DOCUMENT RESUME

ED 402 889 HE 029 832

TITLE Guidelines for Filing IRS Forms 990 and 990-T.
INSTITUTION National Association of Coll. and Univ. Business Officers., Washington, D.C.
PUB DATE 96
NOTE 118p.; Material updated by KPMG Peat Marwick LLP.
AVAILABLE FROM National Association of College and University Business Officers, One Dupont Circle, Suite 500, Washington, DC 20036 ($34.95 members; $49.95 non-members).
PUB TYPE Guides - Non-Classroom Use (055)

EDRS PRICE MF01/PC05 Plus Postage.
DESCRIPTORS Accounting; *Financial Audits; Higher Education; *Money Management; *Nonprofit Organizations; *Records (Forms); Tax Deductions; *Taxes
IDENTIFIERS Income Tax Deductions; *Income Taxes; Internal Revenue Code; *Internal Revenue Service

ABSTRACT

This manual provides instructions and sample documents for all tax-exempt organizations required to file Form 990 "Return of Organization Exempt from Income Tax" or Form 990-1 "Exempt Organization Business Income Tax Return." The short introductory section covers who must file and summarizes the changes in the 1996 forms. The section "Who Must File" defines the parameters for using Forms 990, 990EZ, Schedule A (Form 990) "Organization Exempt Under 501 (3)", 990-T "Exempt Organization Business Income Tax Return", and estimated tax payments (Forms 8109 and 990-W). The next section covers due dates. Section 3 covers the steps for preparing Forms 990 and 990-T, and includes some additional filing tips, cost allocations, and supporting schedules. Section 4 provides guidance for completing each part and line of Form 990 and Schedule A; Section 5 provides detailed instructions for Form 990-T, the unrelated business income tax. Section 6 covers filing for extensions (Form 2758); Section 7 summarizes various Internal Revenue Service Rulings and Determinations; and Section 8 covers public inspection requirements. Three appendixes show a sample university financial statement; a worksheet; and a completed return. Appendix D reprints filing instructions for Form 990EZ, "Short Form Return of Organization Exempt from Income Tax." (CH)

Guidelines for Filing IRS Forms 990 and 990-T

NACUBO
National Association of College and University Business Officers

Guidelines for Filing IRS Forms 990 and 990-T

Updated by KPMG Peat Marwick LLP

NACUBO
National Association
of College and University
Business Officers

ISSN 1059-602X

One Dupont Circle
Washington, DC 20036

Printed in the United States of America

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INTRODUCTION

Guidelines for Filing IRS Forms 990 and 990-T is an update of *Guidelines for Filing 1992 IRS Forms 990 and 990-T*. Included in this update are the revised 1995 Internal Revenue Service (IRS) Form 990, Schedule A (Form 990), and Form 990-T. The IRS made several changes to Form 990 for 1995, adding a reconciliation to the audited financial statements and, for publicly supported section 501(c)(3) organizations, a schedule to prove they meet the public support test. These changes are detailed below. In addition to providing an update that reflects the 1995 IRS forms, this book also includes enhanced examples such as sample financial statements, worksheets, and sample completed tax forms from a university that has implemented SFAS Nos. 116 and 117. Supporting schedules to Form 990 are included.

With limited exceptions (e.g., churches), all tax-exempt organizations and nonexempt charitable trusts, including independent colleges and universities exempt under section 501(c)(3) of the Internal Revenue Code (IRC), are required to file IRS Form 990, "Return of Organization Exempt From Income Tax." Public colleges and universities whose tax exemption derives from section 115(a) rather than section 501(c) are not required to file IRS Form 990. Organizations exempt under section 115(a) do not receive an IRS letter of exemption. (If for some reason a public institution requests a letter of exemption from the IRS, it will receive a letter of exemption under code section 501(c)(3) with a confirmation of its status as a section 115(a) organization. Such an institution would not be required to file a Form 990.) A tax-exempt organization also must file IRS Form 990-T, "Exempt Organization Business Income Tax Return," if it has gross income of $1,000 or more from unrelated trade or business activities. Public and independent colleges and universities, as well as their wholly owned tax-exempt subsidiary corporations, must file Form 990-T if they meet this test, even if they are not required to file Form 990. Taxable subsidiaries must file the same income tax returns (e.g., Form 1120) that apply to similar taxable entities.

IRS Form 990 is frequently used by state and local governments to satisfy tax-exempt organization reporting requirements, particularly for section 501(c)(3) organizations. State and local governments may accept Form 990 and Schedule A (Form 990) in place of all or part of their own financial reporting requirements. If Form 990 will be used to meet state reporting requirements, the appropriate state office should be contacted to determine specific state requirements.

Guidelines for Filing IRS Forms 990 and 990-T is intended principally to be used as a tool by the administrators of colleges and universities in the preparation of Form 990, Schedule A (Form 990), and Form 990-T; however, administrators of other nonprofit organizations also may find it useful. This publication provides general information on completing Forms 990, 990-T, and 990EZ, and illustrates how to use an organization's standard accounting records to provide the required financial data. Sample worksheets and copies of 1995 IRS forms are included. Information is also provided on the IRS requirements to permit public inspection of annual tax returns and applications for tax-exempt status.

Changes to the 1995 Forms

A number of important changes have been made to the 1995 Form 990 and Schedule A (Form 990), resulting in an expansion of each form to six pages:

- Form 990, Part I, line 20, and Part IV, lines 67 through 69: The IRS requires the organization to report all beginning-of-year balances in conformity with the amounts and descriptions on the 1994 Form 990. Any changes in net assets as a result of implementing SFAS No. 117 should be reported on Part I, line 20, Other changes in net assets or fund balances. As in previous years, a supporting statement detailing the changes should be attached to the return. For beginning-of-year fund balances, all unrestricted amounts at the end of the previous year should be combined on Part IV, line 67, column A.

- Form 990, Part IV, line 62: The IRS changed the description to "deferred revenue" and no longer requires a supporting schedule detailing support and revenue designated for future periods.

- Form 990, parts IV-A and IV-B: A new section has been added to reconcile the revenue and expense amounts on the audited financial statements with the amounts reported on Form 990. This portion of the form slightly resembles the reconciliations provided on Form 1120, Schedule M.

- Schedule A (Form 990), Part IV-A: A new section has been added to Schedule A (Form 990) to provide for the computation of the public support test for certain organizations described in section 509(a)(1) and 509(a)(2) that are publicly supported. Colleges and universities are not required to complete this section of the form.

- Form 990-T: This form remains unchanged from 1994, except for a few line numbers on page 2. There were no changes to the reporting requirements or format.

Guidelines for Filing IRS Forms 990 and 990-T contains direct quotes and paraphrased excerpts from various IRS publications and instructions. It is intended as a supplement to, not a replacement of, the IRS instructions provided with the forms, which should be reviewed carefully before preparing the information forms and tax returns. Because each institution may have unique circumstances or individual reporting differences, questions and areas of concern should be pursued with the appropriate tax adviser, legal counsel, or independent audit firm.

Guidelines for Filing IRS Forms 990 and 990-T is a revision of an earlier NACUBO publication, originally published in 1988 and most recently updated for 1992. Larry Calloway, controller at Texas Christian University, wrote much of the original work. Robert Gardiner, of the Exempt Organizations Operations Branch of the IRS, reviewed the earlier versions of the book and provided valuable advice.

The 1996 revision is printed in a loose-leaf format to allow readers to insert other relevant documents, such as the IRS instructions, and to make future revisions easier and more cost effective. NACUBO is grateful to KPMG Peat Marwick LLP for their assistance in this revision and for permitting the use of updated financial statements reprinted from their publication, *Ratio Analysis in Higher Education: Measuring Past Performance to Chart Future Direction* (KPMG Peat Marwick LLP and Prager, McCarthy & Sealy, 1995). Victoria Z. Greve, manager, Exempt Organization Tax, KPMG, updated the text and prepared the new worksheets and sample tax forms. NACUBO staff members Anne C. Gross, senior program manager, Public Policy and Management Programs (PPMP), Mary M. Bachinger, program manager, PPMP, and Anne Kendrick, project manager/editor, Communications, were also instrumental in preparing this revision.

NACUBO strongly urges all college and university business officers to be familiar with the IRS rules and regulations for reporting both general and finan-

cial information, to take responsibility for ensuring that the appropriate tax forms are correctly prepared and filed in a timely manner, and to make provisions for public inspection. Failure to file complete and correct information forms and tax returns can result in penalties being assessed by the IRS.

The *NACUBO Guide to IRS Audits: A Manual for Colleges and Universities* (1994) offers additional guidance on IRS rules and regulations. For more information, or to order this publication, call NACUBO's Membership and Publications Department at 202-861-2560.

WHO MUST FILE 1

Form 990, "Return of Organization Exempt from Income Tax"

All colleges and universities exempt from federal income tax under Internal Revenue Code (IRC) section 501(c)(3) must file an annual return on Form 990—except for those institutions defined as exempt below. If an application for tax exemption is pending, check the "application pending" box at the top of page 1 of Form 990 and complete the return in the normal manner.

Exemptions

An organization may be exempt from filing Form 990 if—

- it is a state or municipal institution whose income is excluded from gross income under IRC section 115(a); or
- its gross receipts are not normally more than $25,000 (based on a three-year average that includes the latest year completed). Gross receipts are the total of lines 12, 6b, 8b, 9b, and 10b of Part I, Form 990.

Even if an organization meets the above "receipts test," the IRS requests, but does not require, that the organization file a return to help update IRS records if it receives a Form 990 package with a preaddressed mailing label. The organization should affix the preaddressed label in the proper space on Form 990 and check box "K" in the area above Part I to indicate that gross receipts are less than $25,000. Parts I through IX do not have to be completed, but the form must be signed. If organizations comply with this request, the IRS will not have to contact them later to find out why a form was not filed, and Form 990 will not have to be filed again until the organization's gross receipts exceed the $25,000 minimum.

Even if the organization is not required to file Form 990, it may wish to follow the abbreviated filing procedures to ensure that the organization continues to be listed in IRS Publication 78, *Cumulative List of Organizations Described in Section 170(c)*. Code section 170(c) describes organizations (including 501(c)(3) organizations) that are eligible to receive tax-deductible charitable contributions; therefore, a listing in Publication 78 can be helpful in assuring potential donors that their contributions are deductible.

Form 990EZ, "Short Form Return of Organization Exempt from Income Tax"

If, for any year, (1) the gross receipts of the organization are less than $100,000 and (2) its total assets are less than $250,000 at year end, the organization may file a Form 990EZ. This short-form return will satisfy the requirement to file as long as the dual test requirements are met. Even if the requirements are met, the organization may continue to file the Form 990 if it chooses.

Schedule A (Form 990), "Organization Exempt Under 501(c)(3)"

Schedule A (Form 990) is considered an integral part of Form 990. All 501(c)(3) organizations that are required to file Form 990 or 990EZ also must complete and attach Schedule A (Form 990).

Form 990-T, "Exempt Organization Business Income Tax Return"

Form 990-T must be filed, whether or not Form 990 is also required, if a college or university has gross income of $1,000 or more from business activities unrelated to the organization's exempt purpose. *State and municipal institutions are not exempt from federal tax on their unrelated business income.* This book provides further explanation of filing Form 990—along with guidelines for determining unrelated income. Specific information is provided in IRS Publication 598, *Tax on Unrelated Business Income of Exempt Organizations*.

Estimated Tax Payments: Forms 8109 and 990-W

Tax-exempt organizations must make quarterly payments of estimated tax on unrelated business income under the same rules as corporations. A tax-exempt organization should use Form 990-W to calculate its estimated tax; if the expected tax is $500 or more, quarterly payments must be deposited with Form 8109, "Federal Tax Deposit Coupon," in an authorized financial institution or Federal Reserve bank. Estimated tax payments are generally due by the 15th day of the 4th, 6th, 9th, and 12th months of the tax year.

Any organization that fails to pay the proper estimated tax when due may be charged an underpayment penalty.

An organization that is required to file Form 990-T solely to report and pay the proxy tax on nondeductible lobbying expenditures is not required to make quarterly tax deposits.

DUE DATES 2

Filing Dates

Forms 990 and 990-T must be filed by the 15th day of the fifth month after the end of the organization's fiscal year. For example, an institution with a June 30 year-end must file Form 990, Form 990-T, or the appropriate extensions by the following November 15; a calendar-year institution must file by May 15. Note that state returns, including returns reporting unrelated business income, may be due before the federal returns. The 1995 Form 990 should be used to report on a fiscal year that began anytime in 1995. It is always prudent to file any tax return or extension using certified mail, return receipt requested. Be sure to keep copies of all returns or extensions filed.

Extensions

To request an extension of time for filing Form 990, file Form 2758, "Application for Extension of Time to File" (see chapter 6). Form 2758 requests a nonautomatic extension of a maximum of 90 days. If the return cannot be completed within the 90-day period, an additional extension may be requested. The IRS will not grant extensions for more than six months beyond the original due date.

Colleges and universities may request an automatic six-month extension of time for filing Form 990-T by filing Form 7004, "Application for Automatic Extension of Time to File Corporation Income Tax Return" (see chapter 6). However, any balance due must be properly estimated and paid with the extension request. Failure to pay the amount due may result in an invalid extension, subjecting the institution to penalties and interest.

Penalties for Late Filing or Willfully Not Filing

A penalty of $10 a day, not to exceed the lesser of $5,000 or 5 percent of an organization's gross receipts for the year, may be charged if Form 990 is filed late, unless the organization can prove that the delay was due to reasonable cause or that an extension for filing was granted. The penalty begins on the due date for filing Form 990.

The penalty also may be charged if an incomplete return is filed or if incorrect information is furnished. To avoid requests for missing information, be sure to complete all applicable line items. Use "N/A" (not applicable), "none," or "-0-" where appropriate. If a complete return is not filed or if correct information is not furnished, the IRS will allow a time period to fulfill these requirements. After that period expires, the person failing to comply will be charged a penalty of $10 a day, not to exceed $5,000, unless he or she shows that noncompliance was due to reasonable cause. If more than one person is responsible, they will be jointly and individually liable for the penalty (section 6652(c)).

As a result of legislation passed in 1996, the above penalties for late filing or filing incorrect or incomplete returns are increased to $20 per day, not to exceed $10,000 for returns for taxable years ending on or after July 31, 1996. In the case of an organiza-

tion with gross receipts exceeding $1,000,000 for any year, the penalty increased to $100 per day, with a maximum penalty of $50,000.

Interest and penalty charges are assessed when Form 990-T is filed late or taxes are not paid when due. A penalty of 5 percent of the amount due may be charged for each month or part of a month that the return is overdue, to a maximum of 25 percent. Generally, if the return is filed but all tax due is not paid, the late payment penalty is 0.5 percent of the net amount overdue for each partial or full month (section 6651). Accuracy-related penalties may also be imposed equal to 20 percent of a Form 990-T tax understatement (section 6662). There is also a penalty for underpayment of estimated tax. Interest charges are determined under section 6621.

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

PREPARING FORMS 990 AND 990-T

3

Steps to Preparing Form 990

Step 1: Familiarize Yourself

Familiarize yourself with Form 990 and the related instructions. It may be helpful to review the prior year's return and related work papers. If you have prepared Form 990 previously, read the introduction to this book, focusing on changes in the 1995 forms and instructions.

Step 2: Financial Statements

The basic documents needed in preparing Form 990 are the institution's year-end financial statements and supporting documents. If audited financial statements are available, they should be used; many states require that audited financial statements be attached to state filings. The financial statements serve not only as a source of information, but should also reconcile to the completed Form 990. As such, the financial statements are an important self-check mechanism to verify accurate preparation of the return. This book uses the financial statements of Utopia University, found in appendix A.

Step 3: Eliminate Interfund Transactions

Form 990 is, in essence, a single-column financial statement using a "total all-funds" concept of reporting. Colleges and universities have traditionally reported by fund groups; financial statements have included amounts transferred between fund groups as additions and deductions in each respective fund group. All interfund transfers have been eliminated to preclude reporting the same transaction twice. Colleges and universities that have implemented SFAS Nos. 116 and 117 will not be required to perform such eliminations.

Step 4: Group Income and Expense in Form 990 Format

The institution's revenues, expenses, and changes in net assets or fund balances must be reported using the revenue, expense, and balance sheet classifications of Form 990. For a more detailed explanation of Form 990 classifications, see chapter 4, "Filing Instructions." For an example of how to reconcile the institution's financial statements to the information required on Form 990, refer to appendix B, worksheet A, Form 990 Revenue Format, and worksheets C-1 and C-2, Form 990 Expense Format. Note that the column headings refer to Form 990 line items. If the institution's financial statements cannot be directly transcribed to Form 990, as is most often the case, be sure to maintain the work papers used for the reconciliation.

Step 5: Allocate Indirect Costs

Form 990 requires expenses to be displayed in three general categories: program services, management and general, and fund raising. Most institutions will accumulate certain indirect costs in functional expense categories (e.g., institutional support and operation and maintenance of plant; institutions that have implemented SFAS No. 117 may also have a membership development category). These costs should be allocated among the three Form 990 categories (see the discussion of cost allocation below). Worksheet B, Indirect Cost Center Allocations, provides an example for Utopia University.

Step 6: Prepare Form 990

After completing steps 1–5, you should have sufficient work papers to begin preparation of the income, expense, and balance sheet portions of Form 990. Chapter 4 discusses the preparation of these and other parts of the form.

Step 7: Review and Reconcile

Prior to filing Form 990, review it carefully and ensure that it reconciles correctly to the financial statements. In addition, if the institution reports unrelated business income on Form 990-T, you should ensure that gross income from unrelated activities on both forms are in agreement. Remember, Form 990 is open to public inspection.

Step 8: Copy and Mail

Form 990, as submitted to the IRS, must include the original signature of an officer authorized to sign. Retain a copy of Form 990 as submitted to the IRS. Not only will it be needed for future reference, but the institution is required to make it available for public inspection on demand (see chapter 8). Also, retain work papers needed to support Forms 990 and 990-T. Mail all returns and extension requests, prior to the due date, by certified mail, return receipt requested.

Other Filing Tips

1. To avoid delays and problems in meeting deadlines for filing, start pulling together data and information required to complete forms early.
2. Read the instructions carefully and, to the extent possible, determine in advance if additional information or legal assistance will be needed.
3. The return may be prepared in whole dollar amounts. Drop amounts less than 50 cents, and round up to the next dollar amounts greater than 50 cents.
4. To avoid requests for missing information, complete all applicable line items, answering "yes," "no," or "N/A" to each question on the return. The preparer should make an entry on all lines requiring a total amount ("-0-" when applicable) or enter "none" or "N/A" if an entire part does not apply.
5. Refer to IRS Publication 598 for questions about unrelated business income, and IRS Publication 557 for information about tax-exempt status.
6. For assistance with problems related to IRS processing, refer to IRS Publication 1320, which explains Operation Link, the IRS's problem resolution program.
7. All references in this manual to the "IRC," the "Code,"or "sections" refer to the Internal Revenue Code of 1986, Title 26 of the U.S. Code, as amended.

Cost Allocations

Allocation is an accounting concept that provides a systematic and rational approach to the distribution or apportionment of expenses that are not charged directly to an activity or cost center. Generally accepted allocation methods include allocations based on direct costs of an activity, square footage, salaries, or another reasonable calculation to apportion costs to particular activities or cost centers. The calculation used should have a logical relationship to the item of expense being allocated, and once an allocation method is chosen, it should be used consistently unless there is a good reason to make changes. A change in accounting method may require advance approval of the IRS unless the institution is eligible for an automatic change (see Form 3115).

Colleges and universities accumulate some costs in certain cost centers, such as institutional support and operation and maintenance of plant, that can and should be allocated elsewhere for purposes of Forms 990 and 990-T.

Form 990 Allocations

Institutional costs are generally required to be reported in three broad categories for Form 990: pro-

gram services, management and general, and fund raising. Program services refer to the activities for which the organization was granted exemption (e.g., education and research). Management and general refers to costs for the overall management of the institution (e.g., board meetings, investment activities, legal expenses, and accounting costs). Officers' salaries may also relate to overall management functions, but to the extent such individuals spend time on specific programs or on fund raising, salaries should be allocated accordingly. Fund raising represents costs for soliciting income, including contributions, gifts, grants, or bequests.

The Form 990 instructions provide that a "reasonable method of allocation may be used" if the institution's normal accounting system does not capture expenses in Form 990 format. With respect to completing the forms, the instructions also permit the organization to prepare a one-line allocation as follows:

1. Report salaries, benefits, supplies, etc., for indirect cost centers (such as operation and maintenance of plant) in column C, "Management and General," lines 22–43.
2. Determine the amount of such indirect costs to be allocated to program services and fund raising.
3. Enter the total amount to be allocated as a negative number on line 43, column C.
4. On the same line, enter the amount to be allocated to program services as a positive number in column B and the amount to be allocated to fund raising as a positive number in column D. Because the line nets to zero, no entry is necessary in column A. In the descriptive area of line 43, enter "operation and maintenance of plant." For situations in which costs must be allocated to Part I of the return (e.g., rental expenses), but are also included in Part II, see the Form 990 instructions for a variation on this technique that avoids counting such expenses twice.

If you prefer, you may allocate each expense object (e.g., salaries, benefits, depreciation) included in an indirect cost center directly on lines 22–43. See appendix B, worksheets B, C-1, and C-2 for examples.

Form 990-T Allocations

Generally, corporate income tax methods must be used in computing unrelated business income. Specific tax rules govern the deduction of losses, depreciation, meal and entertainment expenses, and many other costs. For example, only 50 percent of meal and entertainment expenses are deductible. In addition, special rules for exempt organizations govern the allocation of the institution's costs between exempt activities and unrelated business activities. Regulations under Internal Revenue Code section 512, which apply to the computation of unrelated business income, provide that expenses must be directly connected with the carrying on of unrelated trade or business activities. Expenses attributable solely to the conduct of an unrelated business will qualify. Examples include the salaries of individuals engaged exclusively in the conduct of an unrelated business.

When facilities or personnel are used, both in unrelated and related activities, the regulations permit a "reasonable allocation" between the dual uses. For example, if an individual spends 10 percent of his or her time on an unrelated activity and 90 percent on exempt activities, 10 percent of the individual's salary, benefits, and associated costs should be deductible against the unrelated income. Special rules apply to the calculation of unrelated income from so-called exploited exempt activities, including advertising in an otherwise exempt periodical. The advertising calculation is discussed in chapter 5.

The IRS and educational institutions have disagreed on what constitutes a reasonable method of allocation, with respect to such fixed costs as depreciation and interest expense related to dual-use facilities as well as indirect charges. To address this problem, NACUBO convened the UBIT Expense Allocation work group during 1996 to examine the issue of expense allocations for purposes of determining taxable unrelated business income. The association expects to submit its recommendations to the IRS by the end of the year.

The importance of determining a reasonable allocation, following an allocation method consistently, and maintaining documentation as to the method used cannot be overstated. Documenting the reasonableness of an allocation method may require periodic time studies or time sheet reporting, space studies, head counts, and similar measures to substantiate the institution's expenses that are properly allocable to unrelated activities.

Supporting Schedules

Form 990 requires numerous supporting schedules. Schedules should support amounts reported on the tax forms and be reconcilable with year-end institutional account balances. Every supporting document that is submitted to the IRS should—

- include tax year, form number, and line number;
- include the organization's name and employer identification number (EIN);
- include the specific information required by the form;
- follow the format and line sequence of the form; and
- be on the same size paper as the form.

List of Supporting Schedules

The following list indicates some of the schedules or worksheets that should be prepared to support line item information on the tax form. Additional schedules and worksheets may be needed to support or clarify entries on other lines, such as Part II, line 28, Other employee benefits, of Form 990.

IRS Form 990

Part I
Line

1 Contributions, gifts, grants, and similar amounts received
7 Other investment income
8 Gross amount from sale of assets other than inventory
9 Special fund-raising events and activities
10 Gross sales less returns and allowances
16 Payments to affiliates
20 Other changes in net assets or fund balances

Part II
Line

22 Grants and allocations
23 Specific assistance to individuals
24 Benefits paid to or for members
42 Depreciation, depletion, etc.
43 Other expenses (as needed)

Part III
Line

e Other program services

Part IV
Line

50 Receivables due from officers, directors, trustees, and key employees
51a Other notes and loans receivable
54 Investments—securities
55 Investments—land, buildings, and equipment
56 Investments—other
57 Land, buildings, and equipment
58 Other assets
63 Loans from officers, directors, trustees, and key employees
64a Tax-exempt bond liabilities
64b Mortgages and other notes payable
65 Other liabilities

Part V

—Compensation from related organizations

Part VI
Line

76 Activities not previously reported; it is important to apprise the IRS of any new activities undertaken that may not have been mentioned in the institution's application for exemption and were not previously reported
77 Changes in organizing documents
79 Liquidations, dissolutions, substantial contractions

Schedule A (Form 990)

Part III
Line

1 Detailed description of lobbying activities
2 Transactions with officers, directors, trustees, etc.
4 Grant and loan criteria

Part VI-B

—Explanatory schedule if any questions are answered "yes"

IRS Form 990-T

Part I
Line

5 Income (loss) from partnerships
12 Other income
18 Interest expense

Schedule A—Cost of Goods Sold

Line

4a Additional section 263A costs
4b Other costs

Schedule E—Unrelated Debt-Financed Income

Line

3a Depreciation
3b Other deductions
4 Average acquisition indebtedness
5 Average adjusted basis

Schedule F—Income from Controlled Organizations

Line

3 Deductions of controlling organization

FILING INSTRUCTIONS—FORM 990 AND SCHEDULE A (FORM 990)

4

Form 990, "Return of Organization Exempt from Income Tax"—Instructions

The following sections provide guidance for completing each part and line of Form 990 (worksheets and a completed sample form appear in appendices B and C, respectively).

Page 1—General Information

Line

A Date: If the return is for the calendar year, no entry is required. If it is for the fiscal year, fill in the appropriate beginning and ending dates in the space provided.

B Check to note if the 990 reports a different address than used in the previous year or if it is the initial or final filing or an amended return.

C Name, address, city, state, and ZIP code: When provided, the preaddressed IRS label should be affixed in this area. Incorrect information on the label should be corrected. If the label is not provided, the official name, as carried on the letter of exemption, and a street address should be reported with the city, state, and ZIP code.

D Enter the nine-digit employer identification number (EIN) in this area.

E Some institutions file Form 990 with a state or local jurisdiction. The applicable identification number may be reported on this line. Care must be taken when filing returns amended to satisfy state requirements, because an amended return may also need to be filed with the IRS.

F Check this box if the application for tax-exempt status is pending.

G Independent colleges and universities should check "501(c)" and insert "3." Other organizations should indicate under what section of the Code the organization is tax-exempt.

H If the return is a group return filed by a central organization for two or more of its affiliates that are covered by a group exemption letter, check "yes" and enter the number of affiliates. This is the only situation in which more than one organization (legal entity) can be included on the same Form 990. For example, a college or university and its separately incorporated alumni associations or athletic booster clubs generally would be required to file separate returns. Refer to special instructions for group returns under "Q" in the IRS instructions for Form 990.

I This is a special four-digit group exemption number not to be confused with the nine-digit EIN. If this is not a group return, insert "N/A."

J Colleges and universities normally maintain their records on an accrual basis.

K If the institution's gross receipts normally do not exceed $25,000, based on a three-year average that includes the latest complete year, check this box. You will not need to complete the rest of the return.

Part I, "Statement of Revenue, Expenses, and Changes in Net Assets or Fund Balances"

This part of the return requires data from the statement of activities as reported in the institution's audit report or financial statements. If the institution's financial records or reports cannot directly provide the line item information as requested in Part I, prepare and maintain work papers and consolidated schedules to support and reflect allocation methods, the sources of the amounts, and totals that are derived.

For an example of how to reconcile the institution's financial reports to the information required on Form 990, refer to appendix B, worksheet A, Form 990 Revenue Format, and worksheets C-1 and C-2, Form 990 Expense Format. Note the line number references over the headings of columns that correspond to the line numbers in Part I of Form 990 and the amounts entered on the sample completed Form 990 (appendix C).

Line

1 *Contributions, gifts, grants, and similar amounts received.* On lines 1a through 1c, report amounts received as voluntary contributions (gifts) and grants (equivalent to contributions) made to encourage the grantee organization to conduct programs or activities that further its exempt purpose. This includes government grants or other government payments made to provide a service or maintain a facility for the direct benefit of the public, such as a government grant for construction of a library or hospital open to the public. This also includes grants where the grantee performs a service or produces a product that only incidentally benefits the grantor.

If the terms of a grant or contract require that a specific service, facility, or product be provided directly to the grantor to meet the grantor's immediate needs, rather than providing a primarily public service, the IRS instructions state that the grant does not represent a contribution but a payment for services (see page 10, "Grants Equivalent to Contributions," of the Form 990 instructions) and would be reported as either program service revenue (line 2) or other revenue (line 11).

If research is undertaken to develop products directly for the use or benefit of the provider of the funds, the IRS states that this should be treated as serving the payor directly and thus as payment for services. Basic research or studies in the physical or social sciences are generally not treated as serving the payor directly.

NOTE: Noncash contributions (e.g., stocks, bonds, real estate) are reported on line 1 at their estimated fair market value (net of any mortgages or other liabilities also transferred) as of the date of contribution.

NOTE: Some or all of the revenues from fund-raising activities, such as dinner-dances, raffles, or other activities where the donor receives a "return benefit," may be classified as special fund-raising event income rather than contributions. See the instructions for line 9 below.

a *Direct public support.* On this line, report amounts received directly from the public as voluntary contributions to the institution, including gifts, grants, and bequests received from individuals, trusts, corporations, estates, and foundations. Include amounts received by the institution for which a donor does not receive full consideration or benefit from the donee.

b *Indirect public support.* Include on this line contributions received indirectly through solicitation campaigns of federated fund-raising agencies (such as the United Way) or other sources of indirect contributions. Also include amounts contributed by closely associated organizations, such as a parent organization, a subordinate, or other organizations with the same parent.

c *Government grants.* On this line, record grants or other payments from a governmental unit that represent contributions if their primary purpose is to enable the donee to provide a service to, or maintain a facility for the direct benefit of, the public.

d *Total contributions.* Enter the total of lines 1a through 1c. Indicate the amount of cash contributions and noncash contributions received. *Note: Noncash contributions do not include donated services.*

Attach a schedule listing contributors during the year who directly or indirectly gave money, securities, or other property worth at least $5,000. In determining if a donor gave at least $5,000, only include single gifts of $1,000 or more. Do not include smaller gifts. This schedule is not subject to disclosure requirements under the IRS requirements for public inspection of annual returns and does not have to be provided to any state unless specifically required under state law. The schedule should include the following:

1. Name and address of contributor
2. Total contribution
3. For noncash contributions, the date received

A contributor is defined as an individual, fiduciary, partnership, corporation, association, trust, or exempt organization. The schedule need not agree with the total on line 1d.

NOTE: An exception is provided for section 501(c)(3) organizations that meet the 33 1/3 percent support test under section 170(b)(1)(A)(vi) as organizations that receive a substantial part of their support from a governmental unit or direct or indirect contributions from the general public. If the test criteria are met, the schedule of contributions only needs to include gifts of $5,000 or more that exceed 2 percent of the total gifts (see page 11 of the IRS instructions for Form 990). Although colleges and universities qualify as public charities under sections 170(b)(1)(A)(ii) and 509(a)(1), this exception may apply to them if they meet the public support test. It may also apply to their alumni associations and other related organizations.

2 *Program service revenue.* Enter the total of program service revenue reported on Form 990, Part VII, lines 93a through 93g. The amount should include all sources of revenue received as a result of providing program services that support the purposes for which the organization is tax-exempt, generally encompassing tuition, fees, sales and service of educational activities, and auxiliary income. Colleges and universities may report sales of inventory items as program service revenue and record them on this line, which otherwise would be reportable on line 10a. In that event, the cost of goods sold for inventory sales should be recorded on Part I, line 13, and column B of Part II.

3 *Membership dues and assessments.* Unless the college or university has an unusual situation, this line should be left blank.

4 *Interest on savings and temporary cash investments.* All revenues earned from interest-bearing accounts, savings accounts, and temporary investments, including those reported on Part IV, line 46, Savings and temporary cash investments, should be reported on this line. This includes so-called dividends (which are really interest income) received from mutual savings banks or other sources. The total must agree with the amount on Part VII, line 95.

5 *Dividends and interest from securities.* All revenues earned from debt and equity investments of the type reported in Part IV, line 54, Investments—securities, except capital gains, are to be reported on this line. The total must agree with the amount on Part VII, line 96.

6a *Gross rents.* Record gross rental income from investment properties reportable in Part IV, line 55a, Investments—land, buildings, and equipment. This may include both rents subject to unrelated business income tax (UBIT) and rents exempt from UBIT. Do not include amounts that represent income from a program service exempt function (such as the rental of dormitory rooms to students, which should be reported on line 2).

b *Less: rental expenses.* Record rental expenses associated with rental income reported on line 6a.

c *Net rental income (loss).* The total must agree with amounts on Part VII, lines 97 through 98.

7 *Other investment income.* Record investment income for all other investments not recorded on lines 4, 5, and 6. One example would be royalty income from ownership of mineral interests. Prepare and attach a descriptive schedule for other assets carried in Part IV, line 56, and related earnings. Exclude unrealized gains or losses on assets carried at market value (reportable on line 20). Do not include program-related investments (see instructions for line 2). The total must agree with the amount on Part VII, line 99. In the space provided, type "schedule attached."

8

a-c *Gross amount from sale of assets other than inventory (capital gains).* Attach a schedule listing each asset (other than inventory) that was sold or exchanged. For each asset include the following:

- Date acquired
- How acquired
- Date sold
- To whom sold
- Gross sales price
- Cost or basis
- If donated, value at date of donation
- Expenses of sale
- Cost of any improvements
- Depreciation since acquired
- Gain or loss from sale

The schedule should show security transactions separate from other sales in one column. Each sale of publicly traded securities does not need to be listed separately. For publicly traded securities sold through a broker, use the total gross sales price, the total cost or basis, and the expenses of the sales of all such securities sold during the year. Report lump sum figures instead of detailed figures. Use a separate column, titled "other," to report all other types of sales of investments such as partnerships, real estate, or royalty interests.

Do not report in this section any unrealized gains or losses on securities carried at market value. See instructions for line 20, Other changes in net assets or fund balances.

From the prepared schedule, enter on line 8a the amount received from gross sales of securities, on line 8b the cost and sales expenses, and on line 8c the amount of line 8a minus 8b. (These figures should be the same as the totals reported on the prepared schedule.) The total must agree with the amount on Part VII, line 100.

9

a-c *Special fund-raising events and activities.* Special fund-raising events sometimes generate contributions and revenue. If a buyer pays more than the value of the goods or services furnished, report that excess on line 1 as a contribution and, as indicated separately, on line 9a. Report the value of the goods or services on line 9a as gross revenue. On line 9b report only the direct expenses attributable to the goods or services the buyer receives. The total must agree with the amount on Part VII, line 101. If the goods or services the buyer receives are of nominal value, record the receipts on Part I, line 1, and the related expenses on line 15 and in column D of Part II.

Prepare and attach a schedule listing the three largest special events held by the college or university, as measured by gross receipts, that could be classified as special fund-raising events and activities. These special activities are outside of normal efforts to raise contributions, such as an alumni solicitation by mail. The activities may include raffles, dinners, dances, or carnivals that are conducted to raise funds for the tax-exempt organization by offering goods or services where the prices charged are higher than costs.

On the attached schedule, describe each event and indicate for each the gross receipts, the amount of contributions included in gross receipts (see instructions above), the gross revenue (gross receipts less contributions), the direct expenses, and the net income (gross revenue less direct expenses). Furnish the same information (in total amounts only) for all other special events held that were not among the three largest. Indicate the type and number of events not listed individually (for example, three dances and two raffles).

For further instructions on specific reporting requirements, see page 13 of the IRS Form 990 instructions.

10
a-c *Gross sales of inventory less returns and allowances.* These are generally inventory items an organization makes or buys to sell to others; colleges and universities should refer to line 2 for instructions. Ordinarily, colleges and universities will record the sale of inventory items on Part I, line 2, because it is considered part of their program service revenue. If anything other than program services is included, the total must agree with the amount on Part VII, line 102.

11 *Other revenue.* The total reported on this line will be the remainder of all income not included on lines 1 through 10 of Part I. Total must agree with amount on Part VII, lines 103(a) through (e).

12 *Total revenue.* This is the total of lines 1d through 11. If the total gross receipts are less than $100,000, consider filing the short format return, Form 990EZ (see appendix A).

13 *Program services.* The total expense from Part II, line 44, column B is recorded on this line. Program services are primarily functions and activities carried on by the institution that support the purpose for which the institution was created and form the basis of its current tax-exempt status.

14 *Management and general.* The total expense from Part II, line 44, column C is recorded on this line. Management and general should consist of all expenses not directly associated with fund-raising or program services. If part of the time of certain administrators recorded on this line is spent on program services or fund raising, their salaries and expenses should be appropriately allocated among those functions.

15 *Fund raising.* The total expense from Part II, line 44, column D is recorded on this line. Fund-raising expenses are defined as direct or allocable expenses incurred with every aspect of soliciting or participating in a fund-raising activity.

16 *Payments to affiliates.* Attach a schedule listing the name and address of each affiliate that received payments from the institution. Specify the amount and purpose of the payments. An affiliated organization is one that is associated with or closely related to another organization. The payments reported should exclude purchases of goods or services, and are limited to predetermined quota support and other similar transfers. Report the total amount from the schedule on line 16.

17 *Total expenses.* Part I, line 16, is added to Part II, line 44, column A to arrive at total expenses.

18 *Excess (deficit).* On this line enter the difference between lines 12 and 17 of Part I. If line 17 is greater, enter the deficit in parentheses.

19 *Net assets or fund balances at beginning of year.* Line 19 should agree with Part IV, line 73, Total net assets or fund balances, column A. Organizations that adopted SFAS Nos. 116 and 117 during the year may show restated net assets on their audited financial statements. However, such changes should not be reflected on Part IV, lines 67 through 73. The amounts should be included only on Part I, line 20, Other changes, and on a supporting descriptive schedule.

20 *Other changes in net assets or fund balances.* Prepare and attach a schedule explaining any changes in the fund balance that are not covered by revenues on line 12 or expenses on line 17. The schedule should include prior-period adjustments, such as restatements resulting from the adoption of SFAS Nos. 116 and 117, and unrealized gains or losses on investments carried at market value. In Notice 96-30, the IRS waived the requirement to file Form 3115, "Application for Change in Accounting Method," for not-for-profit organizations that made changes to their accounting methods for federal income tax purposes for any tax year beginning after December 15, 1994, to comply with SFAS No. 116, *Accounting for Contributions Received and Contributions Made.*

21 *Net assets or fund balances at end of year.* This total must equal the amount on Part IV, line 73, column B.

Part II, "Statement of Functional Expenses"

Part II of Form 990 may require the preparation of a schedule similar to that provided in sample worksheets C-1 and C-2: Form 990 Expense Format (appendix B). Most institutions prepare detailed revenue and expenditure statements as part of their annual financial statements, but the format generally does not provide the detail required on lines 22 through 43 of Part II.

The preparer should review IRS Form 990 instructions on pages 14 through 17 for filing Part II of the return and then consider the institution's ability to report the specific information as requested on the various lines. If the accounting records do not directly support the data to be reported, the preparer may use a reasonable method of allocation, such as the one shown in worksheet B, Indirect Cost Center Allocations (appendix B). The amounts reported should be fully supported and the method of allocation should be explained on the schedule.

Part II requests data on expenses by object classification, such as salaries, supplies, and travel, and then asks that the information be spread under three functional headings: program services, management and general, and fund raising. Column A is the total of all columns and represents all of the expenses incurred by the organization that are not reported on lines 6b, 8b, 9b, 10b, and 16 of Part I. Column B accumulates the expenditures for program services; the total of column B on line 44 should agree with Part III, line f. Program service expenditures are primarily direct or indirect expenditures that support the activities that the reporting organization created to conduct its tax-exempt mission. However, program service expenses incurred in connection with unrelated business activities also should be reported in column B.

Column C, "Management and general," is used to accumulate and report the organization's expenses for overall management and administrative expenses. Portions of administrative salaries and expenses may be allocated as appropriate to program services or fund-raising activities. All other expenses that are not part of program services or fund raising should be included in this column. For more examples of management and general expenses, see page 15 of the instructions for Form 990.

Column D, "Fundraising," is used to record all fund-raising expenses incurred in soliciting contributions, gifts, and grants. All expenses, including direct or allocable overhead costs incurred in publicizing, soliciting, participating in, preparing, or conducting any fund-raising event or activity are recorded by category in this column. However, any expenses that are directly attributable to the revenue shown on Part I, line 9a should be reported on line 9b.

Allocating Indirect Expenses

Special attention must be paid to the allocation of expenses. Colleges and universities that accumulate indirect expenses in various cost centers will find it helpful to prepare a worksheet to report and distribute direct and indirect expenditures into the required categories, which will in turn support the amounts reported. Before preparing this portion of the return, review worksheet B, Indirect Cost Center Allocations (appendix B).

If more specialized instructions on allocating indirect expenses are needed, refer to page 15 of the IRS Form 990 instructions. The IRS instructions state that indirect cost center expenses may first be accumulated in the management and general expenses column on lines 25 through 43 as appropriate, along with other reported expenses. The next step is to allocate total cost center expenses to other areas. Expenses allocated to Part I, lines 6b, 8b, 9b, and 10b would be entered as negative amounts in columns A and C to prevent reporting the expenses twice. Expenses allocated to column B, "Program Services," and column D, "Fundraising," would be entered as positive amounts in those columns and as a single negative amount in column C, "Management and general expenses." See the example in worksheet B, Indirect Cost Center Allocations (appendix B). The instructions provided with Form 990 are intended only to facilitate the reporting and do not sanction the allocation. The allocation of any expense must be documented and be consistent

with generally accepted accounting principles.

Line

22 *Grants and allocations.* The amount reported for line 22 includes amounts for awards and grants to individuals and organizations selected by the tax-exempt organization, including scholarships, fellowships, and research grants. Prepare and attach a schedule detailing the amounts reported on line 22. Page 15 of the IRS instructions for Form 990 requires a detailed schedule setting out specific items of information, such as donee's name and address, amount given, class of activity, etc. Colleges, universities, and other educational institutions and agencies subject to the Family Educational Rights and Privacy Act (20 U.S.C. 1232g) are not required to list the names of individuals who were provided scholarships or other financial assistance where such disclosure would violate the privacy provisions of the law. Instead, such organizations should group each type of financial aid provided, indicate the number of individuals who received the aid, and specify the aggregate dollar amount.

23 *Specific assistance to individuals.* Unless a college or university has some unique function, there will not be an entry on this line. Amounts to be reported on line 23 include payments to or for the benefit of particular clients or patients for classes of activities such as food, shelter, and clothing, and direct cash payments to indigents. A supporting schedule must be attached for each class of activity.

24 *Benefits paid to or for members.* This figure is not to be confused with the figure for employment-related employee benefits; unless the institution has some unique function, there will not be an entry on this line.

25 *Compensation of officers, directors, etc.* Enter the total compensation paid to officers, directors, and other key employees. In Part V, institutions are requested to provide a list of officers, directors, trustees, and other key employees and the compensation paid to each. Line 25 should agree with the total of amounts reported in Part V, column C.

26 *Other salaries and wages.* Enter the total of other salaries and wages of employees that were not reported on line 25.

27 *Pension plan contributions.* Enter the employer's share of contributions to qualified or nonqualified pension plans for the year.

28 *Other employee benefits.* Enter the amount of other employer contributions to employee benefit plans, such as group insurance, health plans, and welfare programs. A supporting schedule is not required, but if the institution provides various benefit plans, a schedule should be prepared to support amounts reported.

29 *Payroll taxes.* Record on this line the employer's portion of all federal, state, and local payroll taxes for the year.

30 *Professional fund-raising fees.* Enter the fees paid to external professional fund raisers for consulting or other services.

31 *Accounting fees.* Report the total cost of external accounting and auditing services on this line.

32 *Legal fees.* Report the total cost of external legal fees on this line.

33 *Supplies.* Report the total of all supplies used in classrooms, offices, and medical or other areas during the year, based on the institution's normal method of accounting for supplies.

34 *Telephone.* Report total telephone and telegram costs, including on-campus PBX operations.

35 *Postage and shipping.* Report the total amount of postage, parcel delivery, trucking, and other delivery expenses. Include the costs of outside mailing services on this line.

36 *Occupancy.* If the institution pays rent or rental expenses for off-campus facilities, report the expenditures. Do not include any depreciation or salaries of the institution's employees. Purchased

electricity, fuel oil or gas for heating, water, and similar utilities should be reported on this line.

37 *Equipment rental and maintenance.* Report the cost of renting and maintaining office and other equipment, except for automobile and truck expenses that are properly reportable on line 35 (Shipping) or line 39 (Travel).

38 *Printing and publications.* Report the total of all printing and publication costs (except salaries and postage), including newsletters, films, purchased publications, and other informational material.

39 *Travel.* Report the total of all travel expenses, including transportation costs (fares, mileage allowances, and automobile expenses), meals and lodging, and per diem payments.

40 *Conferences, conventions, and meetings.* Report the total cost of meetings and conferences sponsored by the institution related to its activities. Include rental of facilities, speakers' fees and expenses, and printed materials. Do not include salaries or travel costs of employees who participate in the meetings. Registration fees of employees (but not travel expenses) for meetings conducted by other organizations also should be included.

41 *Interest.* Report total interest expenses paid by the institution, except for interest attributable to rental income property, which should be reported on line 6b, and mortgage interest treated as occupancy expense, which should be reported on line 36.

42 *Depreciation, depletion, etc.* If the institution records depreciation, depletion, or amortization, it should be reported on this line. Attach a schedule showing the date that property was acquired, the cost, the depreciable basis, how depreciation was computed, current year depreciation, and accumulated depreciation. A similar schedule should be included for any depletion or amortization recorded. If depreciation is recorded using the modified accelerated cost recovery system (MACRS), attach IRS Form 4562, "Depreciation and Amortization," instead of the schedule. The method used for computing current year depreciation expense on line 42 should be the same method used for computing accumulated depreciation on the balance sheet (Form 990, Part IV).

43 *Other expenses.* Prepare and attach a schedule (or use lines a through f provided on the form) to report other material or significant expenditures not included elsewhere. Report other immaterial miscellaneous expenditures as a single total on this schedule.

44 *Total functional expenses.* This line reports the totals of lines 22 through 43 for the four columns. The total of columns B, C, and D should agree with column A. The total of column B should agree with Part I, line 13, and Part III, line f. The total of column C should agree with Part I, line 14. The total of column D should agree with Part I, line 15.

Joint Costs

Form 990 requires information concerning the allocation of joint costs. Joint costs are defined as costs incurred for both fund raising and educational purposes. For example, an alumni journal that includes both educational material and fund-raising material may be subject to joint cost allocation requirements. Note that educational materials do not include information about the organization itself or about its past or future use of contributions. Although the Form 990 instructions indicate that the IRS will not necessarily accept allocations made in accordance with the AICPA's Statement of Position 87-2, *Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund-Raising Appeal*, the instructions also note that most states will accept such an allocation.

If any joint costs in connection with a fund-raising campaign were reported as program service expenses in Part II, column B, check the box "Yes"; if no such costs were allocated to program services, check

the box "No." If the "Yes" box was checked, indicate the total joint costs of such fund-raising campaigns and the amounts allocated to program services, management and general, and fund raising.

Part III, "Statement of Program Service Accomplishments"

In the space provided, briefly state the organization's primary exempt purpose.

Part III requires a narrative of program service accomplishments. It asks for a description of achievements in meeting the organization's tax-exempt mission and the number of people served by the four largest service areas as measured by total expenses, with a report on the total amount of expenses for all other program service areas. Other parts of Form 990 disclose what funds were available to the tax-exempt organization, how much support it received in the year, and how much it spent. Part III explains what was accomplished by the expenditure of those funds. The IRS has explained Part III as giving the organization the "chance to write its own report card."

Information should be provided for each of the organization's four largest program services, as measured by total expenses incurred, or for each program service if the organization is engaged in four or fewer program services. If part of the total expenses consists of grants and allocations reported on line 22, report that amount in the space at the end of each section provided, a through e. Prepare and attach a schedule that lists other program services and related expenses in addition to the four largest.

The description of the activities, their tax-exempt purposes, and what they accomplished may be brief; it is not necessary to provide detailed information. Part III requires statistics on service outputs, products, or other program measures such as the number of students enrolled or graduated. If this is not appropriate, describe program activities for the year. For a research activity, briefly describe the various objectives as well as the overall long-term goals. If exact information is not available from records, reasonable estimates may be used, but they should be identified as estimates.

The primary program service of a college or university is the education of its students. Institutions may have other activities, such as hospitals, public service programs, and research activities, that support or are related to their primary goal and mission. The primary service, "Instruction," should be listed on Part III, line a; associated expenses should be recorded in the column "Expenses." If expenses associated with this primary service are reported on Part II, line 22, this total must be recorded in the parentheses for "Grants and Allocations" in Part III. Other activities, such as hospital or research activity, should be recorded on lines b through e of Part III.

The total on Part II, column B, line 44 must agree with the total on Part III, line f.

Remember, Form 990 is a public document that is frequently reviewed by the media, donors, state attorneys general, local officials (e.g., those granting property tax exemptions) and others. Although a brief narrative of program activities may suffice, you may wish to provide a more detailed listing of the ways in which the organization provides benefits to the community as a whole. Consider such activities as student programs to assist small businesses or local secondary schools; support for public broadcasting; indigent medical care; scholarships; facilities, such as libraries, made available to the public; and other benefits. It may be prudent to have the statement reviewed by tax or legal counsel to ensure that all activities are consistent with the institution's tax-exempt purpose.

Part IV, "Balance Sheets"

All organizations are required to complete columns A and B of Part IV. Supporting schedules should be prepared and attached if entries are made on lines requiring schedules. *NOTE: Supporting schedules, where required, need provide detail only for end-of-year balances corresponding to amounts shown on Part IV, column B. Detail of beginning-of-year balances shown in column A does not need to be provided.* The institution's audited or unaudited balance sheet should provide a comparable classification of account titles, which will minimize problems in the preparation of Part IV.

Column A

Lines
45-66 Complete these lines using the end of year amounts from the prior year return.

Lines
67-74 For organizations that have adopted SFAS No. 117, check the appropriate box above line 67. The line titles for Net Assets or Fund Balances have been changed on the 1995 Form 990. The previously reported fund balances should be reported as follows:

	1994 designation	1995 designation
Line 67a	Current unrestricted fund	Unrestricted
Line 67b	Current restricted fund	Either temporarily or permanently restricted, as appropriate
Line 68	Land, buildings, and equipment fund	Temporarily restricted
Line 69	Endowment fund	Permanently restricted
Line 70	Other funds (describe) (These amounts should be reported on lines 67-69 as appropriate)	No designation

An organization that has restated its prior year's balance sheet for comparison purposes must include on Form 990 the original amounts that were reported for 1994. Changes to reflect the restatement should be reported on Part I, line 20, as indicated above in chapter 4.

Column B

Lines
45-66 These lines have the same reporting requirements as in 1994. Lines 50, 51a, 54, 55b, 56, 57b, 63, 64a, and 64b require an attached schedule. Line 62 has been changed to "deferred revenue." A supporting schedule is no longer needed for this line. If descriptions for lines 58 and 65 are lengthy, provide an attached schedule for each line.

Lines
67-74 For organizations that have adopted SFAS No. 117, check the appropriate box above line 67. Complete Column B using amounts from the audited financial statements.

Part IV-A, "Reconciliation of Revenue Per Audited Financial Statements with Revenue Per Return"

This part of the form was developed to enable the reader to compare the Form 990 with the organization's audited financial statements. Although the IRS has reflected the adoption of SFAS Nos. 116 and 117 with changes throughout the revised Form 990, certain amounts are presented differently from the audited financial statements. Part IV-A provides a reconciliation of the revenue accounts.

On line a, include the total revenue, gains, and other support as shown on the audited financial statements. Line b provides adjustments to the revenue as follows:

1. Report the unrealized portion of the gains on investments. This amount will also be reported on Part I, line 20.

2. Report any donated services or use of facilities which are included in the audited financial statements as contributions. These amounts may also be reported on Part VI, line 82b. The amount reported on this line should be deducted from the corresponding expense amounts and reported below on Part IV-B, line b(1).

3. Recoveries of prior year grants include any amounts expensed in previous years but returned to the organization during the current fiscal year. This amount will also be reported on Part I, line 20.

4. Report and describe any other amounts which were included on the audited financial statements but are not properly includable on Form 990. An example is the expenses of special event fund-raising activities which are netted against the revenue on Form 990 but shown as fund-raising expenses on the audited financial statements.

Report the total of lines (1), (2), (3), and (4) on line b. Subtract this total from line a, and report on line c.

On line d, report amounts which are shown as revenue on Form 990, but netted against revenue on the audited financial statements.

1. On this line, include investment expenses which are not included on line 6b of Form 990.
2. Report and describe any other amounts which were included on Form 990 but were not reported on the audited financial statements.

Add lines c and d to determine the total revenue on line e. This amount should be the same as the revenue reported on Form 990, line 12.

Part IV-B, "Reconciliation of Expenses Per Audited Financial Statements with Expenses Per Return"

Part IV-B provides a reconciliation of the expense accounts on Form 990 to the expenses on the audited financial statements to reflect the adoption of SFAS Nos. 116 and 117.

On line a, include the total expense and losses as reported on the audited financial statements. Line b provides adjustments as follows:

1. Report any donated services or use of facilities which are included in the audited financial statements as expenses. These amounts should be the same as reported above on Part IV-A, line b(1) described above.
2. Prior year adjustments which appear on Form 990, line 20 should be reported on this line. One such adjustment is the restatement of prior year fund balances to conform to SFAS No. 117.
3. Report on this line any unrealized losses on investments which appear on Form 990, line 20.
4. On this line report and describe any other additions to financial statement expenses or losses which appear on Part II, Form 990.

Report the total of lines (1), (2), (3), and (4) on line b. Subtract this total from line a, and report on line c.

On line d, report amounts which are shown as expenses on Form 990, but netted against revenue on the audited financial statements.

1. On this line, include investment expenses which are not included on line 6b of Form 990.
2. Report and describe any other amounts which were included on Form 990 but were not reported on the audited financial statements.

Add lines c and d to determine the total expenses on line e. This amount should be the same as the expense reported on Form 990, line 17.

Part V, "List of Officers, Directors, Trustees, and Key Employees"

Prepare a schedule listing each officer, director, trustee, and key employee with his or her address. A key employee is an individual with powers similar to those of an officer, director, or trustee, such as chief management and administrative officials of an organization. The Form 990 instructions specify chancellors and executive directors as key employees. A person is not a key employee if he or she is the head of a separate department or smaller unit within the organization.

Column A has space for 10 names and addresses. If this is insufficient, prepare and attach a supporting schedule in the same format, and on the first line of Part V type "schedule attached." Column B should report the title and average hours per week devoted to the position. Column C should show the compensation received for services rendered in that position, or "-0-" if none was paid. In this column include salary, fees, bonuses, and severance payments paid. Column D should report any employer contributions made to an employee benefit plan and any deferred compensation and future severance payments. Column E should report any expense accounts, auto allowances, or similar benefits that the recipient must report as income on his or her income tax return, as well as any other taxable or nontaxable fringe benefits other than de

minimis fringe benefits described in Code section 132(e). All forms of compensation should be included in columns C through E, even amounts such as employer contributions to qualified pension plans that are not currently taxable to the recipient. The IRS may use this information for cross-checking purposes to verify accuracy of data reported and to ensure compliance with other tax provisions, such as payroll tax withholding.

Form 990 also requires disclosure of compensation received by certain officers, directors, trustees, or key employees from related organizations. Disclosure applies if the individual (1) receives more than $100,000 in aggregate compensation from the institution and all related entities *and* (2) more than $10,000 of the compensation has been derived from the related entity or entities. *NOTE: For the purposes of this test, "compensation" includes all items reportable in columns C, D, or E of Form 990, Part V. Thus, compensation may include retirement plan contributions, deferred compensation, insurance benefits, and similar items in addition to salary.* If both tests are met, attach a schedule showing the name of the related organization, the name of the individual, and the amount of compensation provided. Use the same format as for reporting compensation in Part V, columns C, D, and E.

In general, a related entity is a for-profit or nonprofit organization that the institution owns or controls, or one that owns or controls the institution. "Owns" means the direct or indirect ownership of 50 percent or more of (1) the voting rights (including voting rights of nonstock organizations), (2) the profit interests (as in a partnership), or (3) the beneficial interests (as in a trust). "Controls" means that the institution (1) appoints 50 percent or more of the officers, directors, trustees, or key employees of the other organization; (2) the other organization appoints 50 percent or more of the institution's officers, directors, trustees, or key employees; or (3) that there is a 50 percent or more overlap between the officers, directors, trustees, or key employees with those of the other organization. Related organizations also include supporting organizations whether or not there is 50 percent or greater ownership or control. Under this definition, the organization will be related to another organization if either (1) one purpose of the other organization is to benefit or further the purposes of the organization, or (2) one purpose of the organization is to benefit or further the purposes of the other organization. Examples might include a college alumni association or fund-raising organization.

For instance, if a key employee of an institution received $100,000 of compensation from the institution and $15,000 of compensation from a related fund-raising organization, the institution would be required to attach a schedule showing the $15,000 compensation paid by the fund-raising organization. Similarly, if the key employee is also a key employee of the fund-raising organization, the fund-raising organization would be required to disclose on a schedule the compensation paid to the individual by the institution.

Part V is of great interest to the media and general public. The information in Part V must be made available for inspection to the public, along with other data and information on Form 990 (except for the list of contributors required by Part I, line 1d). The law does not contain any exceptions that allow withholding of this information. (See chapter 8 for a detailed explanation of the public disclosure requirements.)

Part VI, "Other Information"

One of the purposes of Part VI is to remind tax-exempt organizations of IRS reporting requirements. The responses may also alert the IRS to potential compliance problems. For instance, several lines in Part VI relate to compliance with other tax law requirements. Line 78 pertains to unrelated business income and filing Form 990-T. Line 83 asks if the institution complied with public inspection requirements for returns and exemption applications. Line 84 asks if the institution solicited any gifts or contributions that were not tax deductible by the donor and, if so, if the institution regularly included an expressed statement in fund-raising materials advising that certain gifts may not be tax deductible. Most colleges and universities are eligible to receive tax-deductible charitable contributions and should mark this question "N/A."

It is prudent to carefully consider line 76, regarding changes in activities, and line 77, regarding changes in organizing documents. Any such changes may affect the organization's tax-exempt status and/or its liability for unrelated business income tax. Each question should be reviewed and answered "yes" or "no" where appropriate. No line should be left unanswered. If the line does not require a "yes" or "no" answer and does not apply to the institution, answer "N/A." If a question exists regarding the correct answer, seek assistance from tax or legal counsel. Some lines may require the attachment of supporting documents.

Part VII, "Analysis of Income-Producing Activities"

Part VII analyzes income, other than contributions, gifts, and grants, and requires distribution of the information into three major categories: unrelated business income, excluded income, and related (exempt) income. Unrelated business income must be assigned an IRS business code; excluded income must be assigned an IRS exclusion code; and related income must be explained and supported in Part VIII. Income is broken out slightly differently in Part VII than it is in Part I.

Before recording amounts in the three categories, it is advisable to prepare a worksheet listing income categories from lines 93 through 103 with the total revenue for each category. The amounts should correspond with those reported in Part I. The following table indicates where line amounts reported in Form 990, Part I should agree with the amounts reported in Part VII.

Comparison of Amounts Reported on Form 990, Parts I and VII

Part I	Part VII
Line	Line
2	93(a)–(g)
3	94
4	95
5	96
6c	97 and 98
7	99
8d	100
9c	101
10c	102
11	103(a)–(e)
12	105 (plus Part I, line 1d)

After the amounts have been verified, they should be spread among the columns in the worksheet as required for Part VII.

Unrelated Business Income—Columns A and B

In the first section, the preparer must review all activities and sources of income and determine if any should be classified as unrelated business income in column B. Each item of unrelated business income must be listed for columns A and B.

A business code that identifies the type of activity that generated the income should be inserted in column A. These codes are the same ones used to classify unrelated activities on Form 990-T (see chapter 5). If a question exists as to the classification of unrelated business income, seek assistance from a tax adviser or legal counsel. All revenues included in column B must be reported on Form 990-T as taxable income. Be sure to reconcile items reported in column B to Form 990-T.

Income Excluded by Sections 512, 513, or 514—Columns C and D

In the second section, the preparer must determine which revenues are excluded from unrelated business income by applying the specific exclusions in Internal Revenue Code sections 512, 513, and 514. The IRS has prepared a list of 40 exclusion codes based on sections 512, 513, and 514 (see page 24). Codes 1 through 5 cover the general exceptions to unrelated business income provided under sections 512(a)(1) and 513(a). The next group, codes 6 through 13, relates to specific exceptions under section 513(d)–(h). Specific types of income excluded from unrelated business taxable income under section 512(b) are covered

Exclusion Codes

General Exceptions

01— Income from an activity that is not regularly carried on (section 512(a)(1))

02— Income from an activity in which labor is a material income-producing factor and substantially all (at least 85%) of the work is performed with unpaid labor (section 513(a)(1))

03— Section 501(c)(3) organization—Income from an activity carried on primarily for the convenience of the organization's members, students, patients, visitors, officers, or employees (hospital parking lot or museum cafeteria, for example) (section 513(a)(2))

04— Section 501(c)(4) local association of employees organized before 5/27/69—Income from the sale of work-related clothes or equipment and items normally sold through vending machines; food dispensing facilities; or snack bars for the convenience of association members at their usual places of employment (section 513(a)(2))

05— Income from the sale of merchandise, substantially all of which (at least 85%) was donated to the organization (section 513(a)(3))

Specific Exceptions

06— Section 501(c)(3), (4), or (5) organization conducting an agricultural or educational fair or exposition—Qualified public entertainment activity income (section 513(d)(2))

07— Section 501(c)(3), (4), (5), or (6) organization—Qualified convention and trade show activity income (section 513(d)(3))

08— Income from hospital services described in section 513(e)

09— Income from noncommercial bingo games that do not violate state or local law (section 513(f))

10— Income from games of chance conducted by an organization in North Dakota (section 311 of the Deficit Reduction Act of 1984, as amended)

11— Section 501(c)(12) organization—Qualified pole rental income (section 513(g))

12— Income from the distribution of low-cost articles in connection with the solicitation of charitable contributions (section 513(h))

13— Income from the exchange or rental of membership or donor list with an organization eligible to receive charitable contributions by a section 501(c)(3) organization; by a war veterans' organization; or an auxiliary unit or society of, or trust or foundation for, a war veterans' post or organization (section 513(h))

Modifications and Exclusions

14— Dividends, interest, payments with respect to securities loans, annuities, income from notional principal contracts, loan commitment fees, and other substantially similar income from ordinary and routine investments excluded by section 512(b)(1)

15— Royalty income excluded by section 512(b)(2)

16— Real property rental income that does not depend on the income or profits derived by the person leasing the property and is excluded by section 512 (b)(3)

17— Rent from personal property leased with real property and incidental (10% or less) in relation to the combined income from the real and personal property (section 512(b)(3))

18— Gain (or loss, to the extent allowed) from the sale of investments and other non-inventory property and from certain inventory property acquired from financial institutions that are in conservatorship or receivership (section 512(b)(5))

19— Income or loss from the lapse or termination of options to buy or sell securities, or real property, and from the forfeiture of good-faith deposits for the purchase, sale, or lease of investment real property (section 512(b)(5))

20— Income from research for the United States; its agencies or instrumentalities; or any state or political subdivision (section 512(b)(7))

21— Income from research conducted by a college, university, or hospital (section 512(b)(8))

22— Income from research conducted by an organization whose primary activity is conducting fundamental research, the results of which are freely available to the general public (section 512(b)(9))

23— Income from services provided under license issued by a Federal regulatory agency and conducted by a religious order or school operated by a religious order, but only if the trade or business has been carried on by the organization since before May 27, 1959 (section 512 (b)(15))

Foreign Organizations

24— Foreign organizations only—Income from a trade or business NOT conducted in the United States and NOT derived from United States sources (patrons) (section 512(a)(2))

Social Clubs and VEBAs

25— Section 501(c)(7), (9), or (17) organization—Non-exempt function income set aside for a charitable, etc., purpose specified in section 170(c)(4) (section 512(a)(3)(B)(i))

26— Section 501(c)(7), (9), or (17) organization—Proceeds from the sale of exempt function property that was or will be timely reinvested in similar property (section 512(a)(3)(D))

27— Section 501(c)(9), or (17) organization—Non-exempt function income set aside for the payment of life, sick, accident, or other benefits (section 512(a)(3)(B)(ii))

Veterans' Organizations

28— Section 501(c)(19) organization—Payments for life, sick, accident, or health insurance for members or their dependents that are set aside for the payment of such insurance benefits or for a charitable, etc., purpose specified in section 170(c)(4) (section 512(a)(4))

29— Section 501(c)(19) organization—Income from an insurance set-aside (see code 28 above) that is set aside for payment of insurance benefits or for a charitable, etc., purpose specified in section 170(c)(4) (Regulations section 1.512(a)–4(b)(2))

Debt-financed Income

30— Income exempt from debt-financed (section 514) provisions because at least 85% of the use of the property is for the organization's exempt purposes (**Note:** *This code is only for income from the 15% or less non-exempt purpose use.) (section 514(b)(1)(A))*

31— Gross income from mortgaged property used in research activities described in section 512(b)(7), (8), or (9) (section 514(b)(1)(C))

32— Gross income from mortgaged property used in any activity described in section 513(a)(1), (2), or (3) (section 514(b)(1)(D))

33— Income from mortgaged property (neighborhood land) acquired for exempt purpose use within 10 years (section 514(b)(3))

34— Income from mortgaged property acquired by bequest or devise (applies to income received within 10 years from the date of acquisition) (section 514(c)(2)(B))

35— Income from mortgaged property acquired by gift where the mortgage was placed on the property more than 5 years previously and the property was held by the donor for more than 5 years (applies to income received within 10 years from the date of gift) (section 514(c)(2)(B))

36— Income from property received in return for the obligation to pay an annuity described in section 514(c)(5)

37— Income from mortgaged property that provides housing to low and moderate income persons to the extent the mortgage is insured by the Federal Housing Administration (section 514(c)(6)) (**Note:** *In many cases, this would be exempt function income reportable in column (E). It would not be so in the case of a section 501(c)(5) or (6) organization, for example, that acquired the housing as an investment or as a charitable activity.*)

38— Income from mortgaged real property owned by: a school described in section 170(b)(1)(A)(ii); a section 509(a)(3) affiliated support organization of such a school; a section 501(c)(25) organization, or by a partnership in which any of the above organizations owns an interest if the requirements of section 514(c)(9)(B)(vi) are met (section 514(c)(9))

Special Rules

39— Section 501(c)(5) organization—Farm income used to finance the operation and maintenance of a retirement home, hospital, or similar facility operated by the organization for its members on property adjacent to the farm land (section 1951(b)(8)(B) of Public Law 94-455)

Trade or Business

40— Gross income from an unrelated activity that is regularly carried on but, in light of continuous losses sustained over a number of tax periods, cannot be regarded as being conducted with the motive to make a profit (not a trade or business)

by codes 14 through 23. Codes 24 through 29 relate to certain types of organizations and are not applicable to most colleges and universities. Codes 30 through 38 cover various exclusions for income from debt-financed property under section 514(b) and 514(c). Code 39 concerns a special circumstance relating to farm income that will not apply to colleges. The last code, 40, is for income from an activity that, due to repeated losses, cannot be classified as a trade or business.

Amounts of income should be recorded in column D, and the appropriate exclusion code noted in column C. If more than one exclusion code is applicable to an activity, the code with the lowest number should be used. The codes that will apply most often to colleges and universities include the following:

- 3 For convenience of students, faculty, and visitors
- 14 For dividends and interest income (not debt-financed)
- 18 For capital gains from the sale of investments
- 21 For research income

Assignment of the IRS exclusion codes should be carefully considered. There are gray areas in the tax law concerning the appropriate codes, and there may be additional ramifications based on the code selected. For example, the description of exclusion code 40 is "Gross income from an unrelated activity that is regularly carried on but, in light of continuous losses sustained over a number of tax periods, cannot be regarded as being conducted with the motive to make a profit (not a trade or business)."

Using code 40 may have several consequences. If income from an activity is classified as excluded due to lack of a profit motive, the losses may not be used to offset unrelated business income from other activities. In the future, if the activity should turn around and show a profit, the use of code 40 will preclude use of net operating carryover to offset future profits.

There are indications that the IRS may consider income from dormitory and cafeteria fees excluded from unrelated business income because of the convenience exemption (section 513(a)(2)), not because such income represents related or exempt function income. However, many institutions traditionally have viewed provision of dormitory space and meals to students as an integral part of the college educational experience and feel they can justify and support income from these activities as related to the institution's exempt purpose. Dormitory and student food service income is reported in column E on the sample form provided (appendix C), based on the assumption that the institution can support reporting the amounts as related income given its particular program activities.

It is expected that the IRS will establish systems to carefully review and monitor information related to the exclusion of income. It is important to understand the codes, to assign them as accurately as possible, and to be cognizant of the implications of using particular exclusion codes. It is advisable to discuss this portion of the return with a tax adviser due to the complex nature of the issues involved.

Related or Exempt Function Income—Column E

In the third section, column E, enter the remaining sources of revenue that represent the institution's exempt function income. Amounts reported should be gross amounts unless otherwise indicated. Exempt function income is revenue generated by activities that are "substantially related" to an organization's tax-exempt purposes. In some cases, income may appear to qualify as substantially related and also specifically excluded under sections of the law. In these situations the income should be reported in column E as substantially related. In general, it is best to categorize income as generated by an exempt function where appropriate and not rely on a statutory exclusion provision. It is important to review the situation with a legal or tax adviser.

The total on line 105 plus the total on Part I, line 1(d) should equal the amount on Part I, line 12.

Part VIII, "Relationship of Activities to the Accomplishment of Exempt Purposes"

Part VIII requires a description of how income reported in Part VII, column E, "Related or exempt function income," supports the organization's tax-exempt purposes. It may be difficult to provide concise statements, but organizations must explain what purpose is supported and how the activity contributes to the accomplishment of that purpose other than by providing funds for it. Some typical responses that relate to college and university activities include the following:

- Contributes to the overall educational well-being of students
- Provides necessary physical accommodations for students
- Educates and stimulates public interest
- Promotes the welfare of ...
- Is related to the organization's educational and civic purposes
- Represents a recovery of some of the cost of program services
- Fosters feelings of identification, loyalty, and participation typical of a well-rounded educational experience
- Promotes student intellectual growth and development
- Facilitates the need of students to achieve educational goals
- Provides a convenient source of materials, supplies, and other services that support educational activities

Part IX, "Information Regarding Taxable Subsidiaries"

Institutions must complete this portion of the return if the answer to Part VI, line 88 is "yes." If the answer is "yes," additional information about the taxable subsidiary must be provided, such as name, address and EIN, ownership interest of parent organization, the type of activities undertaken, year-end assets, and total income for the year.

Form 990—Sample Completed Form

A sample completed Form 990, together with some of the required supporting schedules, is included in appendix C of this book.

The following worksheets are provided in appendix B to illustrate how to progress from the sample institution's financial statements to the reporting requirements on Form 990:

- Worksheet A: Form 990 Revenue Format
- Worksheet B: Indirect Cost Center Allocations
- Worksheets C-1 and C-2: Form 990 Expense Format

The sample financial statements, which provide the basis for the completed sample forms, are taken from appendix 1 of *Ratio Analysis in Higher Education: Measuring Past Performance to Chart Future Direction* (KPMG Peat Marwick LLP and Prager, McCarthy & Sealy, 1995). They are reprinted in appendix A on pages 64-66.

Schedule A (Form 990), "Organization Exempt Under 501(c)(3)"—Instructions

The purpose of Schedule A (Form 990) (completed sample form in appendix C) is to provide additional information not required by Form 990. Schedule A must be filed by organizations that are tax exempt under Internal Revenue Code sections 501(c)(3), 501(e), 501(f), and 501(k), and certain nonexempt charitable trusts. Schedule A is considered an integral part of Form 990 and should cover the same time period. The following sections describe or clarify the type of information and data required for each part of Schedule A (Form 990). If additional space is needed, attach properly identified continuation sheets and show totals on the printed form.

Part I, "Compensation of the Five Highest Paid Employees Other than Officers, Directors, and Trustees"

On the five lines provided in column a, list the names and addresses of the five most highly compensated employees paid more than $50,000. Exclude any officers, directors, trustees, or key employees listed on Form 990, Part V. In columns b through e, report each employee's title, hours devoted to job, compensation, contributions to benefit plans, and expense accounts or other allowances.

On the bottom line of Part I, report the total number of other employees paid more than $50,000 who are not individually named above. If none, write "none."

Part II, "Compensation of the Five Highest Paid Independent Contractors for Professional Services"

On the lines provided for column a, list the names and addresses of the five highest paid independent contractors (individuals or firms) who performed professional services for the institution and received in excess of $50,000 for the year. Identify the type of service provided in column b and total payment for services in column c.

On the bottom line of Part II, report the total number of other independent contractors who received more than $50,000 for their services and are not named above. If none, write "none."

Part III, "Statements About Activities"

Explanatory statements may be required for Part III if the institution engages in any one of three types of activities: lobbying; making transactions related to officers, directors, or trustees; and disbursing grants, scholarships, fellowships, and student loans. A statement should be attached to explain how qualified individuals or organizations who receive payments will use them for charitable purposes.

Line

1 *Lobbying activities.* Under current law, section 501(c)(3) organizations are prohibited from engaging in political activities (e.g., intervening in political campaigns) and are restricted as to the expenditure of funds and efforts aimed at influencing legislation. Those organizations must limit their lobbying activities to an insubstantial portion of their activities unless they elect to be governed by specific dollar expenditure limitations set forth in section 501(h). Section 4955 also imposes an excise tax on any amount paid or incurred by a section 501(c)(3) organization in connection with any intervention in a political campaign on behalf of, or in opposition to, a candidate for public office.

If line 1 is checked "yes," the space for total payments for legislative activities must be filled in. Normally, the total payments should equal the amounts shown on Schedule A, Part VI-A (for electing institutions) or Part VI-B (for nonelecting institutions). See the instructions for Part VI, below, for more information on lobbying activities.

2 *Business activities with a trustee, director, principal officer, or key employee.* It may be difficult for some institutions to determine whether they directly or indirectly are doing some form of business with a trustee, director, principal officer, key employee, or any taxable entity that they are affiliated with; it is often possible or necessary to do business with one or more of these individuals for valid purposes. Section 503(b) lists prohibited transactions that form the basis for lines 2a, b, c, d, and e. These prohibitions were established to ensure against any unreasonable gain, treatment, or benefit by one of the listed individuals. Refer to legal counsel if doubt exists concerning a valid response.

If the compensation or repayment on line 2d relates to amounts reported in Part V of Form 990, check "yes" and write "see Part V, Form 990" on the dotted line. A "yes" response is not required for transactions with another 501(c)(3) organization (other than a private foundation).

3 *Scholarships, fellowships, or loans.* Most colleges award grants, scholarships, fellowships, and student loans. If this is the case, answer "yes."

4 *Attached statement.* This line requires the institution to attach a statement related to the institution's disbursement of funds to qualified individuals in furtherance of its charitable purpose. Scholarships, grants, and fellowships qualify under this category. The attached statement should explain the process by which students qualify for, are selected to receive, and are awarded any form of grant or aid. Basic policy statements, such as those published in catalogs or provided to students through the student financial aid office, should satisfy this requirement.

Part IV, "Reason for Non-Private Foundation Status"

Check one box on lines 5 through 14 to indicate why the organization is not a private foundation. The letter received by the organization from the IRS approving its tax-exempt status states the reason. Most colleges and universities will check the box on line 6 for "A School." If there is a question concerning the status, consult with legal counsel. If line 6 is checked, the remainder of Part IV, lines 15 through 28, may be ignored.

Part V, "Private School Questionnaire"

All schools that checked the box on line 6 in Part IV must complete Part V. This portion of the return involves the institution's racial nondiscrimination policies and requires "yes" or "no" answers. Do not answer these questions unless documented evidence is available to support each answer, as this portion of the return is reviewed in every federal audit. Records should be maintained on a current basis to support responses to these questions. They should include a copy of the institution's policy, as well as examples of the policy in brochures, catalogs, and other publications. Furthermore, it is necessary to produce statistics to show racial composition of faculty, staff, administrative staff, and student body. Assistance in preparing this part of the return may come from the admissions office, personnel office, registrar's office, publications office, and legal counsel.

Part VI, "Lobbying Expenditures by Public Charities"

As discussed above, no "substantial part" of the activities of a section 501(c)(3) organization may consist of lobbying. Because the "substantial part" test is highly subjective, Congress provided a means by which organizations may elect under section 501(h) to have their lobbying activities measured under the expenditure test of section 4911. The election is accomplished by filing Form 5768. If the institution has made the election, complete Part VI-A; if the institution has not made the election, complete Part VI-B. Institutions that answered "no" to the question on Part III, line 1, do not have to complete Part VI.

Part VI-A: Electing Organizations

The IRS and Treasury Department have issued detailed regulations on the calculation of lobbying expenditures for electing organizations. The regulations cover numerous topics, including definitions of direct and grass-roots lobbying, the special treatment for communications to an organization's members, and special exclusions (see IRS regulations §1.501(h) and §56.4911).

Generally, a lobbying communication must refer to specific legislation and must reflect a view on the legislation. In the case of grass-roots lobbying, the communication must also encourage the recipient to take action with respect to the legislation. Exceptions are provided for nonpartisan analysis, study, or research; examinations and discussions of broad social, economic, and similar problems; requests by legislators for technical advice; and communications pertaining to "self-defense" of the organization.

If either the lobbying nontaxable amount or the grassroots nontaxable amount is exceeded in any year, the organization is subject to an excise tax which must be reported on Form 4720. Exceeding either nontaxable amount by 150 percent over a four-year period will cost the organization its exemption.

Part VI-B: Other Organizations

Nonelecting organizations are required to complete Part VI-B and to attach a schedule giving a detailed description of all lobbying activities. The Schedule A instructions refer nonelecting organizations to IRS regulations §1.162-20, which generally governs the deductibility or nondeductibility of lobbying and other legislative-related expenses for taxable businesses. Unfortunately, §1.162-20 does not provide a definition of "lobbying"; however, it does define definitions of "expenditures for the promotion or defeat of legislation," including attempts to influence the public on legislation. See also Revenue Rulings 78-111, -112, -113 and -114 and Private Letter Ruling 8115024 for discussion of the regulations.

Part VII, "Information Regarding Transfers to and Transactions and Relationships with Noncharitable Exempt Organizations"

Colleges and universities must disclose information with respect to their direct or indirect relationships with other organizations described in section 501(c) or section 527 (political organizations). Line 51 asks "yes" or "no" questions related to engaging in transfers or other transactions with specific organizations. This disclosure does not include other 501(c)(3) organizations. If a "yes" answer is given, a schedule is provided to list detailed information, including a description of the transfer or other type of transaction, the amount involved, and the name of the noncharitable exempt organization.

Information about affiliations with other organizations that include an element of control or a historic or continuing relationship is requested on line 52. Consult a tax adviser or legal counsel if there is a question as to the nature or possibility of such a relationship.

Line

51 This question is divided into three parts. If the institution has had transfers or transactions or has shared facilities with a section 501(c) organization (other than a section 501(c)(3) organization) or a section 527 organization, the name of the organization, dollar amount, and nature of the transaction must be disclosed. The IRS instructions included as part of Schedule A (Form 990) describe exceptions for certain transactions with unrelated organizations.

52 If the organization is affiliated with or related to one or more other organizations described in section 501(c), disregarding other section 501(c)(3) organizations, or if it is affiliated with or related to a political organization described in section 527, answer question 52a "yes." If the answer is "yes," the institution must list the name and type of organization and describe the relationship in the space provided.

Schedule A (Form 990)—Sample Completed Form

The sample completed Schedule A (Form 990) in appendix C provides information and answers that are examples only and should not be construed as representative answers for every institution. For questions or problems related to completion of this schedule, consult a tax adviser or legal counsel.

UNRELATED BUSINESS INCOME TAX AND FILING INSTRUCTIONS—FORM 990T

5

The Unrelated Business Income Tax

The unrelated business income tax (UBIT) was enacted in 1950 to ensure that tax-exempt organizations pay their share of taxes on income derived from business activities that do not contribute to their exempt purposes. Prior to that time, unrelated business activities were exempt as long as the income was used for charitable purposes. The UBIT law was a result of concern about the abuse of tax-free status by nonprofits involved in business activities.

The congressional intent behind UBIT was primarily to (1) prevent unfair competition between taxable businesses and tax-exempt organizations with respect to commercial activities unrelated to an exempt purpose and (2) prevent a federal tax revenue loss that could result from tax-exempt organizations purchasing taxable businesses and operating them on a tax-free basis. Under current law, both the source of income and its use have become critical elements in determining whether or not income of a not-for-profit organization is related to its exempt mission.

There are certain specific exclusions that apply to UBIT and other provisions that determine if income is subject to tax. A general overview of the current UBIT law and its application follows.

Unrelated Business Activities

The UBIT law was not intended to have any effect upon the tax-exempt status of an organization, nor was it intended to discourage tax-exempt organizations from engaging in related commercial activities, regardless of their competitive nature. Rather, it was intended to impose the same tax upon unrelated commercial activities as is imposed upon taxable businesses.

Currently, income of an exempt organization is subject to tax if the income is derived from a *trade or business* that is *regularly carried on* by the organization and is *not substantially related* to its exempt mission.

Trade or business. The term "trade or business" includes any activity carried on for the production of income from selling goods or performing services. In general, any activity of an exempt organization that is regularly carried on, produces income from the sale of goods or the performance of services, and is not substantially related to the organization's exempt purpose is subject to UBIT. There are exceptions for income-generating activities that do not possess the characteristics of a trade or business, such as the sale of low-cost articles incidental to the solicitation of charitable contributions.

Regularly carried on. The purpose of this distinction is to place exempt organization business activities on the same tax basis as nonexempt business activities with which they may compete. For example, income derived from annual fund-raising dinners or dances is exempt from UBIT, while income derived from an activity that may take place once a week on a continuing basis throughout the year is subject to UBIT unless a specific exclusion applies (such as conducting the activity using substantially all-volunteer labor).

Substantially related. Income generated from a trade or business that is regularly carried on may be exempt from UBIT if the activity "contributes impor-

tantly" to carrying out the exempt mission of the organization (other than the organization's need to produce income to finance its exempt activities). This type of income is substantially related. To determine whether or not a business activity contributes importantly to achieving the exempt organization's mission, emphasis is placed on the size and extent of an activity. Activities that are conducted on a scale larger than reasonably necessary are more likely to be treated as unrelated. The point to remember is that the substantially related test focuses only on the activity that generates the income, not on any use made of the profits generated by the activity.

Exclusions and Qualifications

There are numerous qualifications, conditions, and exceptions to UBIT. The original legislation excluded any activity that is performed without compensation; is carried on by a section 501(c)(3) organization for the convenience of its members, students, patients, officers, or employees; or consists of selling donated merchandise. Current exceptions and qualifications include the following:

Passive income. UBIT generally does not apply to dividends, interest, royalties (including overriding royalties), rents on real (but not personal) property, annuities, and capital gains. For example, endowment fund income is not taxed. These exclusions, however, generally do not apply to income derived from debt-financed property. In addition, interest, rent, royalty, and annuity income derived from a controlled subsidiary (whether taxable or tax-exempt) may represent unrelated income to the exempt parent.

Research income. Income from research conducted for the government and from research conducted by colleges, universities, and hospitals is exempt from UBIT. Research, under this exclusion, does not include ordinary product testing or design, which is generally carried on in commerce and industry.

Member convenience. Any unrelated activity conducted by an organization for the convenience of its members (students, faculty, staff, patients, etc.) is generally exempt from UBIT unless income is generated from sales to nonmembers. In this case, only nonmember sales are taxed unless the sales are not regularly carried on (in which case no tax applies). This exception applies, for instance, to income earned by an institution that operates a laundry facility specifically used by students.

Volunteer work. UBIT does not apply to income from an activity in which substantially all of the work is performed without compensation if labor is a material income-producing factor in the activity.

Student services. UBIT does not apply to income from an activity in which students perform, in general, 50 percent or more of the services as part of an educational curriculum.

Low-cost articles. When tax-exempt organizations are eligible to receive tax-deductible charitable contributions, UBIT does not apply to income generated from the distribution of low-cost items incidental to the solicitation of charitable contributions.

Special Rules

There are special UBIT rules for computing the taxable income on certain income-generating activities.

Deductions. Exempt organizations are allowed a specific unrelated income deduction of $1,000 before computing UBIT. Only income and deduction items subject to UBIT are to be taken into account in computing UBIT net operating losses. Exempt organizations also generally are entitled to deductions of up to 10 percent of UBIT for charitable contributions, whether or not these are related to the operation of a trade or business.

Joint ventures. Income from joint ventures is generally exempt from UBIT if it contributes importantly to the exempt purpose or if it is carried on for the convenience of members. Care must be taken to ensure that the exempt organization is not serving the private purposes of the for-profit entity participating in the joint venture.

Advertising. Income from advertising sales is exempt from UBIT when it is derived from an instruc-

tional program or when the advertising performs an informational service, as opposed to a promotional service. UBIT is usually applied in the case of general consumer advertising that does not contribute importantly to the exempt mission. An example of advertising income exempt from UBIT is income from paid advertising published in a campus newspaper operated by students as part of their education. While the advertising may be of a commercial nature, the solicitation, sale, and publication of that advertising contributes to the institution's educational program.

Form 990-T, "Exempt Organization Income Tax Return"—Instructions

General Instructions

Any organization exempt under section 501(a), including colleges and universities, must file Form 990-T (a completed sample form is in appendix C) if it has gross income of $1,000 or more from unrelated trade or business activities. This includes public colleges and universities that are not required to file Form 990 and tax-exempt subsidiary corporations and organizations wholly owned by colleges and universities. (Taxable subsidiaries file standard income tax returns.)

If the gross income from all unrelated trade or business activities (Part I, line 13, column A) is $10,000 or less, Schedules A–K do not need to be completed. Part I, columns B and C for lines 1–12 may also be skipped; however, all columns for line 13 must be completed. Show any other expenses on line 28 and complete lines 30–34. Complete Parts III–V and sign the return on page 2. If gross unrelated income exceeds $10,000, all parts of Form 990-T must be completed, including required schedules.

NOTE: If the institution is required to file Form 990, as is the case with most independent institutions, remember that unrelated income is also reported on Form 990, Part VII. Be sure to reconcile Form 990, Part VII, with Form 990-T. In addition, all Form 990 filers must answer questions relating to unrelated business activities on Form 990, Part VI, question 78.

Occasionally, taxes will be withheld on interest or dividends paid to an organization that has no liability for unrelated business income taxes. If this is the case, Form 990-T must be filed to claim a refund of those taxes. (If the organization does have a UBIT liability, the withheld tax may be used as an offset.) See the Form 990-T instructions for line 44e.

Exempt organizations are generally not permitted to file consolidated Forms 990-T for a parent organization and/or its tax-exempt subsidiaries. However, an important exception exists for section 501(c)(2) title-holding companies. Title-holding companies are tax-exempt entities that hold investment property (e.g., real estate, securities) on behalf of a tax-exempt parent; these entities are also required to turn over their income to the parent. Under certain conditions, a title-holding company may file a consolidated tax return with the parent organization, providing significant tax benefits. If your organization has a title-holding subsidiary, consider whether the subsidiary should file a consolidated Form 990-T with the parent.

The preparer of Form 990-T must calculate taxable income utilizing the method of accounting regularly used in keeping the institution's books and records. This method must clearly reflect income. For tax years beginning after 1986, organizations are generally required to use the accrual method of accounting for their unrelated trade or business activities if their annual average gross receipts from unrelated trades or businesses are $5,000,000 or more. For more information on accounting methods, refer to IRS Publication 538, *Accounting Periods and Methods*.

The 1995 IRS instructions for Form 990-T define "unrelated trade or business" and provide information about tax forms that may be required to be filed; the instructions should be reviewed before preparing the form. In addition, IRS Publication 598, *Tax on Unrelated Business Income of Exempt Organizations*, contains helpful information. Publication 598 sets forth provisions for exclusions such as dividend and interest income, royalty income, research income, directly

related expenses from gross income, and deductions under current law.

Prior to completing Form 990-T, a worksheet of all types of revenues should be prepared. Note additional information required for Schedules A through J, which are part of Form 990-T. All items of revenue should be identified. The various revenues and sources of revenue should be reviewed and classified as related or unrelated. If a question exists regarding the proper classification, a tax adviser or legal counsel should be consulted. A schedule of corresponding expenses also should be prepared, and expenses directly attributable to the generation of revenue should be identified and classified. Where there is commingling of related and unrelated functions, an expense allocation schedule should be prepared and the basis for the allocation should be noted.

To compute certain required data for Form 990-T (for example, the page 2 section on income tax and payments, lines 39 through 49), it may be necessary to complete other IRS tax forms, such as Form 1118, "Computation of Foreign Tax Credit," and Form 6478, "Alcohol Used as Fuel." In each case where this is required, a copy of the additional IRS tax form must be attached to Form 990-T.

The following information provides guidance on completing each section and line of Form 990-T.

Page 1—General Information

Questions A through I on the front page of Form 990-T must be answered appropriately or with "N/A." Lines 1 through 29 that require a total must be filled in with that number or a zero ("-0-").

Line

A If there has been an address change, place an "X" in the box provided.

B Insert an "X" in the box for the section of the Internal Revenue Code under which the institution is tax exempt. Private universities should insert "3" in the parentheses following "501(c)." Public institutions that are exempt under section 115 may want to write in "Sec. 115" in the box. Another alternative, suggested by the IRS, would be to check "501(c)(3)" because this box is used to determine the appropriate due date for Form 990-T.

C Provide the book value of all assets at the end of the fiscal year. This amount should agree with Form 990, Part IV, line 59, column B.

D List the nine-digit employer identification number (EIN) in this area.

E List the unrelated business activity codes in this area. These codes are listed on page 15 of the IRS instructions for Form 990-T and reprinted on page 36 of this book. If engaged in more than one unrelated business activity, identify up to three principal activities and list them in terms of amount of unrelated business income, with the largest first. For example, if a source of unrelated income is a radio or television station, "4830" should be recorded in the box. Some institutions will need to list multiple numbers, such as these:

Code

5998—Other miscellaneous retail stores (book store unrelated sales)
7010—Hotels and motels
7310—Advertising (including printing)
9000—Unrelated debt-financed activities, excluding real estate

F If the college or university is covered by a group exemption number, place it in this area.

G Place an "X" in the box preceding "corporation."

H Provide a narrative description of the institution's largest (by income) unrelated activity (e.g., "advertising income from alumni magazine").

I This question would normally be answered "yes" only by 990-T filers that are stock corporations. Stock nonprofits might include title-holding companies exempt under Internal Revenue Code section 501(c)(2). Generally, organizations that are part of an affiliated group or a controlled group of

corporations may be limited in certain tax benefits. For an example of the special rules that apply to affiliated and controlled groups, see Form 990-T, page 2, line 35.

Part I—Unrelated Trade or Business Income

Organizations having $10,000 or less of gross unrelated business income (line 13, column A) need not complete the following portions of Form 990-T:

- Columns B and C of lines 1–12
- Schedules A–K
- Lines 14–28 of page 1, Part II

Organizations having more than $10,000 of gross unrelated business income must complete all applicable portions of Form 990-T, including Schedules A–K as appropriate.

The gross income from any unrelated trade or business regularly carried on that involves the sale of goods or performance of services is reported on line 1 if it is not properly reportable on lines 4–12. Lines 2, 4, and 6–11 are supported by Schedules A–J found on pages 3 and 4 of Form 990-T. If your organization has more than $10,000 of gross unrelated income, complete the appropriate schedules before completing Part I. Organizations with $10,000 or less are required to compute unrelated income in the manner required by the supporting schedules; however, the schedules themselves need not be completed. The schedules are discussed in more detail later in this manual.

Capital gain net income (line 4) is generally not taxable to tax-exempt organizations unless the property sold is (or was) debt-financed. However, schools are generally not taxed on debt-financed capital gains from the sale of real estate. Capital gains from the sale of debt-financed property are also generally not taxable when the property sold is (or was) used in carrying out the organization's exempt purpose. For more information of debt-financed property, see the section on Schedule E on page 40.

Internal Revenue Code section 512(c)(1) provides the general rule for exempt organizations that are partners in a partnership. Generally, the exempt partner must determine whether the partnership's activities are related or unrelated to the tax-exempt partner's exempt purpose. To the extent that partnership income or loss is derived from a business that is unrelated to the partner's exempt purpose, the partner's share of income or loss from the partnership is reportable on Form 990-T, line 5. All income from a publicly traded partnership is treated as unrelated.

Part II—Deductions Not Taken Elsewhere

Only expenses directly connected with unrelated trade or business income (except charitable contributions) may be deducted on lines 14–28. To be directly connected with the conduct of an unrelated business, deductions must have a "proximate and primary" relationship to carrying on that unrelated business. Expenses, depreciation, and similar items attributable solely to the conduct of an unrelated business are proximately and primarily related to that business. Such expenses are deductible if they are otherwise allowable under normal tax accounting rules. For example, salaries of individuals employed full-time to work in an unrelated business and depreciation on a building used exclusively in an unrelated business are deductible in computing unrelated income if they are "ordinary and necessary" under normal tax principles.

When buildings or employees are used both to support exempt functions and to conduct an unrelated trade or business, the salaries, depreciation, and other expenses must be allocated between the two uses on a reasonable basis. For more information on cost allocations, see chapter 3 of this book.

Expenses that are related to income that is wholly exempt from tax are not deductible. However, there is one exception to this principle: the "exploited exempt activity" rule. The application of this rule is most commonly seen in the calculation of advertising income from publications that also include exempt-purpose content. This rule was also applied in regulations concerning taxable corporate sponsorship income pro-

Codes for Unrelated Business Activity

(If engaged in more than one unrelated business activity, select up to three codes for the principal activities. List first the largest in terms of unrelated income, then the next largest, etc.)

AGRICULTURE, FORESTRY, AND FISHING

Code
0400 Agricultural production
0600 Agricultural services (except veterinarians), forestry, fishing, hunting and trapping
0740 Veterinary services

MINING

Code
1330 Crude petroleum, natural gas and natural gas liquids
1399 All other mining

CONSTRUCTION

Code
1510 General building contractors
1798 All other construction

MANUFACTURING

Code
2000 Food and kindred products
2100 Tobacco manufacturers
2200 Textile mill products
2300 Apparel and other textile products
2400 Lumber and wood products, except furniture
2500 Furniture and fixtures
2600 Paper and allied products

Printing, publishing and allied industries
2710 Newspapers
2720 Periodicals
2730 Books
2750 Commercial printing (except advertising)
2770 Greeting cards
2799 All other printing and printing trade services
2800 Chemicals and allied products
2900 Petroleum refining and related industries (including those integrated with extraction)
3000 Rubber and miscellaneous plastics products
3100 Leather and leather products
3200 Stone, clay, glass and concrete products
3300 Primary metal industries
3400 Fabricated metal products, except machinery and transportation equipment
3500 Industrial and commercial machinery and computer equipment
3800 Electronic and other electrical equipment and components, except computer equipment
3700 Transportation equipment

Measuring, analyzing, and controlling instruments; photographic, medical and optical goods; watches and clocks
3841 Surgical and medical instruments and apparatus
3842 Orthopedic, prosthetic, and surgical appliances and supplies
3899 Other instruments; photographic and optical goods; watches and clocks
3900 Miscellaneous manufacturing industries

TRANSPORTATION, COMMUNICATIONS, ELECTRIC, GAS AND SANITARY SERVICES

Code

Transportation
4117 Sightseeing buses
4118 Ambulance service (local)
4140 Bus charter service
4199 Other local and suburban transit and interurban highway passenger transportation
4724 Travel agencies
4725 Tour operators
4799 All other transportation

Communication
4830 Radio and television broadcasting
4898 Other communication services
4900 Electric, gas and sanitary services

WHOLESALE TRADE

Code
5000 Durable goods
5100 Nondurable goods

RETAIL TRADE

Code
5200 Building materials, hardware, garden supply and mobile home dealers
5300 General merchandise stores

Food stores
5410 Grocery stores
5460 Bakeries
5495 Health food stores
5498 Other food stores
5500 Automotive dealers and gasoline service stations
5600 Apparel and accessory stores

Home furniture, furnishings, and equipment stores
5734 Computer and computer software stores
5799 Home furniture, furnishings, and other equipment stores

Eating and drinking places
5811 Caterers
5812 Other eating places
5813 Drinking places (alcoholic beverages)

Miscellaneous retail
5910 Drugstores and proprietary stores
5930 Used merchandise stores
5941 Sporting goods stores and bicycle shops
5942 Book stores
5947 Gift, novelty, and souvenir shops
5961 Catalog and mail order houses
5992 Florists
5994 News dealers and newstands
5995 Optical goods
5996 Hearing aids
5997 Orthopedic and artificial limbs stores
5998 Miscellaneous retail stores

FINANCE, INSURANCE AND REAL ESTATE

Code

Depository institutions
6020 Commercial banks, including bank holding companies
6030 Savings institutions
6060 Credit unions
6098 Other depository institutions

Nondepository credit institutions
6140 Personal credit institutions, including mutual benefit associations
6199 Other nondepository credit institutions
6200 Security, commodity brokers, dealers, exchanges and services

Insurance
6310 Life insurance
6321 Accident and health insurance
6324 Hospital and medical service plans
6330 Fire, marine and casualty insurance
6370 Pension, health and welfare funds
6398 All other insurance carriers
6410 Insurance agents, brokers and services

Real estate
6512 Operators of nonresidential buildings
6513 Operators of apartment buildings
6515 Operators of residential mobile home sites
6518 All other real estate operators (except developers) and lessors
6530 Real estate agents and managers
6550 Land subdividers and developers
6599 Other real estate

Holding and other investment companies, except bank holding companies
6730 Trusts
6797 Investment clubs
6798 Miscellaneous holding and investment offices

SERVICES

Code

Hotels, rooming houses, camps, and other lodging places
7010 Hotels and motels
7020 Rooming and boarding houses
7030 Camps and recreational vehicle parks
7040 Organization hotels and lodging houses, on membership basis

Code

Personal services
7210 Laundry, cleaning and garment services
7298 Miscellaneous personal services

Business services
7310 Advertising (including printing)
7331 Direct mail advertising services
7334 Photocopying and duplicating services
7345 Building cleaning and maintenance services
7352 Medical equipment rental and leasing
7360 Personnel supply services
7371 Computer programming services
7374 Computer processing and data preparation, and processing services
7377 Computer rental and leasing
7378 Computer maintenance and repair
7388 Other business services
7500 Automotive repair, services, and parking
7600 Miscellaneous repair services
7800 Motion pictures

Amusement and recreation services
7910 Dance studios, schools, and halls
7920 Theatrical producers (except motion pictures), bands, orchestras, and entertainers
7933 Bowling centers
7940 Commercial sports
7991 Physical fitness facilities
7992 Public golf courses
7996 Amusement parks
7997 Membership sports and recreation clubs
7998 Amusement and recreation services, not elsewhere classified

Health services
8010 Offices and clinics of doctors
8020 Offices and clinics of dentists
8045 Offices and clinics of other health practitioners
8050 Nursing and personal care facilities
8060 Hospitals
8071 Medical laboratories
8072 Dental laboratories
8080 Home health care services
8094 Specialty outpatient facilities
8095 Blood banks
8096 Invitro fertilization
8097 Family planning clinics
8098 Health and allied services, not elsewhere classified
8100 Legal services

Educational services
8210 Elementary and secondary schools
8220 Colleges, universities, and professional schools
8240 Vocational schools
8298 Schools and educational services, not elsewhere classified

Social services
8320 Individual and family social services
8330 Job training and vocational rehabilitation services
8351 Child day care services
8361 Residential care
8399 Social services, not elsewhere classified
8400 Museums, art galleries and botanical and zoological gardens

Engineering, accounting, research, management, and related services
8712 Architectural services
8715 Engineering and surveying services
8720 Accounting, auditing and bookkeeping services
8734 Testing laboratories
8735 Research and development
8745 Management and management consulting services
8980 Miscellaneous services

OTHER

Code
9000 Unrelated debt-financed activities other than rental of real estate
9100 Investment activities by section 501(c)(7), (9), or (17) organizations
9200 Rental of personal property
9300 Passive income activities with controlled organizations
9400 Exploited exempt activities

posed by the IRS in 1993, but not yet finalized. However, the rule may apply in other situations. For more information on this rule, see IRS Publication 598 and the discussion of Schedule I below.

Depreciation expense is generally calculated under normal tax rules, even if another method of depreciation is used on Form 990. For assets placed in service during the current year, one of the methods permitted under the modified accelerated cost recovery system (MACRS) must generally be used; see Form 4562 for additional information. Straight-line depreciation must be used in computing debt-financed rental income on Schedule E.

Do not deduct in Part II any expenses reported on Schedules A–J except:

- Excess exempt expenses (Schedule I, column 7)
- Excess readership costs (Schedule J, column 7)

Exempt organizations are permitted to take a specific deduction not exceeding $1,000. The specific deduction may not create a loss for the year, but may be used to reduce taxable income to zero.

Part III—Tax Computation

Line

35 Exempt organizations that control 80 percent or more of the stock of subsidiaries should check this box, and they must apportion the surtax exemption and a related add-back. If this is the case, consult a tax adviser for special rules. Most institutions will not check this box and will mark the appropriate areas of lines 35a, b, and c "N/A."

35c Calculate the amount of tax due on taxable income by using the "Tax Rate Schedule for Corporations" on page 9 of the IRS instructions for Form 990-T. Taxable income of $50,000 or less is taxed at a rate of 15 percent.

36 Record "N/A" and "-0-."

37 Record "N/A" and "-0-."

Part IV—Tax and Payments

Line

39a *Foreign tax credit.* A domestic corporation may deduct foreign income taxes paid or accrued on the same income reported on Form 990-T. See Form 1118, "Computation of Foreign Tax Credit," for rules on how to compute, and attach a copy.

b *Other credits.* Credits identified include possession tax credit (Form 5712) and nonconventional fuel credit (refer to Internal Revenue Code section 29 and prepare and attach a schedule).

c *General business credit.* General business credits are available, including investment credit (Form 3468), which was repealed for property placed in service after 1985; alcohol fuel credit (Form 6478); research activities credit (Form 6765); low-income housing credit (Form 8586); and targeted jobs credit (Form 5884). Use the applicable form if the institution is eligible for only one general business credit. If the institution is eligible for more than one credit, combine the credits on Form 3800, "General Business Credit." Carrybacks and carryforwards of these credits are reported on Form 3800.

d Credit for prior-year minimum tax (Form 8801 or 8827). Consult a tax adviser or legal counsel if there is a question on the availability of this credit.

e Enter total of lines 39a through 39d.

40 Subtract line 39e, which represents total credits, from line 38, Total tax, and enter the difference on this line.

41 *Recapture taxes.* The institution may owe this tax if it disposed of property on which investment tax credit was taken before the end of the life-years category or recovery period used in the calculation. Form 4255, "Recapture of Investment Credit," should be used for this calculation and any amount due should be reported on this line.

42a *Alternative minimum tax.* A college or university, filing as a corporation with unrelated business

taxable income, may be subject to the minimum-tax calculation if certain tax preference items are included in the determination of its unrelated business taxable income. Form 4626, "Alternative Minimum Tax—Corporations," should be used for this calculation.

b *Environmental tax.* The environmental tax is an additional tax equal to 0.12 percent of the amount by which a corporation's alternative minimum taxable income exceeds $2 million. It is imposed even if a corporation does not have to pay the alternative minimum tax. Use Form 4626 and report any environmental tax due on this line.

43 Add lines 40, 41, and 42c and enter total tax.

44 *Payments:*

a *1994 overpayment.* Record the prior year's overpayment that was applied toward the tax due for the current year, if any.

b *1995 estimated tax payments.* Record estimated tax payments to be credited against 1995 tax due. All Form 990-T filers are required to make quarterly payments of estimated taxes under the same rules as corporations if expected taxes are $500 or more. Use Form 990-W to calculate the estimated tax and deposit quarterly estimates in a Federal Reserve bank or authorized depository along with Form 8109, "Federal Tax Deposit Coupon."

c *Tax deposited with Form 7004.* The request for an extension (Form 7004) also must include the full amount of the tax liability and deposit from Form 8109. Record any such payments on this line.

d *Foreign organizations.* Enter the tax withheld on unrelated business taxable income from United States sources not effectively connected with the conduct of a trade or business within the United States.

e *Other credits and payments.* The following credits or tax payments should be claimed on this line and supported by the appropriate forms: Form 2439, "Notice of Undistributed Long-Term Capital Gains," and Form 4136, "Credit for Federal Tax Paid on Fuels." Line 44e is also used to claim a credit or refund of taxes erroneously withheld from investment income of the institution. See the instructions for line 44e to claim a refund.

45 *Total payments.* Add lines 44a through 44e and enter the result on this line.

46 *Penalty for underpayment of estimated tax.* If estimated taxes are underpaid by a corporation, a penalty is imposed for the period of the underpayment. Check the box provided and file Form 2220, "Underpayment of Estimated Tax by Corporations," if there is an underpayment. No additions to the tax will be assessed if the corporation's tax liability is less than $500 for the tax year.

47 *Tax due.* Add lines 43 and 46. If this total is greater than line 45, enter the difference (the amount owed) on line 47. The amount on line 18 must be deposited at an authorized depository (not an IRS office) with Form 8109, "Federal Tax Deposit Coupon," when Form 990-T is filed, but no later than the 15th day of the fifth month after the close of the tax year.

48 *Overpayment.* If line 45 is greater than the total of lines 43 and 46, enter the difference (the amount overpaid) on line 48.

49 Enter the amount of the overpayment on line 49 to be refunded or credited to 1996 estimated tax in the appropriate space.

Part V, "Statements Regarding Certain Activities and Other Information"

Lines 1 through 3 address the institution's involvement with accounts or trusts in a foreign country and the amount of tax-exempt interest received or accrued.

Schedule A—Cost of Goods Sold

Prior to filling out Schedule A, the institution should determine whether or not it is subject to sec-

tion 263A, "Uniform Capitalization Rules," (see pages 6 and 11 of the IRS instructions for Form 990-T). The rules require that certain costs incurred in connection with the production of real and personal tangible property held in inventory or held for sale in the ordinary course of business be capitalized or included in inventory.

If the last-in, first-out (LIFO) method of valuing inventory is used, attach Form 970, "Application to Use LIFO Inventory Method," or a similar statement to the return for the first year the organization uses or extends the LIFO method.

When facilities are used to conduct both exempt and unrelated trade or business activities, expenses, depreciation, and similar items must be allocated on a reasonable basis. Attach a schedule showing the allocation of the cost of goods sold between the two uses.

Lines 1 through 6 are used to calculate the cost of goods sold and/or operations. The total is entered on Schedule A, line 7, and Part I, line 2. Line 8 addresses the rules of section 263A and its application to the institution.

Signature Block. On the line near the bottom of page 2, enter the name and telephone number of the individual responsible for the institution's financial records.

The return must be signed and dated by an authorized officer. If a paid preparer (e.g., an outside accounting firm) was used, the preparer must also sign. Only original signatures are acceptable for copies of Form 990-T filed with the IRS.

Schedule C—Rent Income from Real Property and Personal Property Leased with Real Property

Under Internal Revenue Code section 512(b)(3), rental income from real property is generally not taxable unless one of the following is true:

- The rent is based in whole or in part on the income or profits of any person. For example, if the institution leases commercial space to a tenant and the rent is based partly on the tenant's net income, the rent may be taxable.
- The rent is derived from a controlled subsidiary.
- The rent is from a mixed lease of real and personal property (see discussion below).
- The rental property is debt-financed. In the case of debt-financed property, see the instructions for Schedule E; colleges and universities are generally not taxable on rental income solely because the property is debt-financed.
- The income is not characterized under the regulations as from rents. For example, a school operating a hotel, motel, warehouse, or (in some cases) a parking lot, may be viewed as providing services rather than renting real estate.

However, in the case of real property rents that are not eligible for the general section 512(b)(3) exclusion, the income will be taxable only if the rental activity represents an unrelated trade or business. For example, if the rental activity is substantially related to the organization's exempt purpose, the income should not be taxable.

Under section 512(b)(3), rents of personal property are not automatically excluded from the unrelated business income tax. Thus, rents of personal property must be examined to determine whether or not the rental activity is (1) a trade or business, (2) regularly carried on, and (3) not substantially related to the organization's exempt purpose. In the case of mixed rents of real and personal property, the following rules apply:

- If 10 percent or less of the total rent is attributable to personal property, it is considered incidental and subject to the real property rental rules.
- If more than 10 percent, but not more than 50 percent, of the rent is attributable to personal property, the portion attributable to personal property will be treated as rent from personal property and the portion attributable to the real property will be treated as rent from real property.

- If more than 50 percent of the rent is attributable to personal property, all rental income will be treated as derived from the rent of personal property.

For additional discussion of the rental income rules, see IRS regulations §1.512(b)-1(c).

Income and expense from Schedule C are reported on Part I, line 6(A) and (B), respectively.

Schedule E—Unrelated Debt-Financed Income

Revenue received from debt-financed property is unrelated and is taxed in proportion to the debt existing on the income-producing property. Debt-financed property is any property that is held to produce income, such as rental real estate, stocks, or bonds, and on which there is acquisition indebtedness at any time during the year or during the preceding 12 months if the property is disposed of during the tax year.

However, Internal Revenue Code section 514(c)(9) provides that acquisition indebtedness does not include debt incurred by an institution in connection with real property. Thus, institutions are generally not taxable on rental real estate income solely because the property was acquired through debt. Special rules apply to interests in partnerships that own debt-financed property; income from such partnerships may be taxable.

When debt-financed property is held for exempt and taxable purposes, the organization must allocate the basis, indebtedness, income, and deductions among the purposes for which the property is held. Do not include amounts allocated for exempt purposes in Schedule E.

Acquisition indebtedness, with respect to debt-financed property, is the outstanding amount of principal indebtedness (1) incurred to acquire or improve the property, (2) incurred before acquisition or improvement if it would not have been incurred but for the acquisition or improvement, and (3) incurred after acquisition or improvement if it would not have been incurred but for the acquisition or improvement and if it was reasonably foreseeable at the time.

The unrelated business income tax does not apply to debt-financed property that is held in furtherance of the organization's exempt purpose. For example, if an institution borrows money and lends the proceeds to students for their tuition payments, interest paid by the students on the loans should not be subject to tax.

Taxable income and expenses from debt-financed property are accumulated in columns 7 and 8 of Schedule E; they are carried to Part I, line 7, columns A and B, respectively.

Schedule F—Interest, Annuities, Royalties, and Rents from Controlled Organizations

Interest, annuities, royalties, and rents received by a college or university from an organization in which it has controlling interest are subject to tax, whether the activity conducted by the controlling organization to earn these amounts is a trade or a business or is regularly carried on. However, as with partnerships, the amount of income that is taxable will depend in part on whether the subsidiary's activities are related to the exempt purpose of the tax-exempt controlling parent. The calculation of the taxable amount can be complicated; consult a tax adviser if necessary.

"Controlling interest" means the institution owns at least 80 percent of the total combined voting power of all classes of voting stock and at least 80 percent of the total number of shares of all other classes of stock, or at least 80 percent of the directors or trustees of a nonstock organization are representatives of, or directly or indirectly controlled by, the exempt organization.

Taxable income and expenses are accumulated in columns 6 and 7 of Schedule F and are carried to Part I, line 8, columns B and C.

Schedule G—Investment Income of a Section 501(c)(7), (9), or (17) Organization

This schedule does not apply to colleges and universities that are exempt as 501(c)(3) organizations.

Schedule I—Exploited Exempt Activity Income Other than Advertising Income

Colleges and universities may generate unrelated business taxable income from an unrelated trade or business that exploits an exempt activity. Under the exploited exempt activity rules, net profits from an unrelated activity that exploits an exempt activity may be offset by losses on the exempt function. However, such exempt function losses may not reduce taxable income below zero (i.e., exempt expenses may offset taxable income from an exploited exempt activity, but may not create a loss). See the discussion for Schedule J below.

The exploited exempt activity rules may apply when institutions create goodwill or other intangibles that are capable of being exploited in a commercial way. When an institution exploits an intangible in commercial activities, the fact that the income depends in part upon an exempt function of the institution does not make it gross income from a related activity. Unless these commercial activities contribute importantly to the accomplishment of an exempt purpose or are covered by one of the exclusions in section 512(b), the income they produce is gross income from the conduct of an unrelated trade or business.

The net includable exploited exempt activity income is the unrelated business taxable income from the commercial (or exploiting) activity, less the excess of the exempt activity expenses over the exempt activity income. This part is rarely used by colleges and universities. See IRS regulations §1.513-1(d)(4)(iv), 1.512(a)-1(d), and 1.512(a)-1(e) for further information and examples.

Enter column totals from Schedule I on the line numbers in Parts I and II indicated.

Schedule J—Advertising Income

Income earned by exempt organizations from the sale of advertising in periodicals is gross income from an unrelated business activity involving the exploitation of an exempt activity: the circulation and readership of the periodical developed by producing and distributing the editorial content of the periodical.

There are very few cases where advertising income can be considered directly related to the exempt function of the organization. An example of exempt advertising income would be a student newspaper where the students perform all advertising-related functions (under the direction of the university) as part of the educational experience of publishing the newspaper, thus furthering the educational purpose of the institution. Advertising that is directly tied to the editorial content of the publication or that only contains information about new developments in a professional field may qualify as substantially related to the organization's exempt purpose. In most instances, however, advertising income is unrelated.

There are several steps to follow in determining the correct treatment of advertising income or loss on Schedule J. If an organization publishes two or more periodicals, it may elect to consolidate its reporting and use Part I to combine gross income and deductions for all of its periodicals, treating them as if they were one publication. To be eligible for consolidation, each periodical must be "published for the production of income." All qualifying periodicals must be consolidated, or none of them may be. Once a decision has been made to consolidate periodicals for reporting, the organization must consistently do so unless IRS consent is obtained to switch to individual reporting. If the organization does not use consolidated reporting or if it publishes periodicals that contain advertising and do not meet the requirements for inclusion in Part I, then Part II of Schedule J is used to report advertising income separately for each periodical.

Income and expenses associated with the periodical need to be divided between those for its exempt function and those for the unrelated advertising activity, and reported in the following four categories:

- *Gross advertising income* (column 2) is the revenue derived from the unrelated business of selling and publishing advertising, before any deductions for expenses.
- *Circulation income* (column 5) is the exempt activity income associated with the sale of the periodical, including paid subscriptions, sales, and

an allocated share of membership dues if the periodical is provided as a membership benefit. IRS regulations prescribe three ways to allocate membership receipts, depending on the circumstances (see IRS regulations §1.512(a)-1(f)(4) and Revenue Ruling 81-101 for details). Circulation income is not unrelated business taxable income, but it is used to calculate whether there is a loss on the editorial part of the periodical that can be used to reduce the taxable portion of the advertising revenue.

- *Direct advertising costs* (column 3) include only those expenses directly attributable to the selling or publication of the advertising, including telephone, billing, salaries, layout, publication, and mailing costs. Some costs, such as agency commissions, can be directly attributed to advertising, while others must be allocated on a reasonable basis between advertising and editorial content.
- *Readership costs* (column 6) are the expenses associated with the production and distribution of the editorial or nonadvertising content of the periodical. These are exempt-function expenses. Readership costs plus direct advertising costs should equal the total expenses associated with publishing the periodical.

It will be necessary to allocate costs between those attributable to the periodical and those for other exempt functions of the organization, as well as between advertising and readership costs. Allocations must be made on a reasonable basis that fairly reflects the portion of the item reasonably attributable to each activity. The method of allocation will vary with the nature of the item, but once adopted should be used consistently. Salaries may be allocated on the basis of time spent on various activities, while occupancy costs may be allocated on the basis of space used. The ratio of advertising to editorial content in the periodical, in terms of lineage or number of pages over a period of time, may be employed to allocate production and distribution expenses such as typesetting, printing, and mailing.

For each periodical, enter gross advertising income in column 2 and direct advertising costs in column 3. Subtract direct advertising costs from gross advertising income and enter the result in column 4. If the result is less than zero, showing a net advertising loss, this loss may be used to offset unrelated business income from other activities. If column 4 shows a loss, do not complete columns 5 through 7.

If the result in column 4 is positive, circulation income and readership costs must be considered to determine how much, if any, of the net advertising income is taxable. No taxable income results from advertising revenue unless the periodical as a whole produces a profit for the year. Readership costs that exceed circulation income can be used to eliminate or reduce the taxable advertising gain, but cannot be used to produce an advertising loss to offset other income or be carried back or forward.

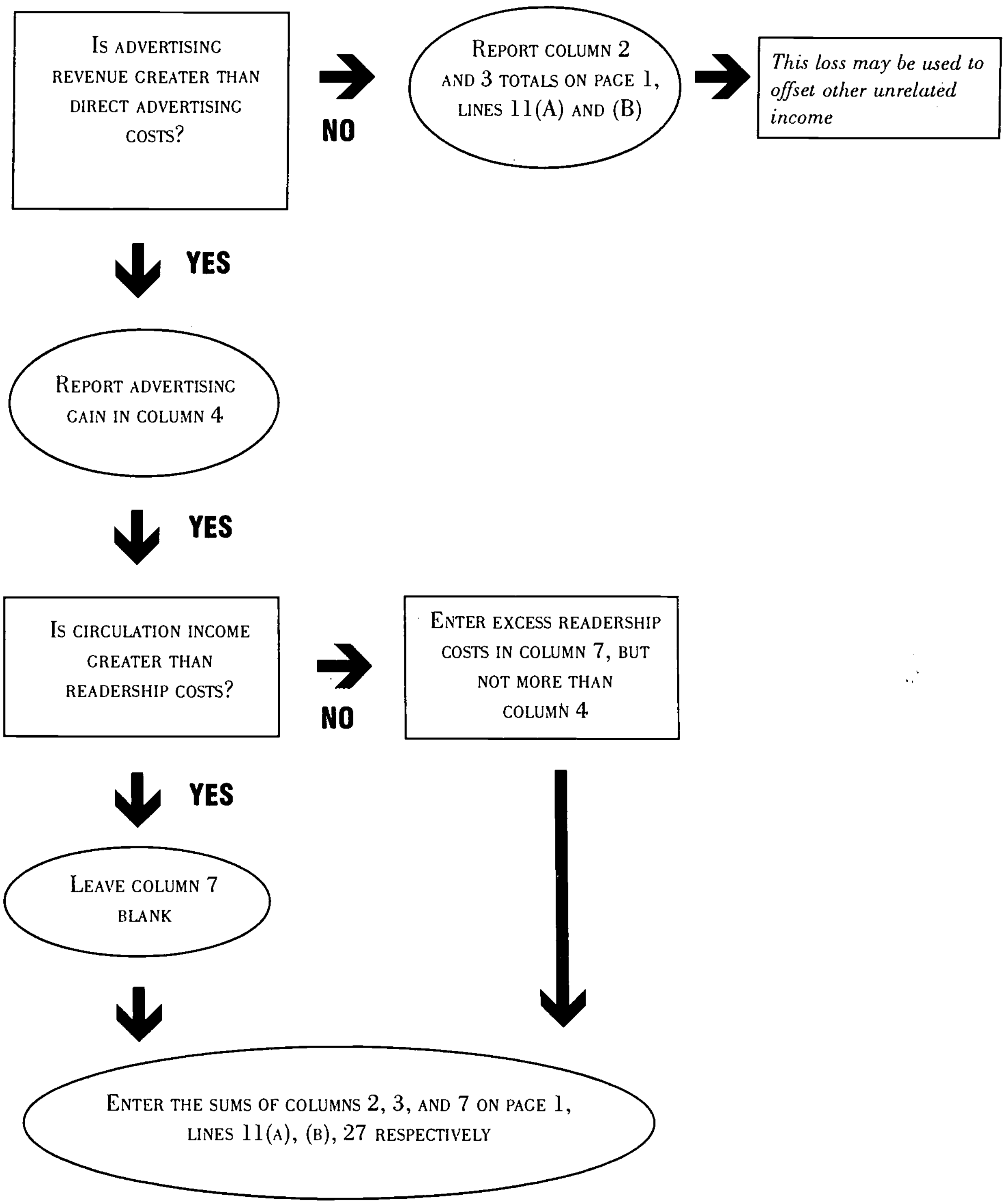
Enter circulation income in column 5 and readership costs in column 6. If circulation income is larger than readership costs, there are no excess readership costs to offset advertising profits; leave column 7 blank.

If readership costs exceed circulation income, however, the excess can be subtracted from the advertising gain to reduce or eliminate the taxable unrelated business income. Enter excess readership costs in column 7. However, do not enter an amount greater than the profit shown in column 4.

Once you have completed Schedule J, Parts I and II, carry the totals from column 2 to page 1, line 11(A); from column 3 to page 1, line 11(B); and from column 7 to page 1, line 27.

The chart on page 43 illustrates the process used to complete Schedule J. The IRS rules for calculating the unrelated business taxable income on advertising revenues of periodicals published by exempt organizations are complex; if there are numerous periodicals or considerable advertising revenues to be reported, consult a tax adviser or legal counsel.

Calculation of Taxable Advertising Income, Schedule J, Form 990-T



Schedule K—Compensation of Officers, Directors, and Trustees

The officers, directors, and trustees whose salaries or other compensation are allocable to unrelated business gross income should be recorded in this schedule. Do not include salaries or other compensation deducted in other schedules.

The total from column 4 of Schedule K should be recorded on Part II, line 14.

Tax Situations for Form 990-T: An Illustrative Example

A sample completed Form 990-T is provided in appendix B. This sample, together with the following explanation, illustrates the process used to determine what to report on Form 990-T. The tax scenario was created to provide hypothetical situations and dollar amounts for Form 990-T; it is not intended to reflect any actual institution and should not be interpreted as a guideline for any specific situation. The methods of allocation, results, and findings are not to be considered models and should not be used in the preparation of a Form 990-T, because each tax situation will vary with individual circumstances.

Utopia University

Utopia University (UU) is a small, private, liberal arts college that is tax-exempt under section 501(c)(3).

This year, while filing Form 990, the chief business officer decided to conduct an internal audit to determine what sources of revenue may be subject to UBIT. The controller and staff were able to identify sources of revenue that appeared to be subject to UBIT while preparing Part VII of Form 990. To make a final determination, they consulted with the institution's tax adviser for clarification of Internal Revenue Code sections 512, 513, and 514. It was determined that some sources of revenue were unrelated, even though the funds generated supported the institution's exempt activities. Examples of the findings of the internal audit are described below.

Bookstore Revenues

The bookstore manager decided to sell various items such as magazines, small personal appliances, and gifts in addition to textbooks and other required educational items. In the revenue review process, the controller critically analyzed the items for sale in the bookstore and determined that the small appliances and some of the gift items generated unrelated revenues under present tax law, as did the sale of computer equipment to the general public.

The sale of these items amounted to $200,000 and represented 22 percent of total sales. The inventory is segregated and maintained in a manner that permits the calculation of an exact cost of goods sold attributable to the sundry items. The ratio of 22 percent was used to allocate a portion of the direct bookstore labor to the unrelated sales. The total direct operational expenses of the bookstore, an allocated portion of total maintenance and utilities, and an allocated portion of total institution general administration expenses were accumulated as expenses connected to the unrelated revenue.

Advertising in Periodicals

The UU public relations office publishes and mails a monthly magazine to parents, students, alumni, and donors free of charge. The periodical, called *Utopian*, has a variety of informative features covering everything from alumni events to major research projects on campus. The magazine sells advertising space to support costs of the publication. For the current year, $85,000 in gross advertising revenue was generated. The direct advertising cost was $38,000 and the allocated salaries and institution general administration costs amounted to $14,000.

Because UU received no other revenues related to the publication of *Utopian* and distributed it without charge to parents, donors, students, and alumni, the decision was made that, under current tax laws, it was permissible to deduct the allocated costs as readership costs.

Testing Center Fees

UU operates an educational and psychological testing center that originally provided services only to faculty, staff, and students. Now, however, it is open to the general public. After analyzing the sources of revenue, the controller determined that only a minimal amount of revenue was generated from employees and students and a majority of the revenue was received from the general public, which resulted in unrelated business income.

Based on a review of the testing center's records, a ratio of off-campus to on-campus clients was established, which was used to determine that 68 percent of the revenue was from off-campus sources. This ratio was used to calculate the pro rata portion of direct salaries and expenses related to revenue from the general public (unrelated income). The testing center is located in its own building, and its utilities are metered separately, so these costs are directly charged and were prorated, on the same basis as salaries. General and administrative expenses were allocated by a similar ratio of total salaries.

Child Care Center

UU's child care center originally was established to provide a learning laboratory for student observation in child development courses. These courses are no longer offered at UU, but due to the demand by faculty and staff to maintain the facility, the administration decided to leave the center open.

A recent survey of the center showed that its use by faculty, staff, and students had declined and that 72 percent of users were from the general public. This ratio was used to allocate direct salaries and expenses to determine amounts to offset unrelated income. The child care center is located in its own building with separate utility meters; expenses were allocated based on the percent of general public use. The general and administrative expenses were allocated on the ratio of total salaries.

NOTE: The child care center operation described above is only one way in which a campus child care center might be established and operated. In other circumstances, a child care center might be provided as part of the educational program (making it directly related) or as a convenience to staff, faculty, and students (in which case the income would be excluded from taxation). Child care centers are also sometimes considered a part of an employee benefit package.

A child care center may also qualify as an educational activity pursuant to Internal Revenue Code section 501(k), which provides that certain organizations providing child care may serve educational purposes within the meaning of section 501(c)(3) if substantially all the care provided is to allow individuals to be gainfully employed and if the organization's services are available to the general public.

The various alternatives for establishment and operation of child care centers will in turn affect how any income generated is treated for tax purposes.

FILING FOR EXTENSION 6

Form 2758, "Application for Extension of Time to File—Fiduciary and Certain Other Returns"

Form 2758 (see completed sample form on page 49) is used to request an extension of time to file Form 990. The extension is not automatic, and as a general rule, the IRS will not grant an extension for more than 90 days. Under appropriate circumstances, additional extensions may be granted. However, under no circumstances may Form 990 be filed more than six months after the original due date. The original and one copy of Form 2758 must be filed early enough to allow the IRS sufficient time to consider the request. The request for extension must be supported with reasonable cause as to why the return cannot be filed by the due date.

The organization's name, address, and employer identification number (EIN) should be recorded exactly the same as on Form 990.

Line

1 The request for an extension should be for no more than 90 days from the due date unless sufficient need for an extended period is clearly shown. Under no circumstances will an extension be granted for more than six months. The request should be recorded by showing the due date of the extension period. Place an "X" in the box for Form 990 or 990EZ.

2 If the institution has a calendar year closing, reflect the year-end date. If the institution has a fiscal year end, show the beginning date and ending date.

3 Has the institution had a previous extension for the present tax year? Answer "yes" or "no."

4 This line requests a detailed answer as to why an extension is needed. There must be a reasonable response to this question, and the response must be clear and concise. If the response is inadequate, an extension may be denied. If the response is fraudulent, an extension may be null and void and the institution may be subject to late filing penalties.

5a–c Record "N/A" on these lines.

The verification statement must be signed. If the preparer of Form 2758 (or other officer or agent) is authorized to sign Form 990, he or she should sign this document, date it, prepare a copy to accompany the original, and mail the papers to the appropriate IRS service center. Be sure to retain a copy of the signed extension for your files. You will need to attach a copy to Form 990 when it is filed. To provide evidence of timely filing, it is always prudent to mail extensions by certified mail, return receipt requested.

If the response to the request for an extension should be returned to an office or individual other than the one named at the top of the request, the necessary information should be recorded at the bottom of the form.

Form 7004, "Application for Automatic Extension of Time to File Corporation Income Tax Return"

Form 7004 (completed sample form on page 50) is used by a corporate entity to request an extension of time to file Form 990-T. (Trusts use Form 2758 to request a nonautomatic extension for Form 990-T.) The extension is automatic and will be allowed if the request is filed properly by the original due date and if any taxes due (line 6) are deposited with Form 8109, "Federal Tax Deposit Coupon." Form 990-T then must be filed by the 15th day of the 11th month following the close of the tax year. A penalty will be assessed on a late payment. However, if an extension is allowed, a penalty will not be charged if the amount deposited is at least 90 percent of the total liability shown on line 36 of Form 990-T.

The institution's name, address, and EIN should be recorded exactly as on Form 990-T. Check the type of return being filed, which in this case is Form 990-T.

Line

1a Place the date the return will be due, which will be the 15th day of the sixth month following the normal due date of the return. In the case of a calendar-year institution, the original due date for Form 990-T is May 15; the extended due date is November 15. If the institution is on a calendar year, check the appropriate box and show the year in the space provided. If the institution is on a fiscal year, check the appropriate box and show the beginning and ending dates in the spaces provided.

b If the tax year is less than 12 months, check the appropriate box. In most cases, an institution may change its accounting period without prior IRS approval. For information about changing an accounting period, see page 5 of the Form 990 instructions or Revenue Procedure 85-58, 1985-2 *Cumulative Bulletin*, page 740.

2 Does the application cover subsidiaries? If the answer is "yes," complete the portion of the application requesting name, address, EIN, and tax period.

3 *Tentative tax.* The tentative tax may be estimated by preparing Form 990-W. Your extension will be considered invalid unless you "properly estimate" your tax liability for the year and pay any balance due with the extension. If your extension is invalid, significant penalties will apply on the unpaid balance from the original due date. Therefore, it is critically important to carefully estimate your tax liability for the year.

4a–f *Credits.* Record the various credits or deposits paid or applied against the tax due. If a question exists as to whether or not the institution is due certain credits, seek legal counsel.

5 Enter the total of lines 4d through 4f.

6 *Balance due.* Enter the total of line 3, Tentative tax, minus line 5, Payments or credits. The sum of lines 5 and 6 must equal at least 90 percent of the institution's actual tax liability for the year, or a late payment penalty may be assessed. The balance due on line 6 must be deposited by the unextended due date of Form 990-T. Do not include a payment with this application.

At the bottom of Form 7004, a statement related to the accuracy, truth, and completeness of the return must be signed. If the preparer of Form 7004 (or other officer or agent) is authorized to sign Form 990-T, he or she should sign this document, date it, and mail it to the appropriate IRS service center. Because the extension is automatic, no approval will be returned. Be sure to retain a copy of the signed extension for your files. You will need to attach a copy to Form 990-T when it is filed. To provide evidence of timely filing, it is always prudent to mail extensions by certified mail, return receipt requested.

Form **2758**
(Rev. May 1995)
Department of the Treasury
Internal Revenue Service

Application for Extension of Time To File
Certain Excise, Income, Information, and Other Returns

OMB No. 1545-0148

▶ File a separate application for each return.

Please type or print. File the original and one copy by the due date for filing your return. See instructions on back.

Name: UTOPIA UNIVERSITY
Employer identification number: 13 3456789
Number, street, and room or suite no. (or P.O. box no. if mail is not delivered to street address): 1234 UNIVERSITY PLACE, N.W.
City, town or post office, state, and ZIP code. For a foreign address, see instructions.: WASHINGTON, DC 20000-0000

Note: Corporate income tax return filers must use **Form 7004** to request an extension of time to file. Partnerships, REMICs, and trusts must use **Form 8736** to request an extension of time to file Form 1065, 1066, or 1041.

1 I request an extension of time until FEBRUARY 15, 19 97, to file (check only one):

☐ Form 706–GS(D)	☐ Form 990–T (401(a) or 408(a) trust)	☐ Form 1120–ND (4951 taxes)	☐ Form 8612
☐ Form 706–GS(T)	☐ Form 990–T (trust other than above)	☐ Form 3520–A	☐ Form 8613
☒ Form 990 or 990–EZ	☐ Form 1041 (estate) (see instructions)	☐ Form 4720	☐ Form 8725
☐ Form 990–BL	☐ Form 1041–A	☐ Form 5227	☐ Form 8804
☐ Form 990–PF	☐ Form 1042	☐ Form 6069	☐ Form 8831

If the organization does not have an office or place of business in the United States, check this box . . . . ▶ ☐

2a For calendar year 19____, or other tax year beginning JULY 1, 1995 and ending JUNE 30, 1996

b If this tax year is for less than 12 months, check reason: ☐ Initial return ☐ Final return ☐ Change in accounting period

3 Has an extension of time to file been previously granted for this tax year? . . . . ☐ Yes ☒ No

4 State in detail why you need the extension Additional time is needed to obtain information from external sources which is necessary to prepare and complete and accurate return.

5a If this form is for Form 706–GS(D), 706–GS(T), 990–BL, 990–PF, 990–T, 1041 (estate), 1042, 1120–ND, 4720, 6069, 8612, 8613, 8725, 8804, or 8831, enter the tentative tax, less any nonrefundable credits. See instructions. $ N/A

b If this form is for Form 990–PF, 990–T, 1041(estate), 1042, or 8804, enter any refundable credits and estimated tax payments made. Include any prior year overpayment allowed as a credit . . . . $ N/A

c **Balance due.** Subtract line 5b from line 5a. Include your payment with this form, or deposit with FTD coupon if required. See instructions . . . . $ 0

Signature and Verification

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

Signature ▶ Ernest J. Wilson   Title ▶ Treasurer   Date ▶ 11/01/96

FILE ORIGINAL AND ONE COPY. The IRS will show below whether or not your application is approved and will return the copy.

Notice to Applicant—To Be Completed by the IRS

☐ We **HAVE** approved your application. Please attach this form to your return.

☐ We **HAVE NOT** approved your application. However, we have granted a 10-day grace period from the later of the date shown below or the due date of your return (including any prior extensions). This grace period is considered to be a valid extension of time for elections otherwise required to be made on a timely return. Please attach this form to your return.

☐ We **HAVE NOT** approved your application. After considering the reasons stated in item 4, we cannot grant your request for an extension of time to file. We are not granting the 10-day grace period.

☐ We cannot consider your application because it was filed after the due date of the return for which an extension was requested.

☐ Other: ________________________________

________________ By: ________________ ________________
Director Date

If you want a copy of this form to be returned to an address other than that shown above, please enter the address to which the copy should be sent.

Please Type or Print
Name
Number, street, and room or suite no. (or P.O. box no. if mail is not delivered to street address)
City, town or post office, state, and ZIP code For a foreign address, see instructions.

For Paperwork Reduction Act Notice, see back of form. MGA Form **2758** (Rev. 5-95)

2758.Q95

Form **7004**
(Rev. June 1995)
Department of the Treasury
Internal Revenue Service

Application for Automatic Extension of Time To File Corporation Income Tax Return

OMB No. 1545-0233

Name of corporation: UTOPIA UNIVERSITY
Employer identification number: 13-3456789

Number, street, and room or suite no. (If a P.O. box or outside the United States, see instructions.)
1234 UNIVERSITY PLACE, N.W.

City or town, state, and ZIP code
WASHINGTON, D.C. 20000-0000

Check type of return to be filed:

☐ Form 1120	☐ Form 1120-FSC	☐ Form 1120-ND	☐ Form 1120-REIT	☐ Form 1120-SF
☐ Form 1120-A	☐ Form 1120-H	☐ Form 1120-PC	☐ Form 1120-RIC	☐ Form 990-C
☐ Form 1120-F	☐ Form 1120-L	☐ Form 1120-POL	☐ Form 1120S	☒ Form 990-T

Form 1120-F filers: Check here if you do not have an office or place of business in the United States . . . . . . ▶ ☐

1a I request an automatic 6-month (or, for certain foreign corporations, 3-month) extension of time until MAY 15, 19 97, to file the income tax return of the corporation named above for ▶ ___ calendar year 19 ___ or ▶ X tax year beginning JULY 1, 19 95, and ending JUNE 30, 19 96.

b If this tax year is for less than 12 months, check reason:
☐ Initial return ☐ Final return ☐ Change in accounting period ☐ Consolidated return to be filed

2 If this application also covers subsidiaries to be included in a consolidated return, complete the following:

Name and address of each member of the affiliated group	Employer identification number	Tax period

3 Tentative tax (see instructions) . . . . 3 — 35,000

4 Credits:

a Overpayment credited from prior year . . . 4a
b Estimated tax payments for the tax year . . . 4b — 30,000
c Less refund for the tax year applied for on Form 4466 . . . 4c ( ) Bal ▶ 4d — 30,000
e Credit from regulated investment companies . . . 4e
f Credit for Federal tax on fuels . . . 4f

5 Total. Add lines 4d through 4f . . . . . . 5 — 30,000

6 **Balance due.** Subtract line 5 from line 3. **Deposit this amount electronically or with a Federal Tax Deposit (FTD) Coupon** (see instructions) . . . . 6 — 5,000

Signature. -Under penalties of perjury, I declare that I have been authorized by the above-named corporation to make this application, and to the best of my knowledge and belief, the statements made are true, correct, and complete.

Ernest G. Wilson (Signature of officer or agent) — Treasurer (Title) — 11/20/96 (Date)

For Paperwork Reduction Act Notice, see instructions. JSA — Form **7004** (Rev. 6-95)
5S99D1 1.000

IRS RULINGS AND DETERMINATIONS 7

Types of Rulings

IRS regulations and instructions are not the only sources available to help taxpayers determine proper tax treatment for their individual circumstances. The IRS publishes revenue rulings, letter rulings, and technical advice memoranda in which the national office applies the laws and regulations to specific cases. Although these rulings apply only to the specific set of facts they are based upon, they are useful in understanding how the IRS interprets the Code.

A revenue ruling interprets and applies tax laws and regulations to a specific set of facts for the purpose of informing and advising IRS officials, taxpayers, and others on major tax issues. A revenue ruling states the position of the IRS, but does not have the force and effect of a regulation. It is an informal statement of position, not a statement of rules for general application. Revenue rulings serve to promote uniform application of the tax laws and to assist taxpayers by informing them of past interpretations by the IRS. Revenue rulings are published to provide precedents and may, therefore, be cited and relied on for that purpose. The IRS has virtually ceased issuing revenue rulings in the exempt organizations area in recent years.

A private letter ruling is a written response to a specific taxpayer issued by the IRS national office in response to a request from the taxpayer for a ruling on a certain question(s). The letter ruling must be applied by the district office in the determination of that taxpayer's tax liability if the facts as presented are substantially a reflection of events as they occurred. Letter rulings are of more limited use than revenue rulings. A letter ruling may not be used or cited as precedent or relied upon by anyone other than the taxpayer to whom it was issued.

A technical advice memorandum is similar to a letter ruling but is issued by the national office in response to a request by a district director or the chief of an IRS appeals office to resolve open questions arising from examination of a taxpayer, consideration of a taxpayer's claim for refund or credit, or (less often) the processing of an exemption application. As with a letter ruling, it may not be used or cited as a precedent by other taxpayers. (Technical advice memoranda are published as part of the IRS Letter Ruling program and numbered in series with letter rulings.)

Because each revenue ruling or letter ruling represents a determination by the IRS as to the proper application of the law based on the facts presented, those using the rulings should be cautioned against reaching the same conclusions in other cases unless the facts and circumstances are substantially the same. Revenue rulings are of broader application than letter rulings and may be given greater weight. Letter rulings, although not precedent-setting, are valuable as examples of how the IRS interprets the tax laws. Each ruling lists sections of the Code, regulations, and previous revenue rulings that are deemed applicable to the situation at hand. This is useful in determining which provisions the IRS finds relevant to a particular situation.

Summaries of a few revenue rulings covering issues that are still relevant to colleges and universities are included in this chapter (see page 53). Summaries of a representative sample of recent letter rulings

follow (page 54). In the last few years, the U.S. Tax Court has issued three rulings of interest to institutions of higher education; highlights of several of these decisions are provided at the end of this chapter (page 58). These short summaries are intended to provide a flavor of IRS rulings. The excerpts are abbreviated and certain facts may have been edited out for the sake of brevity. They should not be relied upon as applicable in every case, as the facts in each case and situation will vary. The selections cited should be considered a source of initial information to assist in gaining an understanding of IRS interpretation of a particular area of the tax law.

Complete copies of rulings are available from the *Internal Revenue Cumulative Bulletin*, various tax services, libraries, tax advisers, or attorneys.

Requesting Rulings from the IRS

Exempt organizations may request letter rulings, information letters, or determination letters from the IRS on the tax consequences of their activities.

Determination letters are issued by key district directors in response to taxpayers' written requests regarding completed transactions that affect returns over which the directors have examination jurisdiction. A determination letter usually will not be issued for a question concerning a return to be filed by the taxpayer if the same question is involved in a return under examination. Determination letters are only issued if the question presented is specifically answered by law, regulations, previous IRS rulings, or court opinions. For exempt organization issues, determination letters are issued involving qualification for exempt status, private foundation classification, recognition of unusual grants, and advance approval under section 4945 of scholarship grant-making procedures.

An information letter is a statement about a well-established interpretation or principle of tax law, but does not apply the interpretation to a specific set of facts. It is issued by either the national office or a key district director when a taxpayer's inquiry indicates a need for general information or does not meet the criteria for a ruling. Requests for information letters should be addressed to Internal Revenue Service, 1111 Constitution Avenue, NW, Exempt Organization Technical Division, E:EO, Room 6052, Washington, DC 20224.

Requests for rulings should be submitted before the return is filed for the year in which the transaction that is the subject of the request was completed. If the same issue is covered in a previous year's return, a ruling will not be issued if that return is under examination or in litigation. The national office will issue rulings on either proposed or completed transactions, but not on hypothetical situations or alternative plans. It usually will not rule on a piece of an integrated transaction.

Fairly extensive documentation needs to be supplied to the IRS to request a ruling on an exempt organization tax issue. The procedures, including a detailed checklist for submissions, are delineated in Revenue Procedure 96-1. A request for a ruling must include:

- a complete statement of facts, interested parties, and other information;
- copies of any pertinent documents including contracts, wills, deeds, agreements, etc.;
- an analysis of the material facts and their bearing on the issue;
- a statement regarding whether the same issue is on an earlier return and, if so, the status of the return;
- a statement of prior similar issues ruled on or for which a ruling was requested by the taxpayer;
- a statement of relevant authorities (legislation, regulations, court decisions, etc.), including arguments for and against a particular tax treatment; and
- a statement identifying information to be deleted from a ruling or determination letter prior to public release.

A user fee must also be paid at the time of submission. Revenue Procedure 96-8 contains a fee

schedule (current fees for exempt organization rulings are $600 if gross receipts are less than $150,000, and $2,100 for all others).

Closing Agreements

Organizations may also seek to enter closing agreements with the IRS to resolve specific outstanding issues, liabilities, and audit findings.

A closing agreement is a final agreement between the IRS and a taxpayer on a specific issue or liability. It is final unless fraud or misrepresentation can be proved. While a letter ruling can be modified or revoked by the IRS, a letter ruling accompanied by a closing agreement cannot. The IRS may enter into closing agreements when it is advantageous to have a matter permanently and conclusively closed; it may also do so if the taxpayer can show that there are good reasons for having an agreement and no disadvantages to the government. Taxpayers may sometimes be asked to enter into an agreement as a condition to the issuance of a ruling. Closing agreements are covered in Revenue Procedure 93-4.

Summaries of Selected Revenue Rulings

These are recapitulations of selected IRS revenue rulings covering UBIT issues of interest to colleges and universities. Revenue rulings are published to inform taxpayers about IRS interpretations of tax laws and regulations and may be cited as precedent. If specific issues covered below are of interest, consult the complete text of the ruling, which should be available through your library, tax adviser, or legal counsel. Do not rely solely on these summaries, which may omit relevant details.

Revenue Ruling 81-178—Royalties

The IRS distinguished between two situations involving income earned by an exempt organization formed to improve the economic and working conditions of its members, who are professional athletes. The organization also solicits and negotiates licensing and endorsement agreements with various businesses. The licensing agreements authorize the businesses to use the organization's name, trademark, etc., and its members' names, photographs, and signatures in connection with the sale of merchandise or services. Under the terms of the agreements, the organization retains some quality control rights over products but is otherwise not involved in marketing efforts. It is paid based on either a flat sum per year or a percentage of gross sales of licensed products. The IRS ruled that, in this case, the income received by the organization is excluded royalty income under Code section 512(b).

The other agreements were essentially the same except that they were concerned with endorsements and required personal appearances by, and interviews with, members of the organization in connection with endorsed merchandise and services. Because these types of agreements require the personal services of the organization's members, the payments are compensation for personal services rather than royalties and must be included in the organization's unrelated business income.

Revenue Ruling 80-298—Rental of Real Property

A university, in return for a fixed fee, allows a professional football team to use its stadium facilities for practice several months a year. Under the lease agreement, in addition to heat, light, and water, the university also provides grounds maintenance, dressing rooms, linens, and security services. The IRS ruled that the university, by leasing its facilities in this manner for several months each year, is conducting an unrelated trade or business that is regularly carried on. Further, because the institution is furnishing substantial services for the convenience of the lessee that go beyond those usually associated with the rental of space, the activity does not fall within the scope of the exclusion from unrelated business income tax for rental of real property provided under section 512(b)(3).

Revenue Ruling 80-297—Rental of Real Property

The IRS distinguished between two types of arrangements used by an institution in leasing its tennis facilities during summer months. In one situation, the institution operates a tennis club open to the public for a fee. Institution employees conduct the affairs of the club. Under these circumstances, the institution is engaged in an unrelated business and income earned is taxable unrelated business income. The income is not eligible for exclusion under section 512(b)(3) because the institution provides considerably more services than merely rental of real property.

In the other case, the institution leases the facilities to an unrelated individual for the period at a fixed fee that does not depend on the income or profits derived from the leased property. The individual forms a tennis club and hires employees to run its affairs. The institution does not provide services to the public or the lessee. The income earned by the institution is excluded from unrelated business income under section 512(b)(3) as rent from real property.

Revenue Ruling 78-98—Ski Facility

An institution operates a ski facility that is used by its physical education department for classes, and by students and the general public for recreational purposes. The operation of the facility, except for the physical education department classes, is substantially similar to that of commercial ski facilities with comparable lift fees for recreational users. According to the IRS, the use of the institution's ski facility by its students for recreational purposes contributes importantly to the accomplishment of the institution's exempt purposes. Therefore, income earned from students' use of the ski facility is not unrelated. On the other hand, provision of recreational facilities to the general public is not substantially related to the institution's exempt purposes and income earned from public use is income from a trade or business.

Summaries of Recent Letter Rulings

These are summaries of selected letter rulings, relevant to colleges and universities, that have been released in the last several years. Letter rulings are helpful in predicting how the IRS will resolve similar situations, but may not be cited or used as precedent and should not be relied upon by other taxpayers. Facts and circumstances are different in each case. If specific issues covered below are of interest, consult the complete text of the letter ruling which will provide greater detail concerning the facts of the case and the IRS determination. Do not rely solely on these summaries, which may omit relevant details.

LTR 9616039—Sale of Land for Development
January 23, 1996

A college bought two parcels of land: one in 1962; and the other in 1988. Originally purchased to be used in the institution's athletic program, both are currently held as raw land and do not produce income. The college plans to keep one parcel to be used as playing fields and the site of a stadium. The remaining parcel will be developed for single family homes, townhomes, residential rental units, and commercial property. The college will convey the single family home sites to a limited partnership, which will pay for the homes from gross receipts.

Conclusion: The IRS concluded that the income from the sales will not be subject to UBIT since the college did not originally purchase the land for sale to individuals, but rather for use in its exempt purposes. The IRS determined that the college was not engaged in the real estate trade or business, finding that the transactions represent the liquidation of an investment held for exempt purposes.

LTR 9527035—Electricity Generation
April 10, 1995

A university that owns and operates a steam generation facility that supplies all of the campus' power

needs, purchases all of its electrical power requirements at the "full requirements rate" from a public utility. The university is building a power plant that will produce steam and electricity. In some cases, the university will sell excess power to the public utility; however, the university will sometimes purchase backup or supplemental power from the utility. The university will achieve substantial savings by self-generating its electrical power requirements.

Conclusion: The IRS ruled that the university's production of power for its own uses will not constitute an unrelated business, but did not address whether the university's sale of excess power constitutes an unrelated business.

LTR9517029—Subsidiary's Joint Venture
January 27, 1995

A tax-exempt university that uses two hospitals, a psychiatric facility and one specializing in acute care, to train its students and residents, sold the hospitals to another entity in 1984. The university continues to use the hospitals in accordance with an affiliation agreement. To facilitate the relationship between the university and the other organization, a joint venture was proposed under which the parties will establish a limited liability company (LLC) to own and operate the two hospitals. The university will place its LLC interest (a 26 percent interest) into a tax-exempt subsidiary, which will borrow the funds to purchase the psychiatric hospital from another tax-exempt organization. The university's subsidiary will then contribute the hospital and cash to the LLC. The other organization's subsidiary will be in charge of the LLC's routine business affairs; however, major decisions will require the consent of the university's subsidiary.

Conclusion: The IRS ruled that the distributive share of the LLC's profits and losses received by the university's subsidiary will be income from a trade or business substantially related to the subsidiary's exempt purpose and, therefore, will not be subject to unrelated business income tax.

LTR 9636001—Publishing Activities
January 4, 1995
(Technical Advice Memorandum)

A tax-exempt organization operates religious institutions, including an elementary school, a high school, and a college. A separate publishing division operates a religious radio station and publishes textbooks and educational materials for use in its institutions and widely sold for use in other institutions. The publishing division generates more than half of the organization's receipts, with profits as high as 75 percent of gross receipts.

Conclusion: The IRS ruled that its publishing activities were "a substantial part" of the organization's overall activities. Because the publishing was carried on with a profit motive, was too commercial in nature, and was conducted on a greater scale than what was required to educate the organization's students, the IRS also concluded that the income from the publishing operation was subject to UBIT.

However, the IRS also concluded that the organization should retain its exempt status. The Service determined that although it was conducting a substantial amount of unrelated activity, the organization also, through its institutions, was engaged in significant educational activities. The IRS found that the organization's expenditures to support those educational activities to be in keeping with its financial resources.

LTR 9234043—Lease of Medical Clinic
May 29, 1992

A 501(c)(3) organization, whose purpose is to build and operate a community hospital and related medical facilities, intends to construct a medical clinic facility adjacent to its hospital using borrowed funds. The clinic facility will be leased to a for-profit medical clinic staffed by physicians who have staff privileges at the hospital.

Conclusion: Lease payments for the use of the medical clinic facility will not be considered unrelated business income under the section

512(b)(3)(A)(i) exclusion of rents from real property. Although the medical facility will be constructed using borrowed funds, the property is not debt-financed property under section 514(b)(1) because it will be leased to a medical clinic for reasons that are substantially related to its exempt purpose.

LTR 9233037—Lease of Revenue Stream
May 20, 1992

A nonprofit hospital arranged to lease the revenue stream from its outpatient surgery department to a limited partnership between the hospital and members of the medical staff to enhance its ability to provide quality healthcare to the community at the lowest possible cost to the patient.

Conclusion: The IRS revoked a 1989 ruling (LTR 8942099) that allowed the revenue stream lease, and ruled instead that the arrangement violates the proscription against private inurement of section 501(c)(3) and therefore jeopardizes the hospital's exemption. The IRS found that the hospital entered into the lease largely as a means to retain and reward members of its medical staff and to attract their admissions and referrals. The private benefit of the revenue stream lease was direct and substantial, and, while the arrangement improved the competitive position of the hospital, it did not provide benefits to the public in terms of improved healthcare.

LTR 9242002—Holding Company
January 17, 1992 (Technical Advice Memorandum)

A public university, exempt under section 501(c)(3), is the sole shareholder of a tax-exempt subsidiary corporation that is the holder of certain passive investments, primarily in non-publicly traded businesses and limited partnerships, for the university. The investments are not debt-financed and the corporation's income consists of dividends and interest, with insubstantial amounts of unrelated income allocated from the limited partnerships. The investment activities of the holding company would be allowable activities for the university if it conducted them directly. The holding company is exempt under section 501(c)(2) and is applying for section 501(c)(3) exemption.

Conclusion: The holding company qualifies for exemption under section 501(c)(3) because it operates as an integral part of a charitable organization and performs functions that the institution could do itself. The investment income will not be unrelated business income to either entity.

LTR 9147008—Rock Concerts
August 19, 1991 (Technical Advice Memorandum)

A state university owns and operates a multifunctional auditorium facility on its campus. In addition to its use for a number of educational activities such as registration and collegiate athletics, a number of "ticket events" (such as rock concerts, closed circuit boxing matches, and professional basketball games) were held in the auditorium. According to the IRS, these events were indistinguishable from similar events held by a commercial enterprise. Although the university maintained that the events contributed importantly to its exempt purpose by providing a forum for the exposition of contemporary musicians, the IRS focused on the manner in which decisions were made to book acts and the business considerations involved. The other issue in the letter relates to the proper manner of allocating expenses for the auditorium between exempt and unrelated activities.

Conclusion: The IRS ruled that the only criterion used by the university in the sponsorship of professional entertainment events was profitability, to the exclusion of other considerations, leading to the conclusion that the activity was not operated as part of the institution's educational programs. The revenue received from these events, therefore, was determined to be unrelated business income.

The IRS also maintained that a "reasonable" allocation of fixed expenses to the unrelated business income requires a calculation based on the days the facility is available for use, rather than a ratio based on actual use between exempt and nonexempt activi-

ties. (Although the latter method was deemed acceptable by the Second Circuit Court in Rensselaer Polytechnic Institute v. Commissioner, the IRS has refused to accept it in other cases.)

LTR 9141051—Rental Income
July 17, 1991

An educational institution, exempt under section 501(c)(3), entered into several leases for the development of a 27-acre site. Each lease will provide for monthly rent, comprising the following components:

1. Interim rent, calculated as a percentage of book value for the premises payable until a certain point in time
2. Base rent, calculated as a percentage of book value and adjusted in accordance with a generally accepted index as of a specific date
3. Percentage rent, based on annual gross revenues
4. Parking rent, based on a percentage of book value for the particular parking parcel provided to the lessee, adjusted over time
5. Additional rent, involving a percentage of gross proceeds from a sale or refinancing of the leasehold and improvements

Conclusion: The IRS ruled that income from the various rents is based on either gross receipts or book value of the property. It is not connected to the income or profit derived by any person from the property. Therefore, the income is excluded from taxation as unrelated business income under section 512(b).

LTR 9144044—Sale of Mortgaged Land
June 28, 1991

A hospital exempt under section 501(c)(3) bought an undeveloped parcel of land, with the seller taking back a mortgage. The hospital reportedly intended to use the site for a nonprofit family practice emergency center and had obtained the appropriate zoning change. The site, however, was not developed and after three years, was sold to an unrelated party.

Conclusion: Based on the fact that the hospital held the property as mortgaged unimproved property for three years without actually using it in a manner related to its exempt purposes, the IRS concluded that the property was debt-financed property within the meaning of section 514(b)(1) of the Code. Therefore, the sale of the mortgaged land resulted in unrelated business income subject to tax.

LTR 9137002—Training Program Contracts; Football Program Advertising
April 29, 1991 (Technical Advice Memorandum)

A state university contracted to provide instruction as part of a training program operated by a private company. University professors and teaching assistants taught the courses, the university and the company each provided computing resources, and the company provided instructional materials and classroom space. The courses, which were similar to two courses offered at the university, were offered eight hours a day for a two-week period. Undergraduate credit was given to students who requested it.

The university contracted with a production company to publish and produce football programs for home games. Under the agreement, the university retained the right to sell certain advertising pages (and retain the revenue produced) and the production company was allowed to sell the advertising for the rest of the program and keep the income generated. In return, the company agreed to sell the programs to the university below cost. The university's reserved advertisements were sold by a national advertising agency. The university was not involved in negotiating the price of the ads or selecting advertisers, but did provide the agency with general guidelines for types of advertisements that would not be accepted.

Conclusion: Although they were restricted to employees of the company, the courses followed the educational curriculum of the university, were taught by university faculty, and offered academic credit to participants. The educational mission of the university is achieved by "serving the educational pursuits of a diverse community with varied interests in education."

The IRS found that the relationship between the university and the production company did not involve the company acting as an agent of the university and therefore, the business could not be treated as "regularly carried on." The fact that the university did not receive revenue from the advertising sold by the company was also considered. However, the advertising agency that sold the ad pages reserved for the university was determined to be acting as the agent of the university, because the university exercised a greater degree of control over the type of advertising accepted and received payment for the advertisements. Further, the activity was deemed to be "regularly carried on" because the agency was involved in the solicitation of advertisements for "a significant span of time." The revenue the university received from the advertising agency was determined to be unrelated business income.

Current Litigation Summaries

These are summaries of selected judicial rulings of the United States Tax Court that are relevant for colleges and universities. U.S. Tax Court decisions may be relied upon as precedent, however rulings may be subject to different interpretations among the federal circuits. In addition, the IRS does not always acquiesce—or agree to follow—Tax Court rulings. The IRS publishes its positions of acquiescence or nonacquiescence in Tax Court decisions in the *Internal Revenue Bulletin*, an official publication of the IRS containing all regulations, rulings, announcements, and other administrative materials. While acquiescence can be viewed as an indication of an IRS position, it does not bind the IRS to concede the issue during an audit.

Sierra Club Inc. v. Commissioner

No. 95-70112 (9th Cir. June 20, 1996)The United States Court of Appeals for the Ninth Circuit ruled, that for purposes of UBIT, a royalty—a payment received for the right to use intangible property—is "passive," unless the recipient performs services in addition to granting the right to use its intangible property. The Court affirmed the Tax Court's earlier decision in *Sierra Club v. Commissioner*, 103 T.C. 335 (1994) that the club's income from rental of its membership mailing lists did not constitute royalty income because independent contractors performed the marketing services.

However, the Court reversed the Tax Court's partial summary judgment for Sierra Club on the issue of whether income from their affinity card program constituted royalties, stating that the Tax Court had improperly resolved facts in dispute in favor of the club, rather than reviewing the evidence in a light most favorable to the IRS. The affinity card issue was remanded to the Tax Court for findings of fact regarding the scope and nature of service provided by the Sierra Club in connection with the affinity card agreement.

Alumni Association of the University of Oregon v. Commissioner (Tax Court Memorandum 1996-63, February 20, 1996)

The Alumni Association of the University of Oregon (AAUO) participated in an affinity credit card program with the United States National Bank of Oregon (USNB). USNB offered AAUO VISA cards depicting either a University of Oregon building and the AAUO logo, or just the logo and AAUO name. USNB engaged in the design, production, and mailing of preapproved card applications to members of the alumni association.

The IRS determined that AAUO's income from the affinity card program for tax years 1990 and 1991 ($528,862) did not constitute royalties and was therefore subject to UBIT. The IRS position was based on the argument that USNB paid AAUO for services rendered, rather than for use of a valuable intangible property right.

The Tax Court determined that USNB paid AAUO for "access to valuable intangible property rights"—the association's logo, which is a registered trademark. The Court also held that AAUO's income from the program did not represent payment for services, noting that AAUO did not regularly rent its mailing list and

designated minimal staff time to the affinity card program. Upholding the *Oregon State* decision (see below), the court denied the IRS assertion that AAUO's program constituted a trade or business, pointing out that "a desire to make money, standing alone, [does not] establish that [AAUO] is engaged in a trade or business."

Oregon State University Alumni Association, Inc. v. Commissioner (Tax Court Memorandum 1996-34, January 30, 1996)

The Oregon State University Alumni Association (OSUAA) engaged in an affinity card program with USNB, nearly identical to the arrangement described above in the AAUO case. Relying on the initial Tax Court decision in *Sierra Club*, the Court ruled again that royalty income derived from an affinity credit card program is not subject to UBIT.

The IRS asserted that because USNB did not display the OSUAA logo on the affinity credit cards, the payments were not in return for an intangible property right and were therefore not royalties. The Court stated that the bank's receipt of OSUAA's mailing list and its endorsement constituted valuable intangible property rights sufficient to be characterized as a royalty. The Court also rejected the Service's assertion that OSUAA was engaged in the trade or business of selling its mailing list, determining that it only did so in rare instances. The IRS also contended that the payments from USNB represented compensation for services performed by the association. The Court found that OSUAA only minimally solicited its members and occasionally referred requests for applications and complaints to USNB.

PUBLIC INSPECTION REQUIREMENTS 8

The Revenue Act of 1987 amended section 6104 of the Internal Revenue Code by adding a new subsection (6104(e)) that requires all tax-exempt organizations (including 501(c)(3) organizations) to make available for public inspection all annual information returns on Form 990, "Return of Organization Exempt From Income Tax." The returns must be made available for a three-year period following the due date, or the date filed if later than the unextended due date.

Under section 6104(e), organizations also must make available their Form 1023, "Application for Recognition of Exemption Under Section 501(c)(3) of the IRC," or Form 1024 if they are some other type of section 501(c) organization, along with supporting documentation. If an organization filed its application before July 15, 1987, it is required to make available a copy of its application only if it had a copy of the application on July 15, 1987.

Although an organization can exclude from this public disclosure its Form 990-T, "Exempt Organization Business Income Tax Return," which relates to unrelated business income tax, it *cannot* exclude from disclosure sections of Form 990 that contain information on compensation paid to key staff personnel, officers, and directors. *The list of contributors required by line 1d does not have to be disclosed.*

The returns must be available for inspection during normal business hours at the organization's principal office and at any office location where three or more full-time management personnel work. In 1996, subparagraph (A) of section 6104(e)(1) was further amended to require that, upon request, a copy of the annual return must be provided to a requesting individual without charge other than a reasonable fee for any reproduction and mailing costs. If the request is made in person, the copy must be provided immediately. If the request is made in writing, the copy must be provided within 30 days. These new requirements will apply to requests made on or after the 60th day after the Secretary of the Treasury first issues the applicable regulations. The regulations have not yet been issued as this publication goes to press.

If a request for inspection is made to an organization that did not file its own return or application because, for example, it is a subordinate organization (like a branch campus) covered by a group filing, the subordinate organization must acquire a copy of the documents being sought from the parent organization and make it available to the requester within a reasonable period of time.

Any person who fails to comply with the public inspection requirement for annual returns and applications for exemption may be assessed a penalty of $10 per day for each day during which the failure to comply continues. The maximum penalty on all persons for failure to comply with respect to any one annual return is $5,000. No penalty will be imposed if the failure is due to reasonable cause. As a result of the recently enacted Small Business Job Protection Act, these penalties (under Code section 1704) will increase to $20 per day with a maximum penalty of $10,000. The penalty for willful failure to allow public inspections or provide copies has been increased from $1,000 to $5,000 per return.

On November 28, 1988, the IRS published Notice 88-120, which includes guidance on meeting the 1987 public disclosure requirements. No IRS or Treasury guidance has been published for the 1996 amendments. Consult a tax adviser for further details about these new public disclosure requirements.

Appendix A
Utopia University Financial Statements

Statements of Financial Position

Statements of Activities

Sample financial statements reprinted with permission from *Ration Analysis in Higher Education Measuring Past Performance to Chart Future Direction* (KPMG Peat Marwick LLP and Prager, McCarthy and Sealy, 1995).

Utopia University Financial Statements

UTOPIA UNIVERSITY

Statements of Financial Position

	Current	Prior
Assets		
Cash and cash equivalents	$ 20,693,000	19,605,000
Student accounts receivable, net of allowances of $311,000 in 1994 and $196,000 in 1993	1,203,000	1,071,000
Other receivables	1,175,000	1,453,000
Contributions receivable	1,295,000	1,215,000
Deferred charges and prepaid expenses	1,040,000	1,071,000
Investments held for long-term purposes, at market	45,062,000	40,905,000
Notes receivable, net of allowances of $391,000 in 1994 and $371,000 in 1993	9,513,000	9,230,000
Property, plant, and equipment, net	77,900,000	79,305,000
Total assets	$157,881,000	153,855,000
Liabilities and Net Assets		
Liabilities:		
Accounts payable	962,000	1,250,000
Accrued expenses	5,286,000	4,810,000
Deferred revenues	1,227,000	1,251,000
Student deposits	211,000	259,000
Accrued postretirement benefits	1,806,000	1,806,000
Long-term debt	39,476,000	40,387,000
U.S. government grants refundable	8,293,000	8,062,000
Total liabilities	57,261,000	57,825,000
Net assets:		
Unrestricted	86,014,000	83,724,000
Temporarily restricted	2,954,000	2,357,000
Permanently restricted	11,652,000	9,949,000
Total net assets	100,620,000	96,030,000
Total liabilities and net assets	$157,881,000	153,855,000

UTOPIA UNIVERSITY

Statement of Activities

Current Year

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Educational and general:				
Tuition and fees	$60,374,000	0	0	60,374,000
Federal grants and contracts	1,467,000	0	0	1,467,000
State grants and contracts	1,194,000	0	0	1,194,000
Private gifts and grants	2,598,000	1,553,000	1,645,000	5,796,000
Interest on loans receivable	37,000	0	0	37,000
Investment income	1,128,000	913,000	31,000	2,072,000
Net realized gains	745,000	1,520,000	0	2,265,000
Net unrealized appreciation (depreciation)	277,000	(1,340,000)	27,000	(1,036,000)
Other sources	628,000	0	0	628,000
Auxiliary enterprises	14,800,000	0	0	14,800,000
Total revenues and gains	83,248,000	2,646,000	1,703,000	87,597,000
Net assets released from restrictions—				
Satisfaction of program restrictions	2,049,000	(2,049,000)	0	0
Total revenues, gains, and other support	85,297,000	597,000	1,703,000	87,597,000
Expenses:				
Educational and general:				
Instruction	23,532,000	0	0	23,532,000
Research	57,000	0	0	57,000
Public support	42,000	0	0	42,000
Academic support	6,809,000	0	0	6,809,000
Student services	9,017,000	0	0	9,017,000
Institutional support	11,183,000	0	0	11,183,000
Operation and maintenance of plant	5,457,000	0	0	5,457,000
Scholarships and fellowships	14,538,000	0	0	14,538,000
Total educational and general	70,635,000	0	0	70,635,000
Auxiliary enterprises	12,372,000	0	0	12,372,000
Total expenses	83,007,000	0	0	83,007,000
Increase in net assets	2,290,000	597,000	1,703,000	4,590,000
Net assets at beginning of year	83,724,000	2,357,000	9,949,000	96,030,000
Net assets at end of year	$86,014,000	2,954,000	11,652,000	100,620,000

UTOPIA UNIVERSITY

Statement of Activities

Prior Year

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Educational and general:				
Tuition and fees	$59,045,000	0	0	59,045,000
Federal grants and contracts	1,204,000	0	0	1,204,000
State grants and contracts	1,184,000	0	0	1,184,000
Private gifts and grants	1,523,000	2,344,000	271,000	4,138,000
Interest on loans receivable	24,000	0	0	24,000
Investment income	1,810,000	845,000	31,000	2,686,000
Net realized gains	518,000	551,000	0	1,069,000
Net unrealized appreciation	1,857,000	2,399,000	84,000	4,340,000
Other sources	892,000	0	0	892,000
Auxiliary enterprises	13,811,000	0	0	13,811,000
Total revenues and gains	81,868,000	6,139,000	386,000	88,393,000
Net assets released from restrictions—				
Satisfaction of program restrictions	5,261,000	(5,261,000)	0	0
Total revenues, gains, and other support	87,129,000	878,000	386,000	88,393,000
Expenses:				
Educational and general:				
Instruction	23,159,000	0	0	23,159,000
Research	1,000	0	0	1,000
Academic support	6,809,000	0	0	6,809,000
Student services	9,039,000	0	0	9,039,000
Institutional support	10,819,000	0	0	10,819,000
Operation and maintenance of plant	6,333,000	0	0	6,333,000
Scholarships and fellowships	12,769,000	0	0	12,769,000
Total educational and general	68,929,000	0	0	68,929,000
Auxiliary enterprises	13,643,000	0	0	13,643,000
Total expenses	82,572,000	0	0	82,572,000
Increase in net assets	4,557,000	878,000	386,000	5,821,000
Net assets at beginning of year	79,167,000	1,479,000	9,563,000	90,209,000
Net assets at end of year	$83,724,000	2,357,000	9,949,000	96,030,000

Appendix B

Worksheet A: Form 990 Revenue Format

Explanation of Indirect Cost Center Allocations (Worksheets B, C-1, and C-2)

Worksheet B: Indirect Cost Center Allocations

Worksheet C-1: Form 990 Expense Format (Multi-Line Indirect Cost Center Allocation)

Worksheet C-2: Form 990 Expense Format (Single-Line Indirect Cost Center Allocation)

Example of Form 990 Part II with Single-Line Allocation

WORKSHEET A: Form 990 Revenue Format

		FORM 990 PART I							
		Line 1	Line 2	Line 3	Line 5	Line 6	Line 8	Line 9	Line 11
	Total	Contributions Gifts, Grants	Program Service Revenue	Interest–Savings	Dividends/ Interest–Securities	Net Rents	Gain/Loss Sale of Assets	Special Events –Net	Other Revenue
Tuition and Fees	60,374,000		60,374,000						
Federal Grants and Contracts									
Unrestricted	1,467,000	1,467,000 C							
Temporarily Restricted	0								
Permanently Restricted	0								
State and Local Grants and Contracts									
Unrestricted	1,194,000	1,194,000 C							
Temporarily Restricted	0								
Permanently Restricted	0								
Private Gifts and Grants									
Unrestricted	2,598,000	2,598,000 A							
Temporarily Restricted	1,553,000	1,553,000 A							
Permanently Restricted	1,645,000	1,645,000 A							
Endowment/Investment									
Unrestricted	628,000					50,000		573,000	5,000
Temporarily Restricted	0								
Permanently Restricted	0								
Sales/Services–Auxiliary	14,800,000		14,800,000						
Expired Term Endowment	0								
Interest on Investments	2,072,000			450,000	1,622,000				
Net Gain (Loss) on Investments									
Unrestricted	2,265,000						2,265,000		
Temporarily restricted	0								
Permanently Restricted	0								
Interest on Loans Receivable									
Unrestricted	37,000		30,000						7,000
Temporarily Restricted	0								
Permanently Restricted	0								
U.S. Gov't Advances–Restricted	0								
Expended for Plant Facilities	0								
Retirement of Indebtedness	0								
Matured Annuity/Life Insurance Funds	0								
	88,633,000	8,457,000	75,204,000	450,000	1,622,000	50,000	2,265,000	573,000	12,000

A: Form 990, Line 1a, Direct Public Support
C: Form 990, Line 1c, Government Grants

Explanation of Indirect Cost Center Allocations
(Worksheets B, C-1 and C-2)

Through periodic surveys of time spent by employees, square footage, "head counts," analysis of direct costs and other means, you have determined that Institutional Support, and Operation and Maintenance of Plant are allocable to program services, management and general, and fundraising costs as shown on Worksheet B.

You have also determined that a single-step allocation will be reasonably accurate. In preparing Form 990, you have two options for presenting the resulting cost allocations:

- **Option 1: Multi-Line Allocation**

  Having prepared the spreadsheet shown on Worksheet B, you may combine individually calculated expenses on a line-by-line, column-by-column basis with other expenses on Form 990, Part II. For example, having determined that $1,061,000 of Other Salaries (out of a total of $1,739,000 in Institutional Support) is allocable to Program Services, you may combine the $1,061,000 with Other Salaries from other categories on Line 25, **Column B** of Form 990, Part II. Similarly combine all other Worksheet **C** items on the corresponding column of Form 990, Part II. See Worksheet C-1 for an example.

- **Option 2: Single-Line Allocation**

  The Form 990 instructions permit "single-line" allocations of indirect costs. To use the single-line method, you would do the following:

  1. All expenses of the indirect cost centers are first captured on the appropriate line of Form 990, Part II, **Column C,** Management and General. For example, all $1,739,000 of Other Salaries would be included on Part II, line 25, Column C.

  2. A single-line entry allocating indirect costs is included on Part II, Line 43. For example, on Line 43 write "Institutional Support." In Column B, Program Services, enter $10,836,000 and in Column D, Fundraising, enter $1,168,000. In Column C, Management and General, enter a negative $12,004,000 ($10,836,000 + $1,168,000). See Worksheet C-2 for an example. Immediately following Worksheet C-2 is a sample of Part II, and its supporting schedule, illustrating how the single-line allocation would be shown on Form 990.

WORKSHEET B: Indirect Cost Center Allocations

	Total	Program Services		Management / General		Fundraising	
		%	$	%	$	%	$
Institutional Support							
Officers' Salary	497,000	61%	303,000	31%	154,000	8%	40,000
Other Salaries	6,213,000	61%	3,790,000	31%	1,926,000	8%	497,000
Pension	323,000	61%	197,000	31%	100,000	8%	26,000
Other Benefits	646,000	61%	394,000	31%	200,000	8%	52,000
Payroll Taxes	397,000	61%	242,000	31%	123,000	8%	32,000
Accounting	325,000			100%	325,000		
Legal fees	296,000			100%	296,000		
Supplies	125,000	61%	76,000	31%	39,000	8%	10,000
Telephone	1,242,000	40%	497,000	48%	596,000	12%	149,000
Postage	497,000	40%	199,000	30%	149,000	30%	149,000
Travel	248,000	40%	99,000	30%	75,000	30%	74,000
Interest	200,000			100%	200,000		
Other	174,000	61%	106,000	31%	54,000	8%	14,000
Subtotal	11,183,000		5,903,000		4,237,000		1,043,000
Plant Operations and Maintenance							
Other Salaries	3,274,000	97%	3,176,000	2%	65,000	1%	33,000
Pension	136,000	97%	132,000	2%	3,000	1%	1,000
Other Benefits	318,000	97%	309,000	2%	6,000	1%	3,000
Payroll Taxes	228,000	97%	221,000	2%	5,000	1%	2,000
Supplies	455,000	97%	441,000	2%	9,000	1%	5,000
Occupancy	1,000,000	61%	610,000	31%	310,000	8%	80,000
Equip. Repair/Maint.	46,000	96%	44,000	2%	1,000	2%	1,000
Subtotal	5,457,000		4,933,000		399,000		125,000
Grand Totals	**16,640,000**		**10,836,000**		**4,636,000**		**1,168,000**

WORKSHEET C-1: Form 990 Expense Format (Multi-Line Indirect Cost Center Allocation)

	Total	Line 22 Grants/ Allocations	Line 25 Comp. of Officers / Directors	Line 26 Other Salaries/ Wages	Line 27 Pension Plan Contribs.	Line 28 Other Employee Benefits	Line 29 Payroll Taxes
Instruction	23,532,000			14,117,000 B	716,000 B	1,808,000 B	614,000 B
Research	57,000			34,000 B	2,000 B	3,000 B	2,000 B
Public Support	42,000			24,000 B	1,000 B	3,000 B	2,000 B
Academic Support	6,809,000			4,085,000 B	191,000 B	409,000 B	163,000 B
Student Services	9,017,000			5,410,000 B	452,000 B	900,000 B	406,000 B
Institutional Support (1)	11,183,000		303,000 B	3,790,000 B	197,000 B	394,000 B	242,000 B
			154,000 C	1,926,000 C	100,000 C	200,000 C	123,000 C
			40,000 D	497,000 D	26,000 D	52,000 D	32,000 D
Operation/Maint. of Plant (1)	5,457,000			3,176,000 B	132,000 B	309,000 B	221,000 B
				65,000 C	3,000 C	6,000 C	5,000 C
				33,000 D	1,000 D	3,000 D	2,000 D
Scholarships/ Fellowships	14,538,000	14,538,000 B					
Auxiliary Enterprises	12,372,000			5,409,000 B	270,000 B	541,000 B	325,000 B
Subtotal	83,007,000	14,538,000	497,000	38,566,000	2,091,000	4,628,000	2,137,000
Total Column B	77,203,000	14,538,000	303,000	36,045,000	1,961,000	4,367,000	1,975,000
Total Column C	4,636,000		154,000	1,991,000	103,000	206,000	128,000
Total Column D	1,168,000		40,000	530,000	27,000	55,000	34,000
Total Line 20							
Grand Totals	83,007,000	14,538,000	497,000	38,566,000	2,091,000	4,628,000	2,137,000

B: Form 990, Part II, Column (B), Program Services

C: Form 990, Part II, Column (C), Management and General

D: Form 990, Part II, Column (D), Fundraising

(1): See calculation of indirect expenses on Worksheet B, page 2.

Line 31	Line 32	Line 33	Line 34	Line 35	Line 36	Line 37	Line 39	Line 41	Line 43
Acctg. Fees	Legal Fees	Supplies	Telephone	Postage/ Shipping	Occupancy	Equip. Rent/ Maint.	Travel	Interest	Other
		5,315,000 B	171,000 B	307,000 B		205,000 B	191,000 B		88,000 B
		6,000 B		1,000 B		6,000 B	1,000 B		2,000 B
		6,000 B		3,000 B		1,000 B			2,000 B
		735,000 B		109,000 B		817,000 B	82,000 B		218,000 B
		948,000 B		90,000 B		225,000 B			586,000 B
		76,000 B	497,000 B	199,000 B			99,000 B		106,000 B
325,000 C	296,000 C	39,000 C	596,000 C	149,000 C			75,000 C	200,000 C	54,000 C
		10,000 D	149,000 D	149,000 D			74,000 D		14,000 D
		441,000 B			610,000 B	44,000 B			
		9,000 C			310,000 C	1,000 C			
		5,000 D			80,000 D	1,000 D			
		2,785,000 B		34,000 B		135,000 B			2,873,000 B
325,000	296,000	10,375,000	1,413,000	1,041,000	1,000,000	1,435,000	522,000	200,000	3,943,000
		10,312,000	668,000	743,000	610,000	1,433,000	373,000		3,875,000
325,000	296,000	48,000	596,000	149,000	310,000	1,000	75,000	200,000	54,000
		15,000	149,000	149,000	80,000	1,000	74,000		14,000
325,000	296,000	10,375,000	1,413,000	1,041,000	1,000,000	1,435,000	522,000	200,000	3,943,000

WORKSHEET C-2: Form 990 Expense Format (Single-Line Indirect Cost Center Allocation)

	Total	Line 22 Grants/ Allocations	Line 25 Comp. of Officers / Directors	Line 26 Other Salaries/ Wages	Line 27 Pension Plan Contribs.	Line 28 Other Employee Benefits	Line 29 Payroll Taxes
Instruction	23,532,000			14,117,000 B	716,000 B	1,808,000 B	614,000 B
Research	57,000			34,000 B	2,000 B	3,000 B	2,000 B
Public Support	42,000			24,000 B	1,000 B	3,000 B	2,000 B
Academic Support	6,809,000			4,085,000 B	191,000 B	409,000 B	163,000 B
Student Services	9,017,000			5,410,000 B	452,000 B	900,000 B	406,000 B
Institutional Support (1)	11,183,000		497,000 C	6,213,000 C	323,000 C	646,000 C	397,000 C
Operation/Maint. of Plant (1)	5,457,000			3,274,000 C	136,000 C	318,000 C	228,000 C
Scholarships/ Fellowships	14,538,000	14,538,000 B					
Auxiliary Enterprises	12,372,000			5,409,000 B	270,000 B	541,000 B	325,000 B
Subtotals	83,007,000	14,538,000	497,000	38,566,000	2,091,000	4,628,000	2,137,000
<u>Allocation of Indirect Cost Centers (From Worksheet B)</u>							
Institutional Support							
Operation and Maintenance of Plant							
Totals	83,007,000	14,538,000	497,000	38,566,000	2,091,000	4,628,000	2,137,000
Total Column B	77,203,000	14,538,000		29,079,000	1,632,000	3,664,000	1,512,000
Total Column C	4,636,000		497,000	9,487,000	459,000	964,000	625,000
Total Column D	1,168,000						
Grand Totals	83,007,000	14,538,000	497,000	38,566,000	2,091,000	4,628,000	2,137,000

B: Form 990, Part II, Column (B), Program Services

C: Form 990, Part II, Column (C), Management and General

D: Form 990, Part II, Column (D), Fundraising

(1): Indirect Cost Center Expenses are initially captured in Column C, Management and General. See allocation on Worksheet B, Page 2.

Line 31	Line 32	Line 33	Line 34	Line 35	Line 36	Line 37	Line 39	Line 41	Line 43
Acctg. Fees	Legal Fees	Supplies	Telephone	Postage/ Shipping	Occupancy	Equip. Rent/ Maint.	Travel	Interest	Other
		5,315,000 B	171,000 B	307,000 B		205,000 B	191,000 B		88,000 B
		6,000 B		1,000 B		6,000 B	1,000 B		2,000 B
		6,000 B		3,000 B		1,000 B			2,000 B
		735,000 B		109,000 B		817,000 B	82,000 B		218,000 B
		948,000 B		90,000 B		225,000 B			586,000 B
325,000 C	296,000 C	125,000 C	1,242,000 C	497,000 C			248,000 C	200,000 C	174,000 C
		455,000 C			1,000,000 C	46,000 C			
		2,785,000 B		34,000 B		135,000 B			2,873,000 B
325,000	296,000	10,375,000	1,413,000	1,041,000	1,000,000	1,435,000	522,000	200,000	3,943,000
									5,903,000 B
									(6,946,000) C
									1,043,000 D
									4,933,000 B
									(5,058,000) C
									125,000 D
325,000	296,000	10,375,000	1,413,000	1,041,000	1,000,000	1,435,000	522,000	200,000	3,943,000
		9,795,000	171,000	544,000		1,389,000	274,000		14,605,000
325,000	296,000	580,000	1,242,000	497,000	1,000,000	46,000	248,000	200,000	(11,830,000)
									1,168,000
325,000	296,000	10,375,000	1,413,000	1,041,000	1,000,000	1,435,000	522,000	200,000	3,943,000

Example of Form 990 Part II with Single Line Allocation

EIN 13-3456789 UTOPIA UNIVERSITY

Form 990 (1995) Page 2

Part II Statement of Functional Expenses All organizations must complete column (A). Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others. (See instructions on page 14.)

Do not include amounts reported on line 6b, 8b, 9b, 10b, or 16 of Part I.		(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22 Grants and allocations (attach schedule) (cash $ 14,538,000 noncash $ NONE)	22	14,538,000	14,538,000		
23 Specific assistance to individuals (attach schedule)	23				
24 Benefits paid to or for members (attach schedule)	24				
25 Compensation of officers, directors, etc.	25	497,000		497,000	
26 Other salaries and wages	26	38,566,000	29,079,000	9,487,000	
27 Pension plan contributions	27	2,091,000	1,632,000	459,000	
28 Other employee benefits	28	4,628,000	3,664,000	964,000	
29 Payroll taxes	29	2,137,000	1,512,000	625,000	
30 Professional fundraising fees	30				
31 Accounting fees	31	325,000		325,000	
32 Legal fees	32	296,000		296,000	
33 Supplies	33	10,375,000	9,795,000	580,000	
34 Telephone	34	1,413,000	171,000	1,242,000	
35 Postage and shipping	35	1,041,000	544,000	497,000	
36 Occupancy	36	1,000,000		1,000,000	
37 Equipment rental and maintenance	37	1,435,000	1,389,000	46,000	
38 Printing and publications	38				
39 Travel	39	522,000	274,000	248,000	
40 Conferences, conventions, and meetings	40				
41 Interest	41	200,000		200,000	
42 Depreciation, depletion, etc. (attach schedule)	42				
43 Other expenses (itemize): a Miscellaneous	43a	3,943,000	3,769,000	174,000	
b Indirect cost allocation	43b		10,836,000	(12,004,000)	1,168,000
c	43c				
d	43d				
e	43e				
44 Total functional expenses (add lines 22 through 43) Organizations completing columns (B)–(D), carry these totals to lines 13–15	44	83,007,000	77,203,000	4,636,000	1,168,000

UTOPIA UNIVERSITY
EIN: 13-3456789
TAX YEAR ENDED JUNE 30, 1996

FORM 990

PART II, LINE 43b - INDIRECT COST ALLOCATION

DESCRIPTION	PROGRAM SERVICE	MANAGEMENT & GENERAL	FUND RAISING
INSTITUTIONAL SUPPORT	5,903,000	(6,946,000)	1,043,000
OPERATION AND MAINTENANCE OF PLANT	4,933,000	(5,058,000)	125,000
TOTALS	10,836,000	(12,004,000)	1,168,000

Appendix C

Form 990

Schedule A (Form 990)

Form 990: Supporting Schedules

Form 2758

Form 990-T

Form 990-T: Supporting Schedules

Form 7004

UTOPIA UNIVERSITY

Form **990** Department of the Treasury Internal Revenue Service

Return of Organization Exempt From Income Tax

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

Note: The organization may have to use a copy of this return to satisfy state reporting requirements.

OMB No. 1545-0047 **1995** This Form is Open to Public Inspection

A For the 1995 calendar year, OR tax year period beginning JULY 1, 1995, and ending JUNE 30, 19 96

B Check if: ☐ Change of address ☐ Initial return ☐ Final return ☐ Amended return (required also for State reporting)

Please use IRS label or print or type. See Specific Instructions.

C Name of organization: UTOPIA UNIVERSITY

Number and street (or P.O. box if mail is not delivered to street address): 1234 UNIVERSITY PLACE, N.W. Room/suite:

City, town, or post office, state, and ZIP code: WASHINGTON, DC 20000-0000

D Employer identification number: 13 3456789

E State registration number:

F Check ▶ ☐ if exemption application is pending

G Type of organization—▶ ☒ Exempt under section 501(c)(3) ◀ (insert number) OR ▶ ☐ section 4947(a)(1) nonexempt charitable trust

Note: Section 501(c)(3) exempt organizations and 4947(a)(1) nonexempt charitable trusts MUST attach a completed Schedule A (Form 990).

H(a) Is this a group return filed for affiliates? ☐ Yes ☒ No

(b) If "Yes," enter the number of affiliates for which this return is filed: ▶ ____

(c) Is this a separate return filed by an organization covered by a group ruling? ☐ Yes ☒ No

I If either box in H is checked "Yes," enter four-digit group exemption number (GEN) ▶ ________

J Accounting method: ☐ Cash ☒ Accrual ☐ Other (specify) ▶

K Check here ▶ ☐ if the organization's gross receipts are normally not more than $25,000. The organization need not file a return with the IRS; but if it received a Form 990 Package in the mail, it should file a return without financial data. Some states require a complete return.

Note: Form 990-EZ may be used by organizations with gross receipts less than $100,000 and total assets less than $250,000 at end of year.

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances (See instructions on pages 9-14.)

Revenue

1	Contributions, gifts, grants, and similar amounts received:				
a	Direct public support	1a	5,796,000		
b	Indirect public support	1b			
c	Government contributions (grants)	1c	2,661,000		
d	Total (add lines 1a through 1c) (attach schedule of contributors) (cash $ 8,457,000 noncash $ NONE)			1d	8,457,000
2	Program service revenue including government fees and contracts (from Part VII, line 93)			2	75,204,000
3	Membership dues and assessments			3	
4	Interest on savings and temporary cash investments			4	450,000
5	Dividends and interest from securities			5	1,622,000
6a	Gross rents	6a	75,000		
b	Less: rental expenses	6b	25,000		
c	Net rental income or (loss) (subtract line 6b from line 6a)			6c	50,000
7	Other investment income (describe ▶)			7	

		(A) Securities		(B) Other
8a	Gross amount from sale of assets other than inventory	30,200,000	8a	
b	Less: cost or other basis and sales expenses	27,935,000	8b	
c	Gain or (loss) (attach schedule)	2,265,000	8c	0

d	Net gain or (loss) (combine line 8c, columns (A) and (B))			8d	2,265,000
9	Special events and activities (attach schedule)				
a	Gross revenue (not including $ 100,000 of contributions reported on line 1a)	9a	773,000		
b	Less: direct expenses other than fundraising expenses	9b	200,000		
c	Net income or (loss) from special events (subtract line 9b from line 9a)			9c	573,000
10a	Gross sales of inventory, less returns and allowances	10a			
b	Less: cost of goods sold	10b			
c	Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a)			10c	0
11	Other revenue (from Part VII, line 103)			11	12,000
12	**Total revenue** (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11)			12	88,633,000

Expenses

13	Program services (from line 44, column (B))	13	77,203,000
14	Management and general (from line 44, column (C))	14	4,636,000
15	Fundraising (from line 44, column (D))	15	1,168,000
16	Payments to affiliates (attach schedule)	16	
17	**Total expenses** (add lines 16 and 44, column (A))	17	83,007,000

Net Assets

18	Excess or (deficit) for the year (subtract line 17 from line 12)	18	5,626,000
19	Net assets or fund balances at beginning of year (from line 73, column (A))	19	96,030,000
20	Other changes in net assets or fund balances (attach explanation)	20	(1,036,000)
21	Net assets or fund balances at end of year (combine lines 18, 19, and 20)	21	100,620,000

For Paperwork Reduction Act Notice, see page 1 of the separate instructions. MGA Form **990** (1995)

990.N95

EIN 13-3456789 UTOPIA UNIVERSITY

Form 990 (1995) Page 2

Part II Statement of Functional Expenses All organizations must complete column (A). Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others. (See instructions on page 14.)

Do not include amounts reported on line 6b, 8b, 9b, 10b, or 16 of Part I.		(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22 Grants and allocations (attach schedule) (cash $ 14,538,000 noncash $ NONE)	22	14,538,000	14,538,000		
23 Specific assistance to individuals (attach schedule)	23				
24 Benefits paid to or for members (attach schedule)	24				
25 Compensation of officers, directors, etc.	25	497,000	303,000	154,000	40,000
26 Other salaries and wages	26	38,566,000	36,045,000	1,991,000	530,000
27 Pension plan contributions	27	2,091,000	1,961,000	103,000	27,000
28 Other employee benefits	28	4,628,000	4,367,000	206,000	55,000
29 Payroll taxes	29	2,137,000	1,975,000	128,000	34,000
30 Professional fundraising fees	30				
31 Accounting fees	31	325,000		325,000	
32 Legal fees	32	296,000		296,000	
33 Supplies	33	10,375,000	10,312,000	48,000	15,000
34 Telephone	34	1,413,000	668,000	596,000	149,000
35 Postage and shipping	35	1,041,000	743,000	149,000	149,000
36 Occupancy	36	1,000,000	610,000	310,000	80,000
37 Equipment rental and maintenance	37	1,435,000	1,433,000	1,000	1,000
38 Printing and publications	38				
39 Travel	39	522,000	373,000	75,000	74,000
40 Conferences, conventions, and meetings	40				
41 Interest	41	200,000		200,000	
42 Depreciation, depletion, etc. (attach schedule)	42				
43 Other expenses (itemize): a Miscellaneous	43a	3,943,000	3,875,000	54,000	14,000
b	43b				
c	43c				
d	43d				
e	43e				
44 **Total functional expenses** (add lines 22 through 43) Organizations completing columns (B)–(D), carry these totals to lines 13–15	44	83,007,000	77,203,000	4,636,000	1,168,000

Reporting of Joint Costs.—Did you report in column (B) (Program services) any joint costs from a combined educational campaign and fundraising solicitation? ▶ ☐ Yes ☒ No

If "Yes," enter (i) the aggregate amount of these joint costs $ ______; (ii) the amount allocated to Program services $ ______; (iii) the amount allocated to Management and general $ ______; and (iv) the amount allocated to Fundraising $

Part III Statement of Program Service Accomplishments (See instructions on page 17.)

What is the organization's primary exempt purpose? ▶ See Statement 5

All organizations must describe their exempt purpose achievements. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable. (Section 501(c)(3) and (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants and allocations to others.)

	Program Service Expenses (Required for 501(c)(3) and (4) orgs., and 4947(a)(1) trusts; but optional for others.)
a Instruction: 8,000 students in undergraduate classes; 3,000 students in graduate classes; 2,000 students were graduated in 1995-1996 school year. (Grants and allocations $)	23,532,000
b Scholarships and fellowships: Financial aid to students including scholarships, remitted tuition and stipends for both undergraduate and graduate students. (Grants and allocations $ 14,538,000)	14,538,000
c Auxiliary enterprises: The University dormitories and campus store are the major auxiliary enterprises serving the University community. Fifteen residence halls provide living quarters for 6,500 students. (Grants and allocations $)	12,372,000
d Student services: Enrollment services, University Registrar, health and counseling, sports and recreation. (Grants and allocations $)	9,017,000
e Other program services (attach schedule) (Grants and allocations $)	17,744,000
f **Total of Program Service Expenses** (should equal line 44, column (B), Program services) ▶	77,203,000

990.N95

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Form 990 (1995) Page 3

Part IV **Balance Sheets** (See instructions on pages 17-19.)

	Note: Where required, attached schedules and amounts within the description column should be for end-of-year amounts only.			(A) Beginning of year		(B) End of year
Assets	45 Cash—non-interest-bearing			605,000	45	693,000
	46 Savings and temporary cash investments			19,000,000	46	20,000,000
	47a Accounts receivable	47a	1,514,000			
	b Less: allowance for doubtful accounts	47b	311,000	1,071,000	47c	1,203,000
	48a Pledges receivable	48a				
	b Less: allowance for doubtful accounts	48b			48c	0
	49 Grants receivable				49	
	50 Receivables from officers, directors, trustees, and key employees (attach schedule)				50	
	51a Other notes and loans receivable (attach schedule)	51a	9,904,000			
	b Less: allowance for doubtful accounts	51b	391,000	9,230,000	51c	9,513,000
	52 Inventories for sale or use				52	
	53 Prepaid expenses and deferred charges			1,071,000	53	1,040,000
	54 Investments—securities (attach schedule)			40,905,000	54	45,062,000
	55a Investments—land, buildings, and equipment: basis	55a				
	b Less: accumulated depreciation (attach schedule)	55b			55c	0
	56 Investments—other (attach schedule)				56	
	57a Land, buildings, and equipment: basis	57a	85,898,000			
	b Less: accumulated depreciation (attach schedule)	57b	7,998,000	79,305,000	57c	77,900,000
	58 Other assets (describe ▶ Statement 6)			2,668,000	58	2,470,000
	59 **Total assets** (add lines 45 through 58) (must equal line 74)			153,855,000	59	157,881,000
Liabilities	60 Accounts payable and accrued expenses			6,060,000	60	6,248,000
	61 Grants payable				61	
	62 Deferred revenue			1,251,000	62	1,227,000
	63 Loans from officers, directors, trustees, and key employees (attach schedule)				63	
	64a Tax-exempt bond liabilities (attach schedule)				64a	
	b Mortgages and other notes payable (attach schedule)			40,387,000	64b	39,476,000
	65 Other liabilities (describe ▶ Statement 7)			10,127,000	65	10,310,000
	66 **Total liabilities** (add lines 60 through 65)			57,825,000	66	57,261,000
Net Assets or Fund Balances	**Organizations that follow SFAS 117, check here** ▶ ☒ and complete lines 67 through 69 and lines 73 and 74.					
	67 Unrestricted			83,724,000	67	86,014,000
	68 Temporarily restricted			2,357,000	68	2,954,000
	69 Permanently restricted			9,949,000	69	11,652,000
	Organizations that do not follow SFAS 117, check here ▶ ☐ and complete lines 70 through 74.					
	70 Capital stock, trust principal or current funds				70	
	71 Paid-in or capital surplus, or land, bldg., and equipment fund				71	
	72 Retained earnings, accumulated income, endowment, or other funds				72	
	73 **Total net assets or fund balances** (add lines 67 through 69 OR lines 70 through 72; column (A) must equal line 19 and column (B) must equal line 21)			96,030,000	73	100,620,000
	74 **Total liabilities and net assets/fund balances** (add lines 66 and 73)			153,855,000	74	157,881,000

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Part IV-A Reconciliation of Revenue per Audited Financial Statements with Revenue per Return

a	Total revenue, gains, and other support per audited financial statements . . . ▶	a	87,597,000
b	Amounts included on line a but not on line 12, Form 990:		
(1)	Net unrealized gains on investments . . . $ (1,036,000)		
(2)	Donated services and use of facilities $		
(3)	Recoveries of prior year grants . . . . $		
(4)	Other (specify): ---------------- $		
	Add amounts on lines (1) through (4) ▶	b	(1,036,000)
c	Line a minus line b . . . . ▶	c	88,633,000
d	Amounts included on line 12, Form 990 but not on line a:		
(1)	Investment expenses not included on line 6b, Form 990 . . . $		
(2)	Other (specify): ---------------- $		
	Add amounts on lines (1) and (2) ▶	d	0
e	Total revenue per line 12, Form 990 (line c plus line d) . . . . ▶	e	88,633,000

Part IV-B Reconciliation of Expenses per Audited Financial Statements with Expenses per Return

a	Total expenses and losses per audited financial statements . . . ▶	a	83,007,000
b	Amounts included on line a but not on line 17, Form 990:		
(1)	Donated services and use of facilities $		
(2)	Prior year adjustments reported on line 20, Form 990 . . . . $		
(3)	Losses reported on line 20, Form 990 . $		
(4)	Other (specify): ---------------- $		
	Add amounts on lines (1) through (4) ▶	b	0
c	Line a minus line b . . . . ▶	c	83,007,000
d	Amounts included on line 17, Form 990 but not on line a:		
(1)	Investment expenses not included on line 6b, Form 990 . . . $		
(2)	Other (specify): ---------------- $		
	Add amounts on lines (1) and (2) ▶	d	0
e	Total expenses per line 17, Form 990 (line c plus line d) . . . . . . ▶	e	83,007,000

Part V List of Officers, Directors, Trustees, and Key Employees (List each one even if not compensated; see instructions on page 19.)

(A) Name and address	(B) Title and average hours per week devoted to position	(C) Compensation (If not paid, enter -0-)	(D) Contributions to employee benefit plans & deferred compensation	(E) Expense account and other allowances
Larry Clift 1000 University Place, N.W., Washington, D.C. 20000	President Full time	249,000	12,450	0
Susan Daniels 2105 Z Street, N.W., Washington, D.C. 20000	Trustee 20 hours/week	0	0	0
Ernest G. Wilson 2001 University Place, N.W., Washington, D.C. 20000	Treasurer Full time	124,000	6,200	0
David L. Roy 3555 B Street, S.W., Washington, D.C. 20000	Secretary Full time	124,000	6,200	0

75 Did any officer, director, trustee, or key employee receive aggregate compensation of more than $100,000 from your organization and all related organizations, of which more than $10,000 was provided by the related organizations? ▶ ☐ Yes ☒ No
If "Yes," attach schedule—see instructions on page 20.

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Part VI Other Information (See instructions on pages 20-23.)

			Yes	No
76	Did the organization engage in any activity not previously reported to the IRS? If "Yes," attach a detailed description of each activity	76		X
77	Were any changes made in the organizing or governing documents but not reported to the IRS? If "Yes," attach a conformed copy of the changes.	77		X
78a	Did the organization have unrelated business gross income of $1,000 or more during the year covered by this return?	78a	X	
b	If "Yes," has it filed a tax return on **Form 990-T**, Exempt Organization Business Income Tax Return, for this year?	78b	X	
79	Was there a liquidation, dissolution, termination, or substantial contraction during the year? If "Yes," attach a statement	79	N/A	
80a	Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers, etc., to any other exempt or nonexempt organization?	80a		X
b	If "Yes," enter the name of the organization ▶ ________ and check whether it is ☐ exempt OR ☐ nonexempt.			
81a	Enter the amount of political expenditures, direct or indirect, as described in the instructions for line 81 — 81a: NONE			
b	Did the organization file **Form 1120-POL**, U.S. Income Tax Return for Certain Political Organizations, for this year?	81b		X
82a	Did the organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value?	82a	X	
b	If "Yes," you may indicate the value of these items here. Do not include this amount as revenue in Part I or as an expense in Part II. (See instructions for reporting in Part III.) — 82b: NOT VALUED			
83a	Did the organization comply with the public inspection requirements for returns and exemption applications?	83a	X	
b	Did the organization comply with the disclosure requirements relating to quid pro quo contributions?	83b	X	
84a	Did the organization solicit any contributions or gifts that were not tax deductible?	84a	N/A	
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	84b	N/A	
85	Section 501(c)(4), (5), or (6) organizations.—a Were substantially all dues nondeductible by members?	85a	N/A	
b	Did the organization make only in-house lobbying expenditures of $2,000 or less? If "Yes" was answered to either 85a or 85b, do not complete 85c through 85h below unless the organization received a waiver for proxy tax owed for the prior year.	85b	N/A	
c	Dues, assessments, and similar amounts from members — 85c: N/A			
d	Section 162(e) lobbying and political expenditures — 85d: N/A			
e	Aggregate nondeductible amount of section 6033(e)(1)(A) dues notices — 85e: N/A			
f	Taxable amount of lobbying and political expenditures (line 85d less 85e) — 85f: N/A			
g	Does the organization elect to pay the section 6033(e) tax on the amount in 85f?	85g	N/A	
h	If section 6033(e)(1)(A) dues notices were sent, does the organization agree to add the amount in 85f to its reasonable estimate of dues allocable to nondeductible lobbying and political expenditures for the following tax year?	85h	N/A	
86	Section 501(c)(7) organizations.—Enter:			
a	Initiation fees and capital contributions included on line 12 — 86a: N/A			
b	Gross receipts, included on line 12, for public use of club facilities — 86b: N/A			
87	Section 501(c)(12) organizations.—Enter: a Gross income from members or shareholders — 87a: N/A			
b	Gross income from other sources. (Do not net amounts due or paid to other sources against amounts due or received from them.) — 87b: N/A			
88	At any time during the year, did the organization own a 50% or greater interest in a taxable corporation or partnership? If "Yes," complete Part IX	88		X

89 Public interest law firms.—Attach information described in the instructions.

90 List the states with which a copy of this return is filed ▶ District of Columbia

91 The books are in care of ▶ The Treasurer Telephone no. ▶ (202) 987-6543

Located at ▶ 1234 University Place, Washington, D.C. ZIP code ▶ 20000-0000

92 Section 4947(a)(1) nonexempt charitable trusts filing Form 990 in lieu of Form 1041, U.S. Income Tax Return for Estates and Trusts. —Check here ▶ ☐

and enter the amount of tax-exempt interest received or accrued during the tax year ▶ 92 N/A

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Part VII Analysis of Income-Producing Activities (See instructions on pages 23-24.)

Enter gross amounts unless otherwise indicated.	Unrelated business income		Excluded by section 512, 513, or 514		(E) Related or exempt function income
	(A) Business code	(B) Amount	(C) Exclusion code	(D) Amount	
93 Program service revenue:					
a Tuition and fees					60,374,000
b Auxiliary enterprises	5998	200,000			14,410,000
c Interest on loans receivable					30,000
d Advertising	7310	85,000			
e Educational testing center	8220	55,000			
f Child care center	8351	50,000			
g Fees and contracts from government agencies					
94 Membership dues and assessments					
95 Interest on savings and temporary cash investments			14	450,000	
96 Dividends and interest from securities			14	1,622,000	
97 Net rental income or (loss) from real estate:					
a debt-financed property			16	50,000	
b not debt-financed property					
98 Net rental income or (loss) from personal property					
99 Other investment income					
100 Gain or (loss) from sales of assets other than inventory			18	2,265,000	
101 Net income or (loss) from special events			01	573,000	
102 Gross profit or (loss) from sales of inventory					
103 Other revenue: a Miscellaneous			01	5,000	
b Interest			01	7,000	
c					
d					
e					
104 Subtotal (add columns (B), (D), and (E))		390,000		4,972,000	74,814,000

105 **Total** (add line 104, columns (B), (D), and (E)) ▶ 80,176,000

Note: (Line 105 plus line 1d, Part I, should equal the amount on line 12, Part I.)

Part VIII Relationship of Activities to the Accomplishment of Exempt Purposes

Line No. ▼	Explain how each activity for which income is reported in column (E) of Part VII contributed importantly to the accomplishment of the organization's exempt purposes (other than by providing funds for such purposes). (See instructions on page 24.)
93a	This activity contributes importantly to the instructional program which enables students to meet their educational goals.
93b	The activities contribute importantly to the overall education and physical maintenance of students, including textbooks, educational materials and supplies, rentals of education related equipment and athletic programs.
93c	The loans help enable the students to finance their education.

Part IX Information Regarding Taxable Subsidiaries (Complete this Part if the "Yes" box on line 88 is checked.)

Name, address, and employer identification number of corporation or partnership	Percentage of ownership interest	Nature of business activities	Total income	End-of-year assets
N/A	%			
	%			
	%			
	%			

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge. (See Specific Instructions, page 9.)

▶ Ernest G. Wilson | 11/20/96 ▶ Treasurer

Signature of officer | Date | Type or print name and title.

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ▶ ☐	Preparer's social security no.
Firm's name (or yours if self-employed) and address ▶		EIN ▶	
		ZIP code ▶	

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UTOPIA UNIVERSITY

SCHEDULE A (Form 990)

Department of the Treasury Internal Revenue Service

Organization Exempt Under Section 501(c)(3)

(Except Private Foundation) and Section 501(e), 501(f), 501(k), or Section 4947(a)(1) Nonexempt Charitable Trust

Supplementary Information

See separate instructions.

▶ Must be completed by the above organizations and attached to their Form 990 (or 990-EZ).

OMB No. 1545-0047

1995

Name of the organization: UTOPIA UNIVERSITY

Employer identification number: 13 3456789

Part I Compensation of the Five Highest Paid Employees Other Than Officers, Directors, and Trustees (See instructions on page 1. List each one. If there are none, enter "None.")

(a) Name and address of each employee paid more than $50,000	(b) Title and average hours per week devoted to position	(c) Compensation	(d) Contributions to employee benefit plans & deferred compensation	(e) Expense account and other allowances
John Smith 456 A Street, S.W., Washington, D.C. 20000	Professor Full time	100,000	5,000	0
Jane Brown 789 J Street, N.W., Washington, D.C. 20000	Professor Full time	99,000	4,950	0
John Doe 321 University Place, N.W., Washington, D.C. 20000	Professor Full time	66,000	3,300	0
Joseph Brown 654 University Place, N.W., Washington, D.C. 20000	Professor Full time	66,000	3,300	0
Mary Black 987 University Place, N.W., Washington, D.C. 20000	Professor Full time	65,000	3,250	0
Total number of other employees paid over $50,000 . . . . ▶	15			

Part II Compensation of the Five Highest Paid Independent Contractors for Professional Services (See instructions on page 1. List each one (whether individuals or firms). If there are none, enter "None.")

(a) Name and address of each independent contractor paid more than $50,000	(b) Type of service	(c) Compensation
Elder, Latham & Maish LLP Washington, D.C.	Auditor	105,000
Meyers & Meyers Washington, D.C.	Attorney	90,000
Buchanan and Associates Washington, D.C.	Consultant	68,000
Reeve and Conner Washington, D.C.	Architect	64,000
Matthew and King Publishers Washington, D.C.	Publisher	59,000
Total number of others receiving over $50,000 for professional services . . . . ▶	2	

For Paperwork Reduction Act Notice, see page 1 of the Instructions for Form 990 (or Form 990-EZ). MGA Schedule A (Form 990) 1995

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Schedule A (Form 990) 1995 EIN 13-3456789 UTOPIA UNIVERSITY Page 2

Part III Statements About Activities

		Yes	No
1 During the year, has the organization attempted to influence national, state, or local legislation, including any attempt to influence public opinion on a legislative matter or referendum?	1		X
If "Yes," enter the total expenses paid or incurred in connection with the lobbying activities ▶ $ N/A Organizations that made an election under section 501(h) by filing Form 5768 must complete Part VI-A. Other organizations checking "Yes," must complete Part VI-B AND attach a statement giving a detailed description of the lobbying activities.			
2 During the year, has the organization, either directly or indirectly, engaged in any of the following acts with any of its trustees, directors, officers, creators, key employees, or members of their families, or with any taxable organization with which any such person is affiliated as an officer, director, trustee, majority owner, or principal beneficiary:			
a Sale, exchange, or leasing of property?	2a		X
b Lending of money or other extension of credit?	2b		X
c Furnishing of goods, services, or facilities?	2c		X
d Payment of compensation (or payment or reimbursement of expenses if more than $1,000)?	2d	X	
e Transfer of any part of its income or assets? If the answer to any question is "Yes," attach a detailed statement explaining the transactions.	2e		X
3 Does the organization make grants for scholarships, fellowships, student loans, etc.?	3	X	
4 Attach a statement to explain how the organization determines that individuals or organizations receiving grants or loans from it in furtherance of its charitable programs qualify to receive payments. (See instructions on page 2.)			

Part IV Reason for Non-Private Foundation Status (See instructions on pages 2 through 5.)

The organization is not a private foundation because it is (please check only **ONE** applicable box):

5 ☐ A church, convention of churches, or association of churches. Section 170(b)(1)(A)(i).

6 ☒ A school. Section 170(b)(1)(A)(ii). (Also complete Part V, page 4.)

7 ☐ A hospital or a cooperative hospital service organization. Section 170(b)(1)(A)(iii).

8 ☐ A Federal, state, or local government or governmental unit. Section 170(b)(1)(A)(v).

9 ☐ A medical research organization operated in conjunction with a hospital. Section 170(b)(1)(A)(iii). **Enter the hospital's name, city, and state** ▶ ______

10 ☐ An organization operated for the benefit of a college or university owned or operated by a governmental unit. Section 170(b)(1)(A)(iv). (Also complete the **Support Schedule** in Part IV-A.)

11a ☐ An organization that normally receives a substantial part of its support from a governmental unit or from the general public. Section 170(b)(1)(A)(vi). (Also complete the **Support Schedule** in Part IV-A.)

11b ☐ A community trust. Section 170(b)(1)(A)(vi). (Also complete the **Support Schedule** in Part IV-A.)

12 ☐ An organization that normally receives: (a) no **more than 33 1/3%** of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975, and **(b)** more **than 33 1/3%** of its support from contributions, membership fees, and gross receipts from activities related to its charitable, etc., functions—subject to certain exceptions. See section 509(a)(2). (Also complete the **Support Schedule** in Part IV-A.)

13 ☐ An organization that is not controlled by any disqualified persons (other than foundation managers) and supports organizations described in: (1) lines 5 through 12 above; or (2) section 501(c)(4), (5), or (6), if they meet the test of section 509(a)(2). (See section 509(a)(3).)

Provide the following information about the supported organizations. (See instructions on page 4.)

(a) Name(s) of supported organization(s)	(b) Line number from above

14 ☐ An organization organized and operated to test for pu: :c safety. Section 509(a)(4). (See instructions on page 4.)

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Schedule A (Form 990) 1995 EIN 13-3456789 UTOPIA UNIVERSITY Page 3

Part IV-A Support Schedule (Complete only if you checked a box on line 10, 11, or 12.) Use cash method of accounting.
Note: You may use the worksheet in the instructions for converting from the accrual to the cash method of accounting.

Calendar year (or fiscal year beginning in) . . ▶	(a) 1994	(b) 1993	(c) 1992	(d) 1991	(e) Total
15 Gifts, grants, and contributions received. (Do not include unusual grants. See line 28.) . .					
16 Membership fees received					
17 Gross receipts from admissions, merchandise sold or services performed, or furnishing of facilities in any activity that is not a business unrelated to the organization's charitable, etc., purpose					
18 Gross income from interest, dividends, amounts received from payments on securities loans (section 512(a)(5)), rents, royalties, and unrelated business taxable income (less section 511 taxes) from businesses acquired by the organization after June 30, 1975. . .					
19 Net income from unrelated business activities not included in line 18					
20 Tax revenues levied for the organization's benefit and either paid to it or expended on its behalf					
21 The value of services or facilities furnished to the organization by a governmental unit without charge. Do not include the value of services or facilities generally furnished to the public without charge					
22 Other income. Attach a schedule. Do not include gain or (loss) from sale of capital assets					
23 Total of lines 15 through 22					
24 Line 23 minus line 17					
25 Enter 1% of line 23					

26 **Organizations described in lines 10 or 11:** a Enter 2% of amount in column (e), line 24 . . . . ▶ 26a

b Attach a list (which is not open to public inspection) showing the name of and amount contributed by each person (other than a governmental unit or publicly supported organization) whose total gifts for 1991 through 1994 exceeded the amount shown in line 26a. Enter the sum of all these excess amounts . . . . . ▶ 26b

c Total support for section 509(a)(1) test: Enter line 24, column (e) . . . . ▶ 26c $

d Add: Amounts from column (e) for lines: 18 $ ____ 19 $ ____
22 $ ____ 26b $ ____ . . . . . . ▶ 26d $

e Public support (line 26c minus line 26d total) . . . . ▶ 26e $

f **Public support percentage (line 26e (numerator) divided by line 26c (denominator))** . . . . ▶ 26f %

27 **Organizations described on line 12:** a For amounts included in lines 15, 16, and 17 that were received from a "disqualified person," attach a list to show the name of, and total amounts received in each year from each "disqualified person." Enter the sum of such amounts for each year:

(1994) ------------------- (1993) ------------------- (1992) ------------------- (1991) -------------------

b For any amount included in line 17 that was received from a nondisqualified person, attach a list to show the name of, and amount received for each year, that was more than the larger of (1) the amount on line 25 for the year or (2) $5,000. (Include in the list organizations described in lines 5 through 11, as well as individuals.) After computing the difference between the amount received and the larger amount described in (1) or (2), enter the sum of these differences (the excess amounts) for each year:

(1994) ------------------- (1993) ------------------- (1992) ------------------- (1991) -------------------

c Add: Amounts from column (e) for lines: 15 $ ____ 16 $ ____
17 $ ____ 20 $ ____ 21 $ ____ . . . . ▶ 27c $

d Add: Line 27a total . . $ ____ and line 27b total . . $ ____ . . . . ▶ 27d $

e Public support (line 27c total minus line 27d total) . . . . ▶ 27e $

f Total support for section 509(a)(2) test: Enter amount on line 23, column (e) . . . ▶ 27f $

g **Public support percentage (line 27e (numerator) divided by line 27f (demoninator))** . . . . ▶ 27g %

h **Investment income percentage (line 18, column (e) (numerator) divided by line 27f (denominator))** . ▶ 27h %

28 **Unusual Grants:** For an organization described in line 10, 11, or 12 that received any unusual grants during 1991 through 1994, attach a list (which is not open to public inspection) for each year showing the name of the contributor, the date and amount of the grant, and a brief description of the nature of the grant. Do not include these grants in line 15. (See instructions on page 5.)

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EIN 13-3456789 **UTOPIA UNIVERSITY**

Schedule A (Form 990) 1995 Page **4**

Part V **Private School Questionnaire** (See instructions on page 5.)
(To be completed ONLY by schools that checked the box on line 6 in Part IV)

			Yes	No
29	Does the organization have a racially nondiscriminatory policy toward students by statement in its charter, bylaws, other governing instrument, or in a resolution of its governing body?	29	X	
30	Does the organization include a statement of its racially nondiscriminatory policy toward students in all its brochures, catalogues, and other written communications with the public dealing with student admissions, programs, and scholarships?	30	X	
31	Has the organization publicized its racially nondiscriminatory policy through newspaper or broadcast media during the period of solicitation for students, or during the registration period if it has no solicitation program, in a way that makes the policy known to all parts of the general community it serves?	31	X	
	If "Yes," please describe; if "No," please explain. (If you need more space, attach a separate statement.) Newspapaper, magazine and broadcast media carry ads that include the university's racially nondiscriminatory policy that appear during the registration period.			
32	Does the organization maintain the following:			
a	Records indicating the racial composition of the student body, faculty, and administrative staff?	32a	X	
b	Records documenting that scholarships and other financial assistance are awarded on a racially nondiscriminatory basis?	32b	X	
c	Copies of all catalogues, brochures, announcements, and other written communications to the public dealing with student admissions, programs, and scholarships?	32c	X	
d	Copies of all material used by the organization or on its behalf to solicit contributions?	32d	X	
	If you answered "No" to any of the above, please explain. (If you need more space, attach a separate statement.)			
33	Does the organization discriminate by race in any way with respect to:			
a	Students' rights or privileges?	33a		X
b	Admissions policies?	33b		X
c	Employment of faculty or administrative staff?	33c		X
d	Scholarships or other financial assistance?	33d		X
e	Educational policies?	33e		X
f	Use of facilities?	33f		X
g	Athletic programs?	33g		X
h	Other extracurricular activities?	33h		X
	If you answered "Yes" to any of the above, please explain. (If you need more space, attach a separate statement.)			
34a	Does the organization receive any financial aid or assistance from a governmental agency?	34a	X	
b	Has the organization's right to such aid ever been revoked or suspended? If you answered "Yes" to either 34a or b, please explain using an attached statement.	34b		X
35	Does the organization certify that it has complied with the applicable requirements of sections 4.01 through 4.05 of Rev. Proc. 75-50, 1975-2 C.B. 587, covering racial nondiscrimination? If "No," attach an explanation	35	X	

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Schedule A (Form 990) 1995 Page 5

Part VI-A **Lobbying Expenditures by Electing Public Charities** (See instructions on page 5.)
(To be completed ONLY by an eligible organization that filed Form 5768)

Check here ▶ a ☐ if the organization belongs to an affiliated group.
Check here ▶ b ☐ if you checked "a" above and "limited control" provisions apply.

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)		(a) Affiliated group totals	(b) To be completed for ALL electing organizations
36 Total lobbying expenditures to influence public opinion (grassroots lobbying)	36		
37 Total lobbying expenditures to influence a legislative body (direct lobbying)	37		
38 Total lobbying expenditures (add lines 36 and 37)	38		
39 Other exempt purpose expenditures	39		
40 Total exempt purpose expenditures (add lines 38 and 39)	40		
41 Lobbying nontaxable amount. Enter the amount from the following table—			
If the amount on line 40 is— / The lobbying nontaxable amount is—			
Not over $500,000 — 20% of the amount on line 40			
Over $500,000 but not over $1,000,000 — $100,000 plus 15% of the excess over $500,000			
Over $1,000,000 but not over $1,500,000 — $175,000 plus 10% of the excess over $1,000,000	41	0	
Over $1,500,000 but not over $17,000,000 — $225,000 plus 5% of the excess over $1,500,000			
Over $17,000,000 — $1,000,000			
42 Grassroots nontaxable amount (enter 25% of line 41)	42		
43 Subtract line 42 from line 36. Enter -0- if line 42 is more than line 36	43		
44 Subtract line 41 from line 38. Enter -0- if line 41 is more than line 38	44		

Caution: If there is an amount on either line 43 or line 44, file Form 4720.

4-Year Averaging Period Under Section 501(h)

(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 45 through 50 on page 7.)

	Lobbying Expenditures During 4-Year Averaging Period				
Calendar year (or fiscal year beginning in) ▶	(a) 1995	(b) 1994	(c) 1993	(d) 1992	(e) Total
45 Lobbying nontaxable amount					
46 Lobbying ceiling amount (150% of line 45(e))					
47 Total lobbying expenditures					
48 Grassroots nontaxable amount					
49 Grassroots ceiling amount (150% of line 48(e))					
50 Grassroots lobbying expenditures					

Part VI-B **Lobbying Activity by Nonelecting Public Charities**
(For reporting only by organizations that did not complete Part VI-A) (See instructions on page 7.)

During the year, did the organization attempt to influence national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of:	Yes	No	Amount
a Volunteers		X	
b Paid staff or management (Include compensation in expenses reported on lines c through h.)		X	
c Media advertisements		X	
d Mailings to members, legislators, or the public		X	
e Publications, or published or broadcast statements		X	
f Grants to other organizations for lobbying purposes		X	
g Direct contact with legislators, their staffs, government officials, or a legislative body		X	
h Rallies, demonstrations, seminars, conventions, speeches, lectures, or any other means		X	
i Total lobbying expenditures (add lines c through h)			NONE

If "Yes" to any of the above, also attach a statement giving a detailed description of the lobbying activities.

990.095

EIN 13-3456789 UTOPIA UNIVERSITY

Schedule A (Form 990) 1995 Page 6

Part VII **Information Regarding Transfers To and Transactions and Relationships With Noncharitable Exempt Organizations**

51 Did the reporting organization directly or indirectly engage in any of the following with any other organization described in section 501(c) of the Code (other than section 501(c)(3) organizations) or in section 527, relating to political organizations?

		Yes	No
a Transfers from the reporting organization to a noncharitable exempt organization of:			
(i) Cash	51a(i)		X
(ii) Other assets	a(ii)		X
b Other transactions:			
(i) Sales of assets to a noncharitable exempt organization	b(i)		X
(ii) Purchases of assets from a noncharitable exempt organization	b(ii)		X
(iii) Rental of facilities or equipment	b(iii)		X
(iv) Reimbursement arrangements	b(iv)		X
(v) Loans or loan guarantees	b(v)		X
(vi) Performance of services or membership or fundraising solicitations	b(vi)		X
c Sharing of facilities, equipment, mailing lists, other assets, or paid employees	c		X

d If the answer to any of the above is "Yes," complete the following schedule. Column (b) should always show the fair market value of the goods, other assets, or services given by the reporting organization. If the organization received less than fair market value in any transaction or sharing arrangement, show in column (d) the value of the goods, other assets, or services received:

(a) Line no.	(b) Amount involved	(c) Name of noncharitable exempt organization	(d) Description of transfers, transactions, and sharing arrangements
		N/A	

52a Is the organization directly or indirectly affiliated with, or related to, one or more tax-exempt organizations described in section 501(c) of the Code (other than section 501(c)(3)) or in section 527? ▶ ☐ Yes ☒ No

b If "Yes," complete the following schedule:

(a) Name of organization	(b) Type of organization	(c) Description of relationship
N/A		

990.095

UTOPIA UNIVERSITY
EIN: 13-3456789
YEAR ENDED: JUNE 30, 1996

FORM 990 STATEMENT 1

PART I, LINE 1 - CONTRIBUTIONS, GIFTS, GRANTS AND SIMILAR AMOUNTS RECEIVED

CONTRIBUTOR	AMOUNT	PURPOSE	USED FOR
1. Direct public support			
A. Alumna	200,000	Unrestricted	Scholarships
B. Alumnus	150,000	Unrestricted	Scholarships
C. Alumna	75,000	Unrestricted	Scholarships
D. Alumnus	2,000,000	Chemistry Lab	Chemistry Lab
E. Alumnus	1,000,000	Math Chair	Math Chair
AOLCorp.	2,000,000	Computer Lab	Computer Lab
2. Government grants			
U.S. Government	2,000,000	General support	General support
District of Columbia	500,000	Scholarships	Scholarships
NIST	101,000	Research	Research
USDA	60,000	Research	Research

PART I, LINE 8c - GAIN (LOSS) ON SALE OF ASSETS

DESCRIPTION	Proceeds	Basis	Gain(loss)
Publicly traded securities (unrestricted)	22,650,000	20,611,500	2,038,500
Publicly traded securities (restricted)	7,550,000	7,323,500	226,500
Totals	30,200,000	27,935,000	2,265,000

STATEMENT 1

UTOPIA UNIVERSITY
EIN: 13-3456789
YEAR ENDED: JUNE 30, 1996

FORM 990 STATEMENT 2

PART I, LINE 9 - SPECIAL EVENTS

	Dinner	Auction	Golf	Total
Gross receipts	750,000	113,000	10,000	873,000
Contributions	100,000	0	0	100,000
Gross revenue	650,000	113,000	10,000	773,000
Direct expenses	150,000	50,000		200,000
Net gain	500,000	63,000	10,000	573,000

PART I, LINE 20 - OTHER CHANGES IN NET ASSETS OR FUND BALANCES

DESCRIPTION	AMOUNT
Net unrealized loss on investments	1,036,000

STATEMENT 2

UTOPIA UNIVERSITY
EIN: 13-3456789
YEAR ENDED: JUNE 30, 1996

FORM 990

STATEMENT 3

PART II, LINE 22 - GRANTS AND ALLOCATIONS

Undergraduate scholarships

The University awarded scholarships in the amount of $7,500 each to 1,738 students, none of whom was related to a person or corporation with an interest in the University.

Name	Address	Amount	Relationship
1. J. Doe	100 University Place, N.W., Washington, D.C.	7,500	None
2. N. Noe	502 A Street, S.W., Washington, D.C.	7,500	None
3. M. Moe	985 B Street, N.E., Washington, D.C.	7,500	None
4. P. Poe	755 J Street, N.W., Washington, D.C.	7,500	None
500. Y. Yoe	877 University Place, N.W., Washington, D.C.	7,500	None

Graduate fellowships

The University awarded graduate fellowships in the amount of $15,030 to 100 post-doctoral students, none of whom was related to a person or corporation with an interest in the University.

Name	Address	Amount	Relationship
1. B. Boe	100 University Place, N.W., Washington, D.C.	15,000	None
2. C. Coe	205 A Street, S.W., Washington, D.C.	15,000	None
3. R. Roe	589 B Street, N.E., Washington, D.C.	15,000	None
4. V. Voe	557 J Street, N.W., Washington, D.C.	15,000	None
100. Z. Zoe	333 University Place, N.W., Washington, D.C.	15,000	None

STATEMENT 3

UTOPIA UNIVERSITY
EIN: 13-3456789
YEAR ENDED: JUNE 30, 1996

FORM 990 STATEMENT 4

PART II, LINE 42 - DEPRECIATION EXPENSE
PART IV, LINE 57a - LAND, BUILDINGS, AND EQUIPMENT
PART IV, LINE 57b - ACCUMULATED DEPRECIATION

Description	Cost	Accumulated depreciation 12/31/95	Net book value 12/31/95
Land	1,032,000		1,032,000
Land improvements	2,065,000	103,000	1,962,000
Buildings	51,620,000	2,581,000	49,039,000
Equipment	30,973,000	5,255,000	25,718,000
Library books	208,000	59,000	149,000
Totals	85,898,000	7,998,000	77,900,000

Land, land improvements, buildings, equipment and library books are recorded at cost. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets.

STATEMENT 4

UTOPIA UNIVERSITY
EIN: 13-3456789
YEAR ENDED: JUNE 30, 1996

FORM 990 STATEMENT 5

PART III, PRIMARY EXEMPT PURPOSE

Utopia University is an independent, coeducational university chartered by an act of Congress in 1900.

PART III, PROGRAM SERVICE ACCOMPLISHMENTS

e. Other program services

Academic support: The University libraries (approximately 800,000 volumes held); academic computer services, administrative offices and support for the five principal academic divisions: The College of Arts and Sciences, with twenty five teaching units; The College of Business Administration; the School of International Service; the School of Public Affairs; and the College of Law.	6,809,000
Institutional support: other than management and general	5,903,000
Operation and maintenance of plant	4,933,000
Research	57,000
Public support	42,000
Total	17,744,000

STATEMENT 5

UTOPIA UNIVERSITY
EIN: 13-3456789
YEAR ENDED: JUNE 30, 1996

FORM 990 STATEMENT 6

PART IV, LINE 51a - OTHER NOTES AND LOANS RECEIVABLE

DESCRIPTION	AMOUNT
Scholarship loans	9,904,000
Allowance for doubtful accounts	(391,000)
Net	9,513,000

PART IV, LINE 54 - INVESTMENTS - SECURITIES

DESCRIPTION	AMOUNT
U.S. government obligations	6,759,300
Corporate stocks - common	9,012,400
Corporate obligations	8,581,000
Endowment - corporate stocks	20,709,300
Total	45,062,000

PART IV, LINE 58 - OTHER ASSETS

DESCRIPTION	AMOUNT
Contributions receivable	1,295,000
Other receivables	1,175,000
Total	2,470,000

STATEMENT 6

UTOPIA UNIVERSITY
EIN: 13-3456789
YEAR ENDED: JUNE 30, 1996

FORM 990 STATEMENT 7

PART IV, LINE 64a -MORTGAGES AND OTHER NOTES PAYABLE

DESCRIPTION	LOAN 1	LOAN 2	LOAN 3
Original amount	25,000,000	15,000,000	1,000,000
Balance due	24,375,000	14,250,000	851,000
Note date	7/1/94	7/1/94	7/1/95
Maturity date	7/1/34	7/1/34	7/1/05
Repayment terms	Monthly	Monthly	Monthly
Interest rate	6.50%	6.75%	7%
Security	Science building	Dormitory	None
Purpose	Construction	Construction	Equipment
Fair market value received	25,000,000	15,000,000	1,000,000

PART IV, LINE 65 - OTHER LIABILITIES

DESCRIPTION	AMOUNT
Student deposits	211,000
Accrued postretirement benefits	1,806,000
U.S. government grants refundable	8,293,000
Total	10,310,000

STATEMENT 7

UTOPIA UNIVERSITY
EIN: 13-3456789
YEAR ENDED: JUNE 30, 1996

FORM 990, SCHEDULE A STATEMENT 8

PART III, GRANT QUALIFICATION CRITERIA

The University awards scholarships and fellowships based on superior academic achievement and financial need.

Form **2758** (Rev. May 1995) Department of the Treasury Internal Revenue Service

Application for Extension of Time To File
Certain Excise, Income, Information, and Other Returns

▶ File a separate application for each return.

OMB No. 1545-0148

Please type or print. File the original and one copy by the due date for filing your return. See instructions on back.	Name: UTOPIA UNIVERSITY	Employer identification number: 13 3456789
	Number, street, and room or suite no. (or P.O. box no. if mail is not delivered to street address): 1234 UNIVERSITY PLACE, N.W.	
	City, town or post office, state, and ZIP code. For a foreign address, see instructions. WASHINGTON, DC 20000-0000	

Note: Corporate income tax return filers must use **Form 7004** to request an extension of time to file. Partnerships, REMICs, and trusts must use **Form 8736** to request an extension of time to file Form 1065, 1066, or 1041.

1 I request an extension of time until FEBRUARY 15, 19 97, to file (check only one):

☐ Form 706-GS(D)	☐ Form 990-T (401(a) or 408(a) trust)	☐ Form 1120-ND (4951 taxes)	☐ Form 8612
☐ Form 706-GS(T)	☐ Form 990-T (trust other than above)	☐ Form 3520-A	☐ Form 8613
☒ Form 990 or 990-EZ	☐ Form 1041 (estate) (see instructions)	☐ Form 4720	☐ Form 8725
☐ Form 990-BL	☐ Form 1041-A	☐ Form 5227	☐ Form 8804
☐ Form 990-PF	☐ Form 1042	☐ Form 6069	☐ Form 8831

If the organization does not have an office or place of business in the United States, check this box . . . . ▶ ☐

2a For calendar year 19____, or other tax year beginning JULY 1, 1995 and ending JUNE 30, 1996

b If this tax year is for less than 12 months, check reason: ☐ Initial return ☐ Final return ☐ Change in accounting period

3 Has an extension of time to file been previously granted for this tax year? . . . . ☐ Yes ☒ No

4 State in detail why you need the extension Additional time is needed to obtain information from external sources which is necessary to prepare and complete and accurate return.

5a If this form is for Form 706-GS(D), 706-GS(T), 990-BL, 990-PF, 990-T, 1041 (estate), 1042, 1120-ND, 4720, 6069, 8612, 8613, 8725, 8804, or 8831, enter the tentative tax, less any nonrefundable credits. See instructions. $ N/A

b If this form is for Form 990-PF, 990-T, 1041(estate), 1042, or 8804, enter any refundable credits and estimated tax payments made. Include any prior year overpayment allowed as a credit . . . . $ N/A

c **Balance due.** Subtract line 5b from line 5a. Include your payment with this form, or deposit with FTD coupon if required. See instructions . . . . $ 0

Signature and Verification

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

Signature ▶ Ernest G. Wilson Title ▶ Treasurer Date ▶ 11/01/96

FILE ORIGINAL AND ONE COPY. The IRS will show below whether or not your application is approved and will return the copy.

Notice to Applicant—To Be Completed by the IRS

☐ We **HAVE** approved your application. Please attach this form to your return.

☐ We **HAVE NOT** approved your application. However, we have granted a 10-day grace period from the later of the date shown below or the due date of your return (including any prior extensions). This grace period is considered to be a valid extension of time for elections otherwise required to be made on a timely return. Please attach this form to your return.

☐ We **HAVE NOT** approved your application. After considering the reasons stated in item 4, we cannot grant your request for an extension of time to file. We are not granting the 10-day grace period.

☐ We cannot consider your application because it was filed after the due date of the return for which an extension was requested.

☐ Other: ____________________

Director ____________ By: ____________ Date ____________

If you want a copy of this form to be returned to an address other than that shown above, please enter the address to which the copy should be sent.

Please Type or Print	
	Name
	Number, street, and room or suite no. (or P.O. box no. if mail is not delivered to street address)
	City, town or post office, state, and ZIP code. For a foreign address, see instructions.

For Paperwork Reduction Act Notice, see back of form. MGA Form **2758** (Rev. 5-95)

2758.Q95

UTOPIA UNIVERSITY

Form **990-T** Department of the Treasury Internal Revenue Service

Exempt Organization Business Income Tax Return
(and proxy tax under section 6033(e))

For calendar year 1995 or other tax year beginning JULY 1, 1995, and ending JUNE 30, 19 96

▶ See separate instructions.

OMB No. 1545-0687 **1995**

A ☐ Check box if address changed

B Exempt under section ☒ 501(c)(3) or ☐ 408(e)

C Book value of all assets at end of year 157,881,000

Please Print or Type

Name of organization: UTOPIA UNIVERSITY

Number, street, and room or suite no. (If a P.O. box, see page 5 of instructions.): 1234 UNIVERSITY PLACE, N.W.

City or town, state, and ZIP code: WASHINGTON, DC 20000-0000

D Employer identification number (Employees' trust, see instructions for Block D on page 5.) 13 3456789

E Unrelated business activity codes (see instructions for Block E on page 5.) 5998 | 7310 | 8220

F Group exemption number (see instructions for Block F on page 5) ▶

G Check type of organization. ▶ ☒ 501(c) Corporation ☐ 501(c) Trust ☐ Section 401(a) trust ☐ Section 408(a) trust

H Describe the organization's primary unrelated business activity. (See instructions for Block H on page 5.)
BOOKSTORE SALE OF MISCELLANEOUS NON-EDUCATION RELATED ITEMS

I During the tax year, was the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? ▶ ☐ Yes ☒ No
If "Yes," enter the name and identifying number of the parent corporation. (See instructions for Block I on page 5.) ▶

Part I Unrelated Trade or Business Income

		Line	(A) Income	(B) Expenses	(C) Net
1a	Gross receipts or sales 200,000				
b	Less returns and allowances ____ c Balance ▶	1c	200,000		
2	Cost of goods sold (Schedule A, line 7)	2	151,160		
3	Gross profit (subtract line 2 from line 1c)	3	48,840		48,840
4a	Capital gain net income (attach Schedule D)	4a			
b	Net gain (loss) (Form 4797, Part II, line 20)(attach Form 4797)	4b			
c	Capital loss deduction for trusts	4c			
5	Income (loss) from partnerships (attach statement)	5			
6	Rent income (Schedule C)	6			
7	Unrelated debt-financed income (Schedule E)	7			
8	Interest, annuities, royalties, and rents from controlled organizations (Schedule F)	8			
9	Investment income of a section 501(c)(7), (9), or (17) organization (Schedule G)	9			
10	Exploited exempt activity income (Schedule I)	10			
11	Advertising income (Schedule J)	11	85,000	38,000	47,000
12	Other income (see page 6 of the instructions—attach schedule)	12	105,000		105,000
13	TOTAL (combine lines 3 through 12)	13	238,840	38,000	200,840

Part II Deductions Not Taken Elsewhere (See page 6 of the instructions for limitations on deductions.) (Except for contributions, deductions must be directly connected with the unrelated business income.)

				Line	Amount
14	Compensation of officers, directors, and trustees (Schedule K)			14	
15	Salaries and wages			15	
16	Repairs and maintenance			16	
17	Bad debts			17	
18	Interest (attach schedule)			18	
19	Taxes and licenses			19	
20	Charitable contributions (see page 7 of the instructions for limitation rules)			20	
21	Depreciation (attach Form 4562)	21			
22	Less depreciation claimed on Schedule A and elsewhere on return	22a		22b	
23	Depletion			23	
24	Contributions to deferred compensation plans			24	
25	Employee benefit programs			25	
26	Excess exempt expenses (Schedule I)			26	
27	Excess readership costs (Schedule J)			27	14,000
28	Other deductions (attach schedule)			28	58,300
29	TOTAL DEDUCTIONS (add lines 14 through 28)			29	72,300
30	Unrelated business taxable income before net operating loss deduction (subtract line 29 from line 13)			30	128,540
31	Net operating loss deduction			31	
32	Unrelated business taxable income before specific deduction (subtract line 31 from line 30)			32	128,540
33	Specific deduction			33	1,000
34	Unrelated business taxable income (subtract line 33 from line 32). If line 33 is greater than line 32, enter the smaller of zero or line 32			34	127,540

For Paperwork Reduction Act Notice, see page 1 of separate instructions. MGA Form **990-T** (1995)

990T.P95

EIN 13-3456789 UTOPIA UNIVERSITY

Form 990-T (1995) Page 2

Part III Tax Computation

35	**Organizations Taxable as Corporations** (see instructions for tax computation on page 9). Controlled group members (sections 1561 and 1563)—check here ☐. **See instructions** and:		
a	Enter your share of the $50,000, $25,000, and $9,925,000 taxable income brackets (in that order): (1) $ (2) $ (3) $		
b	Enter organization's share of: (1) additional 5% tax (not more than $11,750) $		
	(2) additional 3% tax (not more than $100,000) $		
c	Income tax on the amount on line 34 ▶	35c	32,991
36	**Trusts Taxable at Trust Rates** (see instructions for tax computation on page 9) Income tax on the amount on line 34 from: ☐ Tax rate schedule or ☐ Schedule D (Form 1041) ▶	36	
37	**Proxy tax** (see page 9 of the instructions) ▶	37	
38	**Total** (add line 37 to line 35c or 36, whichever applies)	38	32,991

Part IV Tax and Payments

39a	Foreign tax credit (corporations attach Form 1118; trusts attach Form 1116)	39a			
b	Other credits. (see page 10 of the instructions)	39b			
c	General business credit—Check if from: ☐ Form 3800 or ☐ Form (specify) ▶	39c			
d	Credit for prior year minimum tax (attach Form 8801 or 8827)	39d			
e	Total (add lines 39a through 39d)			39e	0
40	Subtract line 39e from line 38			40	32,991
41	Recapture taxes. Check if from: ☐ Form 4255 ☐ Form 8611			41	
42a	Alternative minimum tax $ b Environmental tax $			42c	
43	**Total tax** (add lines 40, 41, 42c)			43	32,991
44	**Payments: a** 1994 overpayment credited to 1995	44a			
b	1995 estimated tax payments	44b	30,000		
c	Tax deposited with Form 7004 or Form 2758	44c	5,000		
d	Foreign organizations—Tax paid or withheld at source (see instructions)	44d			
e	Other credits and payments (see instructions)	44e			
45	Total payments (add lines 44a through 44e)			45	35,000
46	Estimated tax penalty (see page 3 of the instructions). Check ▶ ☐ if Form 2220 is attached			46	
47	**Tax due**—If line 45 is less than the total of lines 43 and 46, enter amount owed ▶			47	0
48	**Overpayment**—If line 45 is larger than the total of lines 43 and 46, enter amount overpaid ▶			48	2,009
49	Enter the amount of line 48 you want: **Credited to 1996 estimated tax** ▶ 2,009 **Refunded** ▶			49	0

Part V Statements Regarding Certain Activities and Other Information (See instructions on page 11.)

		Yes	No
1	At any time during the 1995 calendar year, did the organization have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? If "Yes," the organization may have to file Form TD F 90-22.1. If "Yes," enter the name of the foreign country here ▶		X
2	Was the organization the grantor of, or transferor to, a foreign trust that existed during the current tax year, whether or not the organization had any beneficial interest in it? If "Yes," the organization may have to file Forms 3520, 3520-A, or 926.		X
3	Enter the amount of tax-exempt interest received or accrued during the tax year ▶ $ N/A		

SCHEDULE A—COST OF GOODS SOLD (See instructions on page 11.)

Method of inventory valuation (specify) ▶

1	Inventory at beginning of year	1	35,000	6	Inventory at end of year	6	60,000
2	Purchases	2	100,000	7	Cost of goods sold. Subtract line 6 from line 5. (Enter here and on line 2, Part I.)	7	151,160
3	Cost of labor	3	26,000				
4a	Additional section 263A costs (attach schedule)	4a		8	Do the rules of section 263A (with respect to property produced or acquired for resale) apply to the organization?	Yes	No: X
b	Other costs (attach schedule)	4b	50,160				
5	TOTAL—Add lines 1 through 4b	5	211,160				

The books are in care of ▶ ERNEST G. WILSON **Telephone number** ▶ (202) 987-6543

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Ernest G. Wilson | 11/20/96 | TREASURER

Signature of officer or fiduciary | Date | Title

Paid Preparer's Use Only

Preparer's signature | Date | Check if self-employed ▶ ☐ | Preparer's social security number

Firm's name (or yours, if self-employed) and address | EIN ▶ | ZIP code ▶

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EIN 13-3456789 **UTOPIA UNIVERSITY**

Form 990-T (1995) Page 3

SCHEDULE C—RENT INCOME (FROM REAL PROPERTY AND PERSONAL PROPERTY LEASED WITH REAL PROPERTY)

(See instructions on page 12.)

1 Description of property

(1) NA
(2)
(3)
(4)

2 Rent received or accrued		3 Deductions directly connected with the income in columns 2(a) and 2(b) (attach schedule)
(a) From personal property (if the percentage of rent for personal property is more than 10% but not more than 50%)	(b) From real and personal property (if the percentage of rent for personal property exceeds 50% or if the rent is based on profit or income)	
(1)		
(2)		
(3)		
(4)		
Total	Total	
Total income (Add totals of columns 2(a) and 2(b). Enter here and on line 6, column (A), Part I, page 1.) ▶		Total deductions. Enter here and on line 6, column (B), Part I, page 1 ▶

SCHEDULE E—UNRELATED DEBT-FINANCED INCOME

(See instructions on page 12.)

1 Description of debt-financed property	2 Gross income from or allocable to debt-financed property	3 Deductions directly connected with or allocable to debt-financed property: (a) Straight line depreciation (attach schedule)	(b) Other deductions (attach schedule)
(1) N/A			
(2)			
(3)			
(4)			

	4 Amount of average acquisition debt on or allocable to debt-financed property (attach schedule)	5 Average adjusted basis of or allocable to debt-financed property (attach schedule)	6 Column 4 divided by column 5	7 Gross income reportable (column 2 x column 6)	8 Allocable deductions (column 6 x total of columns 3(a) and 3(b))
(1)			%		
(2)			%		
(3)			%		
(4)			%		
Totals ▶				Enter here and on line 7, column (A), Part I, page 1.	Enter here and on line 7, column (B), Part I, page 1.
Total dividends-received deductions included in column 8 ▶					

SCHEDULE F—INTEREST, ANNUITIES, ROYALTIES, AND RENTS FROM CONTROLLED ORGANIZATIONS

(See instructions on page 13.)

1 Name and address of controlled organization(s)	2 Gross income from controlled organization(s)	3 Deductions of controlling organization directly connected with column 2 income (attach schedule)	4 Exempt controlled organizations: (a) Unrelated business taxable income	(b) Taxable income computed as though not exempt under sec. 501(a), or the amount in col. (a), whichever is larger	(c) column (a) divided by column (b)
(1) N/A					%
(2)					%
(3)					%
(4)					%

	5 Nonexempt controlled organizations: (a) Excess taxable income	(b) Taxable income, or amount in column (a), whichever is larger	(c) Column (a) divided by Column (b)	6 Gross income reportable (column 2 x column 4(c) or column 5(c))	7 Allowable deductions (column 3 x column 4(c) or column 5(c))
(1)			%		
(2)			%		
(3)			%		
(4)			%		
Totals ▶				Enter here and on line 8, column (A), Part I, page 1.	Enter here and on line 8, column (B), Part I, page 1.

BEST COPY AVAILABLE

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EIN 13-3456789 UTOPIA UNIVERSITY

Form 990-T (1995) Page 4

SCHEDULE G—INVESTMENT INCOME OF A SECTION 501(c)(7), (9), OR (17) ORGANIZATION

(See instructions on page 13.)

1 Description of income	2 Amount of income	3 Deductions directly connected (attach schedule)	4 Set-asides (attach schedule)	5 Total deductions and set-asides (col. 3 plus col. 4)
(1) N/A				
(2)				
(3)				
(4)				
Totals . . . . ►	Enter here and on line 9, column (A), Part I, page 1.			Enter here and on line 9, column (B), Part I, page 1.

SCHEDULE I—EXPLOITED EXEMPT ACTIVITY INCOME, OTHER THAN ADVERTISING INCOME

(See instructions on page 14.)

1 Description of exploited activity	2 Gross unrelated business income from trade or business	3 Expenses directly connected with production of unrelated business income	4 Net income (loss) from unrelated trade or business (column 2 minus column 3). If a gain, compute cols. 5 through 7.	5 Gross income from activity that is not unrelated business income	6 Expenses attributable to column 5	7 Excess exempt expenses (column 6 minus column 5, but not more than column 4).
(1) N/A						
(2)						
(3)						
(4)						
Column totals . . . . ►	Enter here and on line 10, col. (A), Part I, page 1.	Enter here and on line 10, col. (B), Part I, page 1.				Enter here and on line 26, Part II, page 1.

SCHEDULE J—ADVERTISING INCOME (See instructions on page 14.)

Part I Income From Periodicals Reported on a Consolidated Basis

1 Name of periodical	2 Gross advertising income	3 Direct advertising costs	4 Advertising gain or (loss) (col. 2 minus col. 3). If a gain, compute cols. 5 through 7.	5 Circulation income	6 Readership costs	7 Excess readership costs (column 6 minus column 5, but not more than column 4).
(1) SAMPLES	85,000	38,000			14,000	
(2)						
(3)						
(4)						
Column totals (carry to Part II, line (5)) . . . . ►	85,000	38,000	47,000		14,000	14,000

Part II Income From Periodicals Reported on a Separate Basis (For each periodical listed in Part II, fill in columns 2 through 7 on a line-by-line basis.)

(1)						
(2)						
(3)						
(4)						
(5) Totals from Part I	85,000	38,000				14,000
Column totals, Part II. . . . ►	Enter here and on line 11, col. (A), Part I, page 1. 85,000	Enter here and on line 11, col. (B), Part I, page 1. 38,000				Enter here and on line 27, Part II, page 1. 14,000

SCHEDULE K—COMPENSATION OF OFFICERS, DIRECTORS, AND TRUSTEES (See instructions on page 14.)

1 Name	2 Title	3 Percent of time devoted to business	4 Compensation attributable to unrelated business
		%	
		%	
		%	
		%	
Total—Enter here and on line 14, Part II, page 1. ►			

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990T.P95

UTOPIA UNIVERSITY
EIN: 13-3456789
TAX YEAR ENDED: JUNE 30, 1996

FORM 990-T, SCHEDULE A - COST OF GOODS SOLD AND/OR OPERATIONS

Utopia University operates a bookstore with gross sales of $900,000. Of these sales, $200,000 in gross sales are determined to be unrelated income. The related and unrelated inventories are maintained in such a manner that an actual cost of sales can be charged. The labor, direct operational expenses, and indirect costs are allocated on a ratio of unrelated sales to total sales as noted below:

Related sales	$700,000	78%
Unrelated sales	200,000	22%
TOTAL SALES	$900,000	

LINE 3 - COST OF LABOR

Total salaries:	$118,180
Unrelated rate:	22%
To Line 3	$ 26,000

LINE 4(b) - OTHER COSTS

Other total direct operational expenses	$180,000
Total indirect costs allocated based on square footage and salaries	
Total maintenance and utilities	36,000
Total general administration	12,000
Total direct and indirect costs	$228,000
Unrelated rate	22%
To Line 4(b)	$ 50,160

STATEMENT 1

UTOPIA UNIVERSITY
EIN: 13-3456789
TAX YEAR ENDED: JUNE 30, 1996

FORM 990-T - PARTS I AND II

Utopia University operates an educational testing center as well as a child care center that is open to the general public. Indirect costs are allocated based on a ratio of total salaries.

PART I, LINE 12 - OTHER INCOME

Educational testing center	$ 55,000
Child care center	50,000
Part I, Line 12 other income:	$105,000

PART II, LINE 25 - OTHER DEDUCTIONS

Educational testing center costs:		
Direct	$ 23,000	
Indirect	1,500	
Total testing center		$24,500
Child care center costs:		
Direct	$ 32,000	
Indirect	1,800	
Total child care center costs		33,800
Part II, Line 25 other deductions:		$58,300

STATEMENT 2

Form **7004** (Rev. June 1995) Department of the Treasury Internal Revenue Service

Application for Automatic Extension of Time To File Corporation Income Tax Return

OMB No. 1545-0233

Name of corporation: UTOPIA UNIVERSITY

Employer identification number: 13-3456789

Number, street, and room or suite no. (If a P.O. box or outside the United States, see instructions.): 1234 UNIVERSITY PLACE, N.W.

City or town, state, and ZIP code: WASHINGTON, D.C. 20000-0000

Check type of return to be filed:

☐ Form 1120	☐ Form 1120-FSC	☐ Form 1120-ND	☐ Form 1120-REIT	☐ Form 1120-SF
☐ Form 1120-A	☐ Form 1120-H	☐ Form 1120-PC	☐ Form 1120-RIC	☐ Form 990-C
☐ Form 1120-F	☐ Form 1120-L	☐ Form 1120-POL	☐ Form 1120S	☒ Form 990-T

Form 1120-F filers: Check here if you do not have an office or place of business in the United States. ▶ ☐

1a I request an automatic 6-month (or, for certain foreign corporations, 3-month) extension of time until MAY 15, 19 97, to file the income tax return of the corporation named above for ▶ ___ calendar year 19 ___ or ▶ X tax year beginning JULY 1, 19 95, and ending JUNE 30, 19 96.

b If this tax year is for less than 12 months, check reason:

☐ Initial return ☐ Final return ☐ Change in accounting period ☐ Consolidated return to be filed

2 If this application also covers subsidiaries to be included in a consolidated return, complete the following:

Name and address of each member of the affiliated group	Employer identification number	Tax period

3 Tentative tax (see instructions)		3	35,000
4 Credits:			
a Overpayment credited from prior year	4a		
b Estimated tax payments for the tax year	4b 30,000		
c Less refund for the tax year applied for on Form 4466	4c ( ) Bal ▶	4d 30,000	
e Credit from regulated investment companies		4e	
f Credit for Federal tax on fuels		4f	
5 Total. Add lines 4d through 4f		5	30,000
6 Balance due. Subtract line 5 from line 3. **Deposit this amount electronically or with a Federal Tax Deposit (FTD) Coupon** (see instructions)		6	5,000

Signature. - Under penalties of perjury, I declare that I have been authorized by the above-named corporation to make this application, and to the best of my knowledge and belief, the statements made are true, correct, and complete.

Ernest G. Wilson (Signature of officer or agent) — Treasurer (Title) — 11/20/96 (Date)

For Paperwork Reduction Act Notice, see instructions. JSA 9D01 1.000 — Form **7004** (Rev. 6-95)

Appendix D
FILING INSTRUCTIONS—FORM 990EZ

Every organization exempt under section 501(a) is required to file an annual Form 990 or Form 990EZ, except those organizations specifically exempted. If an organization normally files a Form 990, but its gross receipts are less than $100,000 for the year and its total assets are less than $250,000 at the end of the year, it has the option of continuing to file the Form 990 or filing the shortened version, Form 990EZ, "Short Form Return of Organization Exempt from Income Tax." If Form 990 has been filed in the past to satisfy state filing requirements, check with the appropriate state agencies to ensure the acceptance of the Form 990EZ as a substitute.

Every organization exempted under section 501(c)(3) must also file Schedule A (Form 990), whether they file a Form 990 or Form 990EZ. (See the Schedule A section of this manual for instructions.)

The due date for Form 990EZ is the same as that for Form 990. The return must be filed by the 15th day of the fifth month following the close of the year. In the case of a calendar-year organization, the due date is May 15. For organizations with a June 30 year end, the due date is November 15.

Form 2758 is used to request an extension of time to file (see chapter 6, "Filing for Extension").

Completing Form 990EZ

If a preaddressed form with a mailing label is received, use the label even if corrections must be made to it. When correcting the label or filling out the address portion of the return, include all pertinent address information such as suite, room, or other details to ensure delivery of blank returns in the future.

Page 1—General Information

Line

A Fiscal-year filers must enter the beginning and ending dates of their year.

B Check this box if your address has changed or if you are filing an initial, final, or amended return.

C Enter the name and address of the organization.

D Enter the nine-digit employer identification number (EIN).

E Some organizations file Form 990EZ with a state or local jurisdiction. In this case, insert the applicable identification number on this line. Care must be taken when filing returns amended to satisfy state requirements, because an amended return may also need to be filed with the IRS.

F Check this box if the application for tax-exempt status is pending.

G Check the appropriate accounting method. Colleges and universities normally maintain their records on an accrual basis.

H If the organization is exempt under a group exemption letter, enter the group exemption number.

I The organization should indicate under what section of the Internal Revenue Code it is tax exempt.

J Check this box if the gross receipts of the organization are not normally more than $25,000. If so, parts I through V do not need to be completed. If you received a Form 990 package with

a preaddressed label, file the return without the financial data so that the IRS can update its records. Be sure to sign it, as the return is incomplete without a signature.

The phrase "not normally more than $25,000" needs more than a casual review when determining the normal gross receipts. The calculation or determination is covered in the instructions for the Form 990EZ under C-12. The organization's gross receipts must be the total of all receipts from all sources during the accounting period without any costs or expenses deducted. However, if the organization is functioning as a conduit or agent for funds (such as insurance premiums) for parent or sister organizations, those funds are not considered receipts.

The organization's gross receipts are considered normally to be $25,000 or less if the organization is—

1. up to one year old and has received, or has donors who have pledged to give, $37,500 or less during the first tax year;

2. between one and three years old and has averaged $30,000 or less in gross receipts during each of its first two tax years; or

3. three years old or more and has averaged $25,000 or less in gross receipts for the immediately preceding three tax years, including the present year.

K Enter the total of lines 5b, 6b, 7b, and 9. This is the organization's 1995 gross receipts. If the gross receipts are more than $100,000, Form 990 must be filed.

Part I, "Statement of Revenue, Expenses, and Changes in Net Assets or Fund Balances"

This part of the return requires data from the revenue and expense statement and the statement of changes in net assets or fund balances, as reported in the organization's audit report or financial statements. If the organization's financial records or reports cannot directly provide the line-item information as requested in Part I, prepare and maintain work papers and consolidated schedules to support and reflect allocation methods, the source of the amounts, and totals that are derived.

Line

1 *Contributions, gifts, grants, and similar amounts received.* Report amounts received as voluntary contributions (gifts) and grants (equivalent to contributions) made to encourage the grantee organization to conduct programs or activities that further its exempt purpose. This includes government grants or other government payments to provide a service or maintain a facility for the direct benefit of the public, such as a government grant for construction of a library or hospital open to the public. This also includes grants where the grantee performs a service or produces a product that only incidentally benefits the grantor.

If the terms of a grant or contract require that a specific service, facility, or product be provided directly to the grantor to meet the grantor's immediate needs, rather than providing primarily a public service, the grant does not represent a contribution, but is a payment for services and should be reported as either program service revenue (line 2) or other revenue (line 8).

Attach a schedule listing contributors during the year who contributed, directly or indirectly, money, securities, or other property worth at least $5,000. In determining if a donor gave at least $5,000, only include single gifts of $1,000 or more. Do not include smaller gifts. This schedule is not subject to disclosure requirements under the IRS requirements for public inspection of annual returns and does not have to be provided to any state unless specifically required under state law. The schedule should include the following:

1. Name and address of contributor

2. Total contribution

3. Date received

A contributor is defined as an individual, fiduciary, partnership, corporation, association, trust, or

exempt organization. *The schedule need not agree with the total on line 1.*

2 *Program service revenue.* The amount should include all sources of revenue received from providing program services that support the purposes for which the organization is tax exempt.

3 *Membership dues and assessments.* If the organization charges membership dues, report the total here.

4 *Investment income.* All revenues earned from interest-bearing accounts, savings, temporary investments, and debt and equity investments (except capital gains) are to be reported on this line. Record gross rental income from investment properties. Do not include amounts that represent income from a program service exempt function (such as the rental of dormitory rooms to students).

Record investment income for all other investments, such as royalty income from ownership of mineral interests. Exclude unrealized gains or losses on assets carried at market value.

5 *Gross amount from sale of assets other than inventory (capital gains).* Attach a schedule listing each asset (other than inventory) that was sold or exchanged. For each asset include the following:

- Date acquired
- How acquired
- Date sold
- To whom sold
- Gross sales price
- Cost or basis
- If donated, value at date of donation
- Expenses of sale
- Cost of any improvements
- Depreciation since acquired
- Gain or loss from sale

The schedule should show security transactions separate from other sales in one column. For publicly traded securities through a broker, use the total gross sales price of all investments, the total cost or basis, and the expenses of the sales of all such securities sold. Report lump sum figures instead of detailed figures. Use a separate column, titled "Other," to report all other types of sales of investments such as partnerships, real estate, or royalty interests.

Do not report any unrealized gains or losses on securities carried at market value in this section. See instructions for line 20, Other changes in net assets or fund balances.

From the prepared schedule, enter on line 5a the amount received from gross sales of assets other than inventory, on line 5b the cost and sales expenses, and on line 5c the amount of line 5a minus 5b. (These figures should be the same as the totals reported on the prepared schedule.)

6 *Special events and activities.* Prepare and attach a schedule listing the three largest special events held by the organization, as measured by gross receipts, that could be classified as "special fund-raising events and activities." These special activities are outside of normal efforts to raise contributions, such as an alumni solicitation by mail. The activities may include raffles, dinners, dances, or carnivals that are conducted to raise funds for the tax-exempt organization by offering goods or services where the prices charged are higher than the costs.

Describe each event and indicate for each the gross receipts, the amount of contributions included in gross receipts (see instructions above), the gross revenue (gross receipts less contributions), the direct expenses, and the net income (gross revenue less direct expenses). Furnish the same information, but use total amounts only for the remaining special events that were not among the three largest. Indicate the type and number of events (for example, three dances and two raffles), not including the ones that were listed individually.

If the goods or services the buyer receives are of nominal value, record the receipts on Part I, line 1, and the related expenses on lines 12 through 16 of Part I.

Special fund-raising events sometimes generate contributions and revenue. When a buyer pays more than the value of the goods or services furnished, report the portion of the payment that represents the value of the goods or services provided on line 6a. The portion of the payment that exceeds the value of the goods or services provided is a contribution that should be reported on line 1 and on line 6 in the parenthesis.

For further instructions on specific reporting requirements, see page 11 of the IRS Form 990EZ instructions.

7 *Gross sales less returns and allowances.* These are generally inventory items an organization makes or buys to sell others; colleges and universities should refer to line 2 for instructions. Ordinarily, colleges and universities will record the sale of inventory items on Part I, line 2, since it is considered part of their program service revenue. Do not include sales from special events (line 6) or sales of investments (line 5).

8 *Other revenue.* The total reported on this line will be the remainder of all income not included on lines 1 through 7 of Part I.

9 *Total revenue.* Add lines 1–4, 5c, 6c, 7c, and 8. (The total of lines 9, 5b, 6b, and 7b must be less than $100,000 to file Form 990EZ.)

10 *Grants and similar amounts.* The amount includes awards and grants (e.g., scholarships, fellowships, and research grants) to individuals and organizations selected by the tax-exempt organization. Prepare and attach a schedule detailing the amounts reported on line 10. Page 9 of the IRS instructions for Form 990EZ requires a detailed schedule spelling out specific items of information, such as donee's name and address, amount given, and class of activity. The schedule, at a minimum, should include total amounts under broad headings, such as scholarships, fellowships, grants or allocations to individuals, and grants or allocations to organizations; there should be as much detail as feasible given the available information. Do not include administrative expenses, purchases of goods from affiliates, or membership dues.

Colleges, universities, and other educational institutions and agencies subject to the Family Educational Rights and Privacy Act (20 U.S.C. 1232g) are not required to list the names of individuals who were provided scholarships or other financial assistance when such disclosure would violate the privacy provisions of the law. Instead, such organizations should group each type of financial aid provided, indicate the number of individuals who received the aid, and specify the aggregate dollar amount.

11 *Benefits paid to or for members.* This figure should not be confused with the figures for employment-related employee benefits; unless the organization has some unique function, there will not be an entry on this line.

12 *Salaries, other compensation, and employee benefits.* Include the total salaries and wages, the employer's share of contributions to qualified or nonqualified pension plans for the year, the amount of other employer contributions to employee benefit plans such as group insurance, health, and welfare programs, and the employer's portion of all federal, state, and local payroll taxes for the year. A supporting schedule is not required, but if the institution provides various benefit plans, a schedule should be prepared to support amounts reported.

13 *Professional fees and other payments to independent contractors.* Report all fees paid to attorneys and accountants, or other professional fees such as for fund-raising or investment services. Do not include fines, penalties, or legal judgments.

14 *Occupancy, rent, utilities, and maintenance.* Enter the total amount paid or incurred for the use of office space or other facilities, including rent, water, gas, electricity, mortgage interest, real es-

tate taxes, and similar expenses. Record annual depreciation on properties, if calculated.

15 *Printing, publications, postage, and shipping.* Enter all printing, publication, and shipping costs of printed or purchased publications. Do not include salaries.

16 *Other expenses.* Include on this line all other expenses such as penalties, fines, judgments, taxes, depreciation, and expenses for business conferences, and attach a schedule.

17 *Total expenses.* Enter the total of lines 10 through 16.

18 *Excess or (deficit) for the year.* Subtract line 17 from line 9 for excess revenue or line 9 from line 17 for a deficit. Put the figure in parenthesis if line 17 is greater than line 9.

19 *Net assets or fund balances at beginning of year.* From Part II, line 27, column A, record the fund balance at the beginning of the year.

20 *Other changes in net assets or fund balances.* Attach a schedule explaining any changes in net assets or fund balances that are not recorded elsewhere and not accounted for on line 18.

21 *Net assets or fund balances at end of year.* Add lines 18–20. The sum should agree with Part II, line 27, column B.

Part II, "Balance Sheets"

All organizations must complete columns A and B of Part II. Supporting schedules should be prepared and attached if entries are made on lines requiring schedules. The institution's audited or unaudited balance sheet should provide a comparable classification of account titles that will minimize problems in the preparation of Part II.

Part III, "Statement of Program Service Accomplishments"

Other parts of Form 990EZ disclose what funds were available to the tax-exempt organization, how much support it received in the year, and how much it spent. Part III explains what was accomplished by the expenditure of those funds. The IRS has explained Part III as giving the organization the "chance to write its own report card."

Information should be provided for each of the organization's three largest program services, as measured by total expenses incurred, or for each program service if the organization is engaged in three or fewer program services. If part of the total expenses consists of grants and allocations reported on line 10, report that amount in the space provided. Prepare and attach a schedule that lists other program services and related expenses in addition to the three largest.

The description of the activities, their tax-exempt purposes, and what such services accomplished may be brief; it is not necessary to provide detailed information. Part III requires statistics on service outputs, products, or other program measures (such as number of students enrolled or graduated). Briefly describe the various objectives as well as the overall long-term goals of the activity. If exact information is not available from records, reasonable estimates may be used, but they should be identified as estimates.

Part IV, "List of Officers, Directors, Trustees, and Key Employees"

Prepare a schedule listing each officer, director, trustee, and key employee with his or her address. Column A has space for four names and addresses. If this is insufficient, prepare and attach a supporting schedule in the same format, and on the first line of Part IV type "schedule attached." Column B should report the title and average hours per week devoted to the position. Column C should show the compensation received for services rendered in that position or "-0-" if there was no payment. Column D should report any employer contributions made to an employee benefit plan. Column E should report any expense account, auto allowances, or similar benefits that the recipient must report as income on his or her income tax return, as well as any other taxable or nontaxable fringe benefits. All forms of compensation should be included

in columns C through E, even amounts such as employer contributions to qualified pension plans that are not currently taxable to the recipient.

Refer to IRS Publication 525 for more information. The IRS may use this information for cross-checking the accuracy of data reported and to ensure compliance with other tax provisions, such as payroll tax withholding.

Part V, "Other Information"

One of the purposes of Part V is to remind tax-exempt organizations of IRS reporting requirements. The responses may also alert the IRS to potential compliance problems. For instance, several of the lines in Part V relate to compliance with other tax law requirements.

Each question should be reviewed and answered "yes" or "no" where appropriate. No line should be left unanswered. If the line does not require a "yes" or "no" answer and does not apply to the organization, answer "N/A." If a question exists regarding the correct answer, seek assistance from a tax adviser or legal counsel. Some lines may require the attachment of supporting documents.

Form 990EZ—Sample Completed Form

The sample completed Form 990EZ provides examples only and should not be construed as representative for all organizations. For questions or problems related to completing this form, consult a tax adviser or legal counsel.

NACUBO Board of Directors