Ex. R

2006

Department of the Treasury
Internal Revenue Service

Instructions for Form 990 and Form 990-EZ

Return of Organization Exempt From Income Tax and Short Form Return of Organization Exempt From Income Tax

Under Section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

Caution: Form 990-EZ is for use by organizations other than sponsoring organizations and controlling organizations defined in section 512(b)(13), with gross receipts of less than $100,000 and total assets of less than $250,000 at the end of the year.

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

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What's New

The following items reflect changes made by the Pension Protection Act of 2006.

- Item K has been revised to reflect the requirement that a section 509(a)(3) supporting organization must generally file Form 990 (or Form 990-EZ, if applicable), even if its gross receipts are normally $25,000 or less.
- Sponsoring organizations and controlling organizations as defined in section 512(b)(13) cannot file Form 990-EZ. These organizations must file their return on Form 990.
- The definitions for disqualified persons and excess benefit transactions have been revised. See *General Instruction P*.
- New lines 1a and 22a were added to Form 990 to show the total contributions to, and grants made from, donor advised funds for the year. The change reflects section 6033(k) requirements for sponsoring organizations (defined in section 4966(d)(1)). Prior year's lines 1a–1d were renumbered 1b–1e.
- New lines 25a, 25b, and 25c replace the prior year's line 25 on Form 990. New lines 25a and 25b reflect compensation of current and former officers, directors, trustees, and key employees and line 25c reflects compensation and distributions to certain disqualified and other persons. Also, the descriptions for lines 26 through 28 were clarified to reflect the changes to line 25.
- New line 50b was added to Form 990 to reflect the amount of receivables from certain disqualified and other persons.
- New lines 54a and 54b were added to Form 990 to separate investments in publicly traded securities from investments in other securities. See the instructions for lines 54a and 54b for more information.
- New line 88b and new Part XI were added to reflect section 6033(h) which requires controlling organizations, within the meaning of section 512(b)(13), filing Form 990 after August 17, 2006, to report the information requested.
- New line 89f was added to Form 990 to ask if the organization acquired a direct or indirect interest in an applicable insurance contract after August 17, 2006.
- New line 89g was added to Form 990 to ask if supporting organizations and sponsoring organizations maintaining donor advised funds had any excess business holdings at any time during the tax year.
- Section 501(c)(3) organizations that file Form 990-T after August 17, 2006, to report unrelated business income must make that Form 990-T available for public inspection under section 6104(d)(1)(A)(ii).

The following item reflects changes made by Act section 516 of the Taxpayer Increase Prevention and Reconciliation Act of 2005.

- Form 990, line 89e and Form 990-EZ, line 40e have been added to ask if the organization was a party to any prohibited tax shelter transactions. See new *General Instruction W* for more information.

The following changes were also made to the instructions.

- For 2006, an exempt organization must file its return electronically if it files at least 250 returns during the calendar year and has total assets of $10 million or more at the end of the tax year. See *General Instruction H* for more information.
- The discussion for determining whether a non-life insurance company qualifies as a tax-exempt organization under section 501(c)(15) was revised to reflect the meaning of gross receipts for purposes of section 501(c)(15)(A). See *General Instruction A* for more information.

payments to welfare benefit plans on behalf of the officers, directors, etc. Such plans provide benefits such as medical, dental, life insurance, severance pay, disability, etc. Reasonable estimates may be used if precise cost figures are not readily available.

Unless the amounts were reported in column (C), report, as deferred compensation in column (D), salaries and other compensation earned during the reporting period, but not yet paid by the date the organization files its return.

Column (E)

Enter both taxable and nontaxable fringe benefits (other than *de minimis* fringe benefits described in section 132(e)). Include expense allowances or reimbursements that the recipients must report as income on their separate income tax returns. Examples include amounts for which the recipient did not account to the organization or allowances that were more than the payee spent on serving the organization. Include payments made under indemnification arrangements, the value of the personal use of housing, automobiles, or other assets owned or leased by the organization (or provided for the organization's use without charge), as well as any other taxable and nontaxable fringe benefits. See Pub. 525 for more information.

Line 75b. Business Relationships

For a definition of *family and business relationships*, see line 51 of these instructions.

Line 75c. Compensation from Related Organizations

Answer "Yes," to this question if any of the organization's listed officers, directors, trustees, key employees, highest compensated employees, or highest compensated professional or other independent contractors received aggregate compensation amounts of $50,000 or more from the organization and all related organizations (as defined below). For this purpose, compensation includes any amount that would be reportable in columns (C), (D), and (E) of Form 990, Part V-A, if provided by the organization.

Required attachment. If the organization answered "Yes," it must attach a schedule that lists, for each officer, director, trustee, key employee, highest compensated employee, or highest compensated professional or other independent contractor, the information requested in 1 and 2, below.

1. For Relationships 1 through 6, provide:

a. The name of the officer, director, etc., receiving compensation from a related organization or organizations;

b. The name and EIN of each related organization that provided the compensation;

c. A description of the relationship between the organization and the related organization(s); and

d. The amount of compensation each related organization provided. Use the same format as required by columns (C) through (E) of Part V-A.

2. If the organizations are related only by *Relationship 7* and/or *Relationship 8*, or if the *Volunteer exception* to *Relationship 2* applies, report the following information, but do not report compensation paid by the related organization(s).

a. The name of the officer, director, etc., receiving compensation from a related organization(s);

b. The name and EIN of each related organization that provided such compensation; and

c. A description of the relationship between the organization and the related organization(s).

Reporting compensation. Report compensation paid by a related organization for only that time period during which a relationship existed between the organization and the related organization. Report compensation paid by a related organization in the same period (either calendar or fiscal year) as the organization reports compensation it paid.

Definition of related organization. Organizations may be related in several ways; the relationships are not mutually exclusive. *Related organizations* are tax-exempt or taxable organizations related to the tax-exempt organization in one or more of the following ways.

- ***Relationship 1.*** One organization owns or controls the other organization.
- ***Relationship 2.*** The same person(s) owns or controls both organizations.
- ***Relationship 3.*** The organizations have a relationship as supporting and supported organizations under section 509(a)(3) (see *Example 1*, later).
- ***Relationship 4.*** The organizations use a common paymaster. For a definition of common paymaster and illustrated examples, see Regulations section 31.3121(s)-1(b).
- ***Relationship 5.*** The other organization pays part of the compensation that the organization would otherwise be contractually obligated to pay (see *Example 2*, later).
- ***Relationship 6.*** The organizations are partners in a partnership or members in an LLC or other joint venture (other than a publicly traded partnership as defined in section 7704(b)).
- ***Relationship 7.*** The organizations conduct joint programs or share facilities or employees.
- ***Relationship 8.*** One or more persons exercise substantial influence over both organizations (see *Example 3*, later). For purposes of this relationship, to determine if a person exercises substantial influence over an organization, use the rules stated in section 4958(f)(1) and Regulations section 53.4958-3 (treating the organization as though it were an applicable tax-exempt organization under section 4958(e)).

Substantial influence. The following persons are considered to exercise substantial influence over the organization:

1. The organization's directors, trustees, chief executive officer, and chief financial officer (see Regulations section 53.4958-3(c)),

2. Certain family members (defined as disqualified persons under section 4958(f)(1)(B)) of disqualified individuals, and

3. Certain 35% controlled entities (defined as disqualified persons under section 4958(f)(1)(C)).

Ownership. The term ownership is holding (directly or indirectly) 50% or more of the voting power in a corporation, profits interest in a partnership, or beneficial interest in a trust.

Control. The term control is having 50% or more of the voting power in a governing body, or the power to appoint 50% or more of an organization's governing body, or the power to approve an organization's budgets or expenditures (an effective veto power over the organization's budgets and expenditures). Also, control can be indirect by owning or controlling another organization with such power.

The term governing body is defined by the relevant state law. Generally, the governing body of a corporation is its board of directors and the governing body of a trust is its board of trustees.

Reporting exceptions. The following exceptions apply:

- ***Bank or financial institution trustee exception.*** If the organization and the other organization are related only because they are both controlled or substantially influenced by a common trustee that is a bank or financial institution, the organization does not need to report either the relationship or the trustee's compensation from the related organization.
- ***Common independent contractor exception.*** If an independent contractor listed in Schedule A, Part II-A or II-B does not exercise substantial influence, as defined above, over either the organization or the related organization, the organization does not need to report either the relationship or the independent contractor's compensation from the related organization. However, this exception does not apply to a management services company that performs for the organization functions similar to those of president, chief executive officer, chief operating officer, treasurer or chief financial officer. Compensation paid by a related organization to such a management company must be reported by the organization unless another exception applies. See *Examples 5* and *6* later.
- ***Volunteer exception.*** If *Relationship 2* is met only because the same individuals control both the tax-exempt organization and a for-profit organization that is not owned or controlled directly or indirectly by one or more tax-exempt organizations, and none of the Relationships described in 1 or 3 through 6 are met, then the tax-exempt organization does not have to report the compensation from the for-profit organization of any persons serving the tax-exempt organization as a volunteer without compensation (see *Example 4*, later).

TIP *Providing information on compensation received from related organizations does not violate the disclosure provisions of section 7216(a). See also section 6033(a)(1).*

Examples illustrating relationships.

Example 1. X, a hospital auxiliary, raises funds for Hospital Y. Z, another hospital auxiliary, coordinates the efforts of Hospital Y's volunteer staff. Both X and Z are supporting organizations of Hospital Y and are considered related organizations to Hospital Y. Hospital Y is also considered a supported organization of the auxiliaries.

Hospital Y must report (in an attachment to line 75c) the compensation, if any, paid by each of the auxiliaries to the officers, directors, trustees, or key employees listed in the hospital's Form 990, Part V-A, or highest-compensated employees listed in the hospital's Schedule A, Part I, or highest-compensated professional or other independent contractors listed in the hospital's Schedule A, Part II-A or II-B. Both X and Z must report (in an attachment to line 75c) the compensation, if any, paid by Hospital Y to an officer, director, etc., of the auxiliary.

Example 2. Bob, a key employee of Organization B, a 501(c)(4) social welfare organization, conducts fundraising among Organization B's members, with the proceeds going to Organization A, a 501(c)(3) public charity, to carry out disaster relief. The Chief Executive Officers (CEOs) of Organizations A and B agree that Organization A will pay a portion of Bob's salary for a period of time in recognition of Bob's role in the fundraising assistance of Organization B. Because Organization A is paying to Bob a portion of Bob's compensation that Organization B would otherwise be contractually committed to pay, Organizations A and B are related organizations for Form 990 reporting purposes. Organization B must report the payment from Organization A to Bob in an attachment to line 75c.

Example 3. Tom is a trustee of Organization A, a tax-exempt organization, and the CEO of Organization B, a for-profit taxable organization wholly owned by Tom. Tom is considered to exercise substantial influence over both organizations. So, *Relationship 8* is met. If no other relationship is met, then Tom's compensation from Organization B is not reported in an attachment to line 75c of Organization A's Form 990, however Organization A is required to report the name and EIN of Organization B, and a description of the relationship between the two organizations in the line 75c attachment.

Example 4. The facts are the same as in *Example 3*, except that Tom is the sole trustee of both organizations. So, Organizations A and B are related under *Relationship 2* because they are controlled by the same person. In this situation, Tom's compensation from Organization B (as well as the name and EIN of Organization B, and a description of the relationship between the two organizations) is reported in an attachment to line 75c of Organization A's Form 990.

However, if Tom serves Organization A without compensation and none of the other relationships described in 1 or 3 through 6 are met, then because of the *Volunteer exception*, Tom's compensation from Organization B is not reported by Organization A. However, the relationship between Organization A and Organization B must be reported.

Example 5. Organization A is filing its Form 990. Organization B is a taxable subsidiary of Organization A; so, Organizations A and B are related under *Relationship 1* because A controls B.

Organization A contracts with Company Y for janitorial services. Company Y is listed as one of Organization A's highest-compensated independent contractors. Organization B also contracts with Company Y for janitorial services. Company Y is not a 35% controlled entity of a disqualified person for organization A or Organization B. So, Company Y is listed in Organization A's Schedule A, Part II-B, and Company Y also receives compensation from Organization B, which is related to Organization A.

However, Company Y meets the requirements of the *Common independent contractor exception*, earlier. Company Y is not considered to exercise substantial influence over either Organization A or Organization B if they were applicable tax-exempt organizations within the meaning of section 4958(e). Because of the *Common independent contractor exception* earlier, the relationship between Company Y and Organization B, and Company Y's compensation from Organization B for such janitorial services is not reported by Organization A.

None of Organization A's officers, directors, etc., receive compensation from Organization B. In conclusion, Organization A does not report its relationship with Organization B in an attachment to line 75c, and Organization A answers "No" on line 75c.

Example 6. The facts are the same as in *Example 5*, except that one of Organization A's officers, Sue, receives compensation from Organization B. Organization A must report in an attachment to line 75c its relationship with Organization B, and Sue's compensation from Organization B for services provided to Organization B. Even though Organization A must report Sue's compensation from Organization B, Organization A does not report Company Y's compensation from Organization B because of the *Common independent contractor exception*.

Part V-B. Former Officers, Directors, Trustees, and Key Employees That Received Compensation or Other Benefits

List each former officer, director, trustee, and key employee (as defined in Part V-A) of the organization or disregarded entity described in Regulations sections 301.7701-1 through 301.7701-3 that received compensation or other benefits during the reporting year.

For purposes of reporting all amounts in columns (B) through (E) in Part V-B, either use the organization's tax year, or the calendar year ending within such tax year.

Give the preferred address at which these former officers, directors, etc., want the Internal Revenue Service to contact them.

Use an attachment if there are more persons to list in Part V-B.

Show all forms of cash and noncash compensation or benefits received by each listed former officer, director, etc., whether paid currently or deferred.

If the organization pays any other person, such as a management services company, for the services provided by any of its former officers, directors, trustees, or key employees, report the compensation and other items in Part V-A as if the organization had paid the former officers, directors, etc., directly.

A failure to fully complete Part V-B can subject both the organization and the individuals responsible for such failure to penalties for filing an incomplete return. See *General Instruction K.* In particular, entering the phrase on Part V-B, "Information available upon request," or a similar phrase, is not acceptable.

The organization may also provide an attachment to explain the entire 2006 compensation package for any person listed in Part V-B.

Each person listed in Part V-B should report the listed compensation on his or her income tax return unless the Code specifically excludes any of the payments from income tax. See Pub. 525 for details.

Column (A)

Report the name and address of each person who was a former officer, director, trustee, or key employee (defined in *Part V-A*) at any time during the calendar year.

Column (B)

In column (B), report all secured and unsecured loans and salary advances to former officers, directors, trustees and key employees.

Column (C)

For each person listed, report salary, fees, bonuses, and severance payments paid. Include current-year payments of amounts reported or reportable as deferred compensation in any prior year.

Column (D)

Include in this column all forms of deferred compensation and future severance payments (whether or not funded; whether or not vested; and whether or not the deferred compensation plan is a qualified plan under section 401(a)). Include also payments to welfare benefit plans on behalf of the officers, directors, etc. Such plans provide benefits such as medical, dental, life insurance, severance pay, disability, etc. Reasonable estimates may be used if precise cost figures are not readily available.

Unless the amounts were reported in column (C), report, as deferred compensation in column (D), salaries and other compensation earned during the period covered by the return, but not yet paid by the date the organization files its return.

Column (E)

Enter both taxable and nontaxable fringe benefits (other than *de minimis* fringe benefits described in section 132(e)). Include expense allowances or reimbursements that the recipients must report as income on their separate income tax returns. Examples include amounts for which the recipient did not account to the organization or allowances that were more than the payee spent on serving the