule K (Form 990).

Schedule L (Form 990 or 990-EZ). Use Schedule O if additional space is needed to report information required by Schedule L.

Schedule R (Form 990). If applicable, use Schedule O to provide the group exemption relationships described in Schedule R (Form 990), Related Organizations and Unrelated Partnerships.

Other. Use Schedule O to provide narrative explanations and descriptions to other specific questions. The narrative provided should refer and relate to a particular item and response in the form.

Because there are so many (e.g. compensation) questions that refer to related organizations, this schedule and instructions should almost be the first stop.

## 2008 Schedule R (Form 990) Instructions Related Organizations and Unrelated Partnerships

Section references are to the Internal Revenue Code unless otherwise noted.

### General Instructions

#### Purpose of Schedule

Schedule R (Form 990) is used by an organization that files Form 990 to provide information on **related organizations**, on certain transactions with related organizations, and on certain unrelated partnerships through which the organization conducts significant activities.

#### Who Must File

The following chart sets forth which organizations must complete all or a part of Schedule R and attach Schedule R to Form 990.

Type of filer:	Answering "Yes" to:	Must file:	
All organizations	Form 990, Part IV, line 33 (regarding <b>disregarded entities</b> )	Schedule R, Part I	separate business for liability but consolidated for tax purposes
All organizations	Form 990, Part IV, line 34 (regarding <b>related organizations</b> )	Schedule R, Parts II-IV and V, line 1 as applicable	defined below
All organizations	Form 990, Part IV, line 35 (regarding <b>controlled entities under section 512(b)(13)</b> )	Schedule R, Part V, line 2	concerns subsidiary non- or for-profits who may overpay rents & royalties to parent to dodge UBIT
501(c)(3) organization or 4947(a)(1) trust	Form 990, Part IV, line 36 (regarding transfers to non-charitable <b>related organizations</b> )	Schedule R, Part V, line 2	e.g. (c)(3) related to a (c)(4,5 or 6)
All organizations	Form 990, Part IV, line 37 (regarding conduct of activity through unrelated partnership)	Schedule R, Part VI	example I know of is low income housing tax credit partnerships, but other joint ventures no doubt as well

### Specific Instructions

**Overview.** Part I requires identifying information on any organization that is treated for federal tax purposes as a **disregarded entity**. Part II requires identifying information on related tax-exempt organizations. Part III requires identifying information on any related organization that is treated for federal tax purposes as a partnership. Part IV requires identifying information on any related organization that is treated for federal tax purposes as a C or S corporation or trust. Part V requires information on transactions between the organization and **related organizations** (excluding disregarded entities). Part VI requires information on an **unrelated organization** taxable as a partnership through which the organization conducted more than 5% of its activities (as described below).

Use Schedule R-1 to report additional information for Parts I – VI. Use as many Schedules R-1 as needed.

**Relationships.** An organization is a **related organization** to the filing organization if it stands in one or more of the following relationships to the filing organization:

- Parent—an organization that controls (see definition of **control**, below) the filing organization
- Subsidiary—an organization controlled (see definition of control, below) by the filing organization
- Brother/Sister—an organization controlled (see definition of control, below) by the same person or persons that control the filing organization
- Supporting/Supported—an organization that is (or claims to be) at any time during the organization's **tax year** (i) a **supporting organization** of the filing organization within the meaning of section 509(a)(3), if the filing organization is a **supported organization** within the meaning of section 509(f)(3), or (ii) a supported organization, if the filing organization is a supporting organization

**Exception: Disregarded entities** are treated as related organizations for purposes of reporting in Schedule R, Part I, but not for purposes of reporting transactions with related organizations in Schedule R, Part V or otherwise in Form 990. A disregarded entity of an organization related to the filing organization is treated as part of the related organization and not as a separate entity. See Appendix F

**Definition of control.** In the case of nonprofit organizations and other organizations without owners or persons having beneficial interests, whether such organization is taxable or tax-exempt, **control** means:

In the case of a parent/subsidiary relationship between nonprofit organizations:

- the power to remove and replace (or to appoint or elect, if such power includes a continuing power to appoint or elect periodically or in the event of vacancies) a majority of the nonprofit organization's or other organization's **directors** or **trustees**, or
- a management or board overlap where a majority of the subsidiary organization's directors or trustees are trustees, directors, **officers, employees, or agents of the parent organization**.

In the case of a brother/sister relationship between nonprofit organizations:

the same persons constitute a majority of the **members of the governing body** of both organizations.

In the case of stock corporations and other organizations with owners or persons having beneficial interests, whether such organization is taxable or tax-exempt, control means any of the following relationships:

- ownership of more than 50% of the stock (by voting power or value) of a corporation,
- ownership of more than 50% of the profits or capital interest in a partnership,
- ownership of more than 50% of the profits or capital interest in a limited liability company (LLC) taxed as a partnership, regardless of the designation under state law of the ownership interests as stock, membership shares, or otherwise under state law,

- being a managing partner or managing member in a partnership or LLC taxed as a partnership which has three or fewer managing partners or managing members (regardless of which partner or member has the most actual control),
- being a general partner in a limited partnership which has three or fewer general partners (regardless of which partner has the most actual control),
- being the sole member of a **disregarded entity**, or
- ownership of more than 50% of the beneficial interests in a trust.

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

**Group exemption. Central organizations and subordinate organizations** of a **group exemption** are not required to be listed as **related organizations** in Schedule R, Part II. All other related organizations of the central organization or of a subordinate organization are required to be listed in Schedule R. Thus:

- An organization that is a central or subordinate organization in a group exemption (whether filing an individual return or a **group return**) is not required to list any of the subordinate organizations of the group in Schedule R, Part II.
- In the case of a group return, the central organization must attach a list of the subordinate organizations included in the group return in response to Form 990, page one, item H(b). The central organization must list in Schedule R the related organizations of each subordinate organization other than (1) related organizations that are included within the group exemption, or (2) related organizations that the central organization knows to be included in another group exemption. If an organization is not listed because it is known to be included in another group exemption, the central organization must explain in Schedule O the relationship between its own group and members and the related organization known to be included in another group exemption (but need not include the names of such related organizations).
- An organization that is not included in a group exemption is not required to list a related organization that is included in a group exemption. Similarly, an organization that is included in a group exemption is not required to list a related organization that is included in another group exemption. In either case, the organization must explain in Schedule O the relationship between it and the related organization included in another group exemption (but need not include the names of such related organizations).

Even if a related organization is not required to be listed in Part II, however, the organization must report its transactions with the related organization in Part V, as required by the Part V instructions (e.g., transactions over the applicable \$50,000 reporting threshold for line 2), including listing the name of the related organization in Part V, line 2, column (A) for transactions that must be reported in line 2.

**Indirect control. Control** can be indirect. For example, if the filing organization controls Entity A, which in turn controls (under the definition of control above) Entity B, the organization will be treated as controlling Entity B. To determine indirect control through constructive ownership of a corporation, rules under section 318 shall apply; similar principles shall apply for purposes of determining constructive ownership of another entity (a partnership or trust). If an entity (X) controls an entity taxed as a partnership by being one of three or fewer partners or members, then an organization that controls X also controls the partnership.

Example 1. B, an exempt organization, wholly owns (by voting power) C, a taxable corporation. C holds a 51% profits interest in D, a partnership. Under the principles of section 318, B is deemed to own 51% of D (100% of C's 51% interest in D)). Thus, B controls both C and D, which are therefore both related organizations with respect to B.

Example 2. X, an exempt organization, owns 80% (by value) of Y, a taxable corporation. Y holds a 60% profits interest as a limited partner of Z, a limited partnership. Under the principles of section 318, X is deemed to own 48% of Z (80% of Y's 60% interest in Z). Thus, X controls Y. X does not control Z through X's ownership in Y. Y is a related organization with respect to X, and (absent other facts) Z is not.

Example 3. Same facts as in Example 2 except that Y is also one of three general partners of Z. Because Y controls Z through means other than ownership percentage, and X controls Y, in these circumstances Z is a related organization with respect to X. The other general partners of Z (if organizations) are not related organizations with respect to X, absent other facts.

#### **Part I – Identification of Disregarded Entities**

**(A) Name, address, and EIN.** State the full legal name and mailing address of the **disregarded entity**. State also the **Employer Identification Number (EIN)** of the disregarded entity, if it has one. A disregarded entity generally must use the **EIN** of its sole member. An exception applies to employment taxes: for wages paid to **employees** of a disregarded entity on or after January 1, 2009, the disregarded entity must file separate **employment tax returns** and use its own EIN on such returns. See Regulations sections 301.6109-1(h) and 301.7701-2(c)(2)(iv).

Enter the details of each disregarded entity on a separate line of Part I. If there are more to report in Part I than space available, use Schedule R-1, Part I. Use as many Schedules R-1 as needed.

**(B) Primary activity.** Briefly describe the primary activity of the disregarded entity.

**(C) Legal domicile.** List the U.S. state (or **U.S. possession**) or foreign country in which the disregarded entity is organized (i.e., the state or foreign country whose law governs the disregarded entity's internal affairs).

**(D) Total income.** State the amount of the filing organization's total revenue reported in Form 990, Part VIII, line 12, column (A), attributable to the disregarded entity.

**(E) End-of-year assets.** State the amount of the organization's **total assets** reported in Form 990, Part X, line 16, column (B), attributable to the **disregarded entity**.

**(F) Direct controlling entity.** If the organization **controls the disregarded entity** in issue indirectly through one or more other disregarded entities, state the name of the entity that directly controls the disregarded entity in issue. Otherwise state "NA."

#### **Part II – Identification of Related Tax-Exempt Organizations**

**(A) Name, address, and EIN.** State the related organization's full legal name, mailing address, and **EIN**.

Enter the details of each **related organization** on a separate line of Part II. If there are more to report in Part II than space available, use Schedule R-1, Part II. Use as many Schedules R-1 as needed.

**(B) Primary activity.** Briefly describe the primary activity of the related organization.

**(C) Legal domicile.** List the U.S. State (or **U.S. possession**) or foreign country in which the related organization is organized. For a corporation, enter the state of incorporation (country of incorporation for a foreign corporation formed outside the U.S.). For a trust or other entity, enter the State whose law governs the organization's internal affairs (the foreign country whose law governs for a **foreign organization** other than a corporation).

**(D) Exempt Code section.** State the section of the Code under which the related organization is exempt (e.g., 501(c)(3), 501(c)(6), 527). For purposes of Schedule R, an organization that claims exemption is treated as exempt.

**(E) Public charity status.** For a related 501(c)(3) organization, report its **public charity** status using the appropriate line number (line 1 through 11d) corresponding to the public charity status checked in Form 990, Schedule A, Part I. If the related organization is a **private foundation**, use the designation "PF." If the related organization is a 509(a)(3) **supporting organization**, also indicate its type: I, II, III-FI, or III-O (for Type I, Type II, Type III functionally integrated, or Type III other, respectively).

**(F) Direct controlling entity.** If the filing organization indirectly controls the related organization through one or more related organizations, state the name of the entity that directly controls the related organization. Otherwise state "NA."

### **Part III – Identification of Related Organizations Taxable as a Partnership**

In this Part identify any **related organization** treated as a partnership for federal tax purposes.

If the partnership is related to the filing organization by reason of being its parent or brother/sister and the filing organization is not a partner or member in the partnership, then fill out only columns (A), (B) and (C) and state "NA" in columns (D), (E), (F), (G), (H), (I), and (J).

Enter the details of each related organization on a separate line of Part III. If there are more to report in Part III than space available, use Schedule R-1, Part III. Use as many Schedules R-1 as needed.

Some of the information requested below is derived from Schedule K-1 of Form 1065 issued to the organization. If the Schedule K-1 is not available, provide a reasonable estimate of the required information.

**(A) Name, address, and EIN.** State the related partnership's full legal name, mailing address, and EIN.

**(B) Primary activity.** Briefly describe the primary business activity conducted, or product or service provided, by the related partnership (e.g., investment in other entities, low-income housing, etc.).

**(C) Legal domicile.** List the U.S. state (or **U.S. possession**) or foreign country in which the related partnership is organized (i.e., the state or foreign country whose law governs the related partnership's internal affairs).

**(D) Direct controlling entity.** If the filing organization indirectly controls the related partnership through one or more related organizations, state the name of the entity that directly controls the related partnership in issue. Otherwise state "NA."

**(E) Predominant income.** Classify the predominant type of partnership income as either:

- (1) "related";
- (2) "unrelated"; or
- (3) "investment" or other income excluded from tax under section 512, 513, or 514.

In other words, state which of the three types listed above is more prevalent than the others.

For classification purposes, use the definitions of columns (B), (C), and (D) set forth in the instructions to the Statement of Revenue in Form 990, Part VIII.

**(F) Share of total income.** State the dollar amount of the filing organization's distributable share of the related partnership's total income, in accordance with the organization's profits interest as specified by the partnership or LLC agreement, for the related partnership's **tax year** ending with or within the filing organization's tax year. Use the total amount reported by the related partnership on Schedule K-1 of Form 1065 for the partnership's tax year ending with or within the filing organization's tax year (total of Schedule K-1, Part III, lines 1-11, plus line 18 tax-exempt income).

**(G) Share of end-of-year assets.** State the dollar amount of the filing organization's distributable share of the related partnership's end-of-year total assets, in accordance with the organization's capital interest as specified by the partnership or LLC agreement, for the related partnership's **tax year** ending with or within the filing organization's tax year. Use Schedule K-1 of Form 1065 for the partnership's year ending with or within the organization's tax year to determine this amount by adding the organization's ending capital account to the organization's share of the partnership's liabilities at year end reported on the Schedule K-1.

**(H) Disproportionate allocations.** State "Yes" if the interest of the filing organization as a partner of the partnership (or as a member of the LLC) in any item of income, gain, loss, deduction, or credit, or any right to distributions was disproportionate to the filing organization's investment in such partnership or LLC at any time during the filing organization's **tax year**.

**(I) Code V UBI amount on Box 20 of K-1.** State the dollar amount, if any, listed as the Code V amount (**unrelated business taxable income**) in Box 20 of Schedule K-1 to Form 1065 received from the related partnership for the partnership's **tax year** ending with or within the filing organization's tax year. If no Code V amount is listed in Box 20, state "NA."

**(J) General or managing partner.** State "Yes" if the filing organization was at any time during its **tax year** a general partner of a related limited partnership, or a managing partner or managing member of a related general partnership, LLC, or other entity taxable as a partnership. Otherwise state "No."

#### **Part IV – Identification of Related Organizations Taxable as a Corporation or Trust**

In this Part identify any **related organization** treated as a C or S corporation or trust for federal tax purposes. If the corporation or trust is related to the filing organization as its parent or as a brother/sister organization, and the filing organization does not have an ownership interest in

the corporation or trust, then complete only columns (A), (B), (C), and (E) and state "NA" in columns (D), (F), (G), and (H). Do not report trusts described within section 401(a).

Enter the details of each related organization on a separate line of Part IV. If there are more to report in Part IV than space available, use Schedule R-1, Part IV. Use as many Schedules R-1 as needed.

Some of the information requested below is derived from Schedule K-1 of Form 1041 or 1120S issued to the organization. If the Schedule K-1 is not available, provide a reasonable estimate of the required information.

**(A) Name, address, and EIN.** State the related organization's full legal name, mailing address, and EIN.

**(B) Primary activity.** Briefly describe the primary business activity conducted, or product or service provided, by the related organization (e.g., holding company, **management company**).

**(C) Legal domicile.** List the U.S. State (or **U.S. possession**) or foreign country in which the related organization is organized. For a corporation, enter the state of incorporation (or the country of incorporation for a foreign corporation formed outside the U.S.). For a trust or other entity, enter the State whose law governs the organization's internal affairs (or the foreign country whose law governs for a **foreign organization** other than a corporation).

**(D) Direct controlling entity.** If the filing organization indirectly controls the related organization through one or more related organizations, state the name of the entity that directly controls the related organization. Otherwise state "NA."

**(E) Type of entity.** Use one of the following codes to indicate the tax classification of the related organization: C (corporation or association taxable under subchapter C), S (corporation or association taxable under subchapter S), or T (trust taxable under subchapter J).

**(F) Share of total income.** For a related organization that is a C corporation, state the dollar amount of the organization's share of the C corporation's total income. To calculate this share, multiply the total income by the following fraction: the value of the filing organization's shares of all classes of stock in the C corporation, divided by the value of all outstanding shares of all classes of stock in the C corporation. The total income is for the related organization's **tax year** ending with or within the filing organization's tax year.

For a related organization that is an S corporation, state the filing organization's allocable share of the S corporation's total income. Use the amount as set forth in Schedule K-1 of Form 1120S for the S corporation's tax year ending with or within the filing organization's tax year (Schedule K-1, Part III, lines 1-10).

For a related organization that is a trust, state the total income and gains reported on Part III lines 1-8 of Schedule K-1 of Form 1041 issued to the filing organization for the trust's tax year ending with or within the filing organization's tax year.

**TIP:** A 501(c)(3) organization that is an S corporation shareholder must treat all allocations of income from the S corporation as **unrelated business income**, including gain on the disposition of stock.

**(G) Share of end-of-year assets.** State the dollar amount of the filing organization's allocable share of the related organization's **total assets** as of the end of the related organization's **tax year** ending with or within the filing organization's tax year. For related corporations, this amount is determined by multiplying the corporation's end-of-year total assets by the fraction described in column (F). For related trusts, this amount corresponds to the filing organization's percentage ownership in the trust.

**(H) Percentage ownership.** For a related organization taxable as a corporation, state the filing organization's percentage of stock ownership in the corporation (total combined voting power or total value of all outstanding shares, whichever is greater). For a related S corporation, use the percentage reported on Schedule K-1 of Form 1120S for the year ending with or within the filing organization's **tax year**. For a related organization taxable as a trust, state the filing organization's percentage of beneficial interest. In each case, the percentage interest is as of the end of the related organization's tax year ending with or within the filing organization's tax year.

This takes the place, in some ways, of the old Schedule A Lines 51 & 52, but now is due from all 501(c) not just charities, and is ONLY for RELATED 501(c)(non-3) orgs.

#### **Part V: Transactions With Related Organizations**

**Line 1.** Check "Yes" in the appropriate boxes of Line 1 if the filing organization engaged in any of the transactions listed in Part V with any of the **related organizations** listed in Parts II through IV. A "transfer" includes any conveyance of funds or property not described in lines 1a-1p, whether or not for consideration, such as a merger with a related organization.

**Line 2.** All organizations filing Schedule R must report the following transactions with a **controlled entity** as defined in section 512(b)(13):

- the receipt of interest, annuities, royalties, or rent from a controlled entity (line 1a),
- a loan made to a controlled entity (line 1d), or
- any other transfer of funds between the organization and the controlled entity.

In addition, 501(c)(3) organizations and 4947(a)(1) trusts must report transactions with related exempt organizations not described in section 501(c)(3) (including, but not limited to, section 527 political organizations).

Enter a separate line for each type of transaction with a particular organization. Aggregate transactions of the same type with a particular organization, e.g., line a(i) transactions, line a(iv) transactions, line b transactions, etc. Disregard transactions of a particular type (lines (a)(i)-(r)) between two organizations where the aggregate amounts involved during the **tax year** do not exceed \$50,000, except for receipt of interest, annuities, royalties, or rent from a **controlled entity**, which are to be reported regardless of amount.

Enter the details of each **related organization** on a separate line of the table. If there are more to report than space available, use Schedule R-1, Part V. Use as many Schedules R-1 as needed.

**(A) Name.** State the full legal name of the related organization.

**(B) Transaction type.** State the transaction type (lines (a)(i)-(r)).

**(C) Amount involved.** The amount involved in a transaction is the fair market value of the services, cash, and other assets provided by the filing organization during its **tax year**, or the

fair market value received, whichever is higher. Any reasonable method for determining such amount is acceptable.

#### **Part VI – Unrelated Organizations Taxable as a Partnership**

In this Part provide information on any **unrelated organization** (i.e., an organization that is not a related organization with respect to the filing organization) that meets all of the following conditions:

1. the unrelated organization is treated as a partnership for federal tax purposes (thus, S corporations are excluded),
2. the filing organization was a partner or member of the unrelated partnership at any time during the filing organization's **tax year**, and
3. the filing organization conducted more than 5% of its activities, as measured by its total assets as of the end of its tax year or gross revenue for its tax year (whichever percentage—**total assets** or gross revenue—is greater), through the unrelated partnership.

In determining the percentage of the filing organization's activities as measured by its total assets, use the amount reportable on Form 990, Part X, line 16 as the denominator, and the filing organization's ending capital account balance for the partnership tax year ending with or within the filing organization's tax year as the numerator (the amount reported on Schedule K-1 may be used). In determining the percentage of the filing organization's activities as measured by its gross revenue, use the amount reportable on Form 990, Part VIII, line 12 as the denominator, and the filing organization's proportionate share of the partnership's gross revenue for the partnership tax year ending with or within the filing organization's tax year as the numerator.

**Example.** X, a 501(c)(3) organization, is a partner of Y, an unrelated partnership, which conducts an activity that constitutes an unrelated trade or business with respect to X. X's proportionate share of Y's gross revenue is \$20,000 for Y's tax year ending with or within X's tax year. X has an ending capital account balance in Y of \$200,000 as reported on Schedule K-1. X's gross revenue and total assets for its tax year are \$500,000 and \$2,000,000, respectively. X conducts 4% of its activities through Y as measured by X's gross revenue ( $\$20,000/\$500,000$ ), and 10% as measured by X's total assets ( $\$200,000/\$2,000,000$ ). Because at least one of these percentages exceeds 5%, X conducted more than 5% of its activities through Y for X's tax year and must identify Y in Schedule R, Part VI, and provide the required information.

Disregard unrelated partnerships that meet both of the following conditions:

1. 95% or more of the filing organization's gross revenue from the partnership for the partnership's tax year ending with or within the organization's tax year is described in sections 512(b)(1)-(3) and (5), such as interest, dividends, royalties, rents, and capital gains (including unrelated debt-financed income); and
2. The primary purpose of the filing organization's investment in the partnership is the production of income or appreciation of property and not the conduct of a 501(c)(3) charitable activity such as program-related investing.

Enter the details of each organization on a separate line of Part VI. If there are more to report in Part VI than space available, use Schedule R-1, Part VI. Use as many Schedules R-1 as needed.

Some of the information requested below is derived from Schedule K-1 of Form 1065 issued to the organization. If the Schedule K-1 is not available, provide a reasonable estimate of the required information.

**(A) Name, address, and EIN.** State the unrelated partnership's full legal name, mailing address, and **EIN**.

**(B) Primary activity.** Briefly describe the primary business activity conducted, or product or service provided, by the unrelated partnership.

**(C) Legal domicile.** List the U.S. State (or **U.S. possession**) or foreign country in which the unrelated partnership is organized (i.e., the State or foreign country whose law governs the unrelated partnership's internal affairs).

**(D) 501(c)(3) partners.** State "Yes" if all the partners of the unrelated partnership (or members of the LLC) are 501(c)(3) organizations or **governmental units** (or wholly-owned subsidiaries of either).

**(E) Share of end-of-year assets.** State the dollar amount of the filing organization's distributable share of the unrelated partnership's **total assets**, in accordance with the filing organization's capital interest as specified by the partnership or LLC agreement, as of the end of the unrelated partnership's **tax year** ending with or within the filing organization's tax year. Use the ending capital account reported on Schedule K-1 of Form 1065 for the year ending with or within the filing organization's tax year.

**(F) Disproportionate allocations.** State "Yes" if the interest of the filing organization as a partner of the partnership (or as a member of the LLC) in any item of income, gain, loss, deduction, or credit, or any right to distributions was disproportionate to the organization's investment in such partnership or LLC at any time during the filing organization's **tax year**.

**(G) Code V UBI amount on Box 20 of K-1.** State the dollar amount, if any, listed as the Code V amount (**unrelated business taxable income**) in Box 20 of Schedule K-1 to Form 1065 received from the unrelated partnership for the partnership's **tax year** ending with or within the filing organization's tax year. If no Code V amount is listed in Box 20, state "NA."

**(H) General or managing partner.** State "Yes" if the filing organization was at any time during its **tax year** a general partner of an unrelated limited partnership, or a managing partner or managing member of an unrelated general partnership, LLC, or other entity taxable as a partnership. Otherwise state "No."