



Expansion: Part VIII (Statement of Revenue)

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

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

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

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

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

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

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

Line 1c (Fundraising events) reports the amount of money raised at fundraising events that generally was eligible for the charitable contribution deduction by those who contributed the money, that is, money contributed for which the contributor received nothing back in return. It may be that the contributor did receive something of value back in return from the filer (e.g., a dinner). That amount would be subtracted from the total amount paid and what was left could be taken as a deduction and reported on this line. Nondeductible amounts would be reported on Line 8. See material on Line 8 below. If the filer reports a significant amount on this line, it might be inferred that the filer through the holding of fundraising events has developed a reliable source of income (as well as suggesting that it is doing something of value). These conclusions would be reinforced if the reader had access to several Forms 990 of the filer and they all reported significant amounts on this line.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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