

Internal Revenue Service  
Tax-Exempt & Government Entities Division  
Office of Exempt Organizations  
Draft Form 990 Redesign – Glossary  
June 14, 2007

<b>NOTES:</b>	Words in italics within a definition are defined elsewhere within the Glossary.
<b>accountable plan</b>	Section 1.62-2(c)(1) of the Income Tax Regulations provides that a reimbursement or other expense allowance arrangement satisfies the requirements of § 62(c) if it meets the requirements of business connection, substantiation, and returning amounts in excess of substantiated expenses. If an arrangement meets these requirements, all amounts paid under the arrangement are treated as paid under an accountable plan. See § 1.62-2(c)(2).
<b>accumulated depreciation</b>	The amount of depreciation accrued over a period of time.
<b>allowance for doubtful accounts</b>	An account established to allow for accounts receivable that will not be paid.
<b>audit of financial statement</b>	A formal explanation of an organization's financial records and practices by an independent, certified public accountant with the objective of assessing the accuracy and reliability of the organization's <i>financial statements</i> .
<b>audit committee</b>	A committee, generally established by the <i>governing body</i> of an organization, with the responsibilities to oversee the organization's financial reporting process, monitor choice of accounting policies and principles, monitor internal control processes, and oversee hiring and performance of any external auditors.
<b>business relationship</b>	<p>Business relationships include the following:</p> <ol style="list-style-type: none"><li>1) One person was employed by the other in a sole proprietorship or by an organization with which the other was associated as a trustee, director, officer, key employee, or greater-than-35% owner.</li><li>2) One person was involved with the other in one or more contracts of sale, lease, license, loan, performance of services, or other business transactions involving transfers of cash or property valued in excess of \$5000 in the aggregate during the tax year. Also included are transactions with an organization with which the other person was associated as a trustee, director, officer, key employee, or greater-than-35% owner.</li><li>3) The two persons were common owners in a business or investment entity in which they, individually or together, possessed a greater-than-35% ownership interest and each held an interest greater than 2%.</li></ol> <p>Ownership is measured by stock ownership (either voting power or value) of a corporation, profits or capital interest in a partnership or limited liability company, or beneficial interest in a trust. Ownership includes indirect ownership (e.g., ownership in an entity that has ownership in the entity in question); there may be ownership through multiple tiers of entities.</p>
<b>CEO or Executive Director</b>	A chief executive officer (CEO) or executive director is a person who, regardless of title, has ultimate responsibility for implementing the decisions of the governing body or for supervising the management, administration, or operation of the organization.
<b>CFO or Treasurer</b>	A chief financial officer (CFO) or treasurer is a person who, regardless of title, has ultimate responsibility for managing the finances of the organization

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<b>compensation</b>	All forms of cash and non-cash payments provided in exchange for services, including salary and wages, bonuses, severance payments, deferred payments, retirement benefits, fringe benefits, and other financial arrangements or transactions such as personal vehicles, meals, housing, personal and family educational benefits, below-market loans, payment of personal or family travel, entertainment, and personal use of the organization's property.
<b>compensation, deferred</b>	Compensation that is earned or accrued in, or is attributable to, one year but deferred to a future year for any reason, whether or not funded, vested, or subject to a substantial risk of forfeiture. Deferred compensation may or may not be included in reportable compensation for the current year.
<b>compensation, nonqualified deferred</b>	Deferred compensation that is earned pursuant to a nonqualified plan or nongovernmental section 457(b) plan. Different rules may apply for purposes of identifying arrangements subject to section 409A. Earned but unpaid incentive compensation may be deferred pursuant to a nonqualified deferred compensation plan.
<b>compensation, reportable</b>	Compensation that is reported on Form W-2, box 5, or Form 1099-MISC, box 7, filed for the calendar year ending with or within the organization's tax year.
<b>compilation (compiled financial statements)</b>	A compilation is a presentation of <i>financial statements</i> and other information that is the representation of the management or owners of an organization and which has not been <i>reviewed</i> or <i>audited</i> by independent accountants.
<b>conflict of interest policy<sup>1</sup></b>	A policy that defines conflict of interest, identifies the classes of individuals within the organization covered by the policy, facilitates disclosure of information that may help identify conflicts of interest, and specifies procedures to be followed in managing conflicts of interest. A conflict of interest arises when a person is in a position of authority over an organization, such as an <i>officer</i> , director or manager, may benefit personally from a decision he or she could make.
<b>contributions, cash</b>	Contributions received in the form of cash, checks, money orders, credit card charges, wire transfers, and other transfers and deposits to a cash account of the organization.
<b>contributions, noncash</b>	Contributions of property other than cash including donated items that are made available for sale immediately after donation such as cars and used clothing.
<b>control (for related organization test)</b>	In the case of taxable organizations (including pass through entities), "control" means: <ul style="list-style-type: none"><li>• ownership of more than 50% of the stock (by voting power or value) of a corporation,</li><li>• ownership of more than 50% of the profits or capital interest in a partnership,</li><li>• ownership of more than 50% of the profits or capital of a limited liability company, regardless of whether the entity is treated as a corporation or a partnership for federal tax purposes or the designation of the interests as stock, membership interests, or otherwise under state law,</li><li>• being a managing partner or managing member in a partnership or limited liability company,</li></ul>

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<sup>1</sup> Adapted from the Panel on the Nonprofit Sector, *Strengthening Transparency, Governance, Accountability of Charitable Organizations: A Final Report to Congress*. (June 2005) p. 93

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- being a general partner in a limited partnership
- being the sole member of a *disregarded entity*, or
- ownership of more than 50% of the beneficial interest in a trust.

See Regulations sections 301.7701-2, 3, and 4 for more information on classification of corporations, partnerships, disregarded entities, and trusts.

In the case of tax-exempt organizations, control means:

- power to appoint a majority of the organization's directors or trustees, or
- situation where a majority of the controlled entity's directors or trustees are trustees, directors, officers, employees, or agents of the controlling organization.

Control may be indirect. In other words, if the organization controls Organization A that in turn controls (under the definition of control above) Organization B, the organization will be treated as controlling Organization B. There may be multiple levels of controlled organizations.

NOTE: This definition does not apply to determine whether a person is a member of a governing body.

**directors or trustees**

Persons who are members of the organization's *governing body*, regardless of whether they have voting power, and individuals or institutions who serve as trustees or co-trustees of the organization under state law

**disqualified person**

Unless otherwise provided, any person who was in a position to exercise substantial influence over the affairs of the applicable tax-exempt organization at any time during a 5-year period ending on the date of the transaction. Persons who hold certain powers, responsibilities, or interests are among those who are in a position to exercise substantial influence over the affairs of the organization. See Section 4958 and the related regulations for rules regarding the determination of who is a disqualified person.

A disqualified person includes:

- A disqualified person's spouse, ancestors, children, grandchildren, great grandchildren, and brothers and sisters (whether by whole-or half-blood). It also includes the spouse of the children, grandchildren, great grandchildren, brothers, or sisters (whether by whole-or half-blood).
- A 35% controlled entity of a disqualified person.
- Donors to donor advised funds
- Investment advisors of sponsoring organizations
- The disqualified persons of a section 509(a)(3) supporting organization for the organizations that supports the organization.

**disregarded entity**

An entity wholly owned by the organization that is not a separate entity for Federal tax purposes. See Reg. 301.7701-2 and -3.

**document retention and destruction policy**

A policy that identifies the record retention and responsibilities of staff, volunteers, board members, and outsiders for maintaining and documenting the storage and destruction of the organization's documents and records.

**doing business with**

A person is doing business with another person if they have engaged in a commercial transaction, other than under an employment relationship, pursuant to which one of

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them transfers goods or provides services to the other in consideration for money, goods or services.

**donor advised fund**

A donor advised fund is a fund (or account) that meets all of the following conditions:

1. The fund is separately identified by reference to contributions of a donor or donors (such as by naming the fund after a donor, or by treating the fund on the books of the *sponsoring organization* as attributable to funds contributed by a specific donor or donors).
2. The fund is owned and controlled by a sponsoring organization.
3. The donor or the donor's appointee has, or reasonably expects to have, the privilege to advise the sponsoring organization on the distribution or investment of amounts held in such fund by reason of the donor's status as a donor (a donor with such privilege and any appointee of the donor are referred to collectively as "donor advisors").

A donor advised fund does not include any of the following three types of funds:

1. A fund that makes distributions only to a single identified organization or governmental entity.
2. A fund with respect to which a donor or donor's appointee advises as a member of the selection committee (not as a donor) regarding which individuals receive grants for travel, study, or other similar purposes, if the requirements set forth in section 4966(d)(2)(B)(ii) are met.
3. A fund established by an employer and funded by the employer and/or its employees to provide disaster relief to victims who are employees or their family members, if the requirements set forth in Notice 2006-109, 2006-51 I.R.B 1121, are met.

**easement, conservation**

An interest in the land of another, or of structures thereon, for purposes that include environmental protection; the preservation of open space; or the preservation of property for historic, educational, or recreational purposes. For more information see Notice 2004-41, 2004-28 I.R.B. 31.

**employee, highest compensated**

The five highest compensated employees of the organization (including employees of a *disregarded entity* of the organization) other than officers or key employees. The five highest are determined by the amounts reported on box 5 of Forms W-2 for the calendar year ending with or within the organization's tax year.

**employee, key**

A person (other than an *officer*, director, or trustee as designated in the organization's organizing documents) who has responsibilities, powers or influence like those of officers, directors, or trustees, including a person who manages a discrete segment or activity of the organization that represents a substantial portion of the activities, assets, income, or expenses of the organization, as compared to the organization as a whole. *IRS Form 940*, Employer's Federal Unemployment (FUTA) Tax Return, and *Form 941*, Employer's Quarterly Federal Tax Return.

**employment tax returns (Federal)**

**endowment, term<sup>2</sup>**

Assets held subject to stipulations that they be invested to provide a source of income for a specified time.

**endowment, permanent<sup>3</sup>**

Assets held subject to stipulations that they be invested to provide a permanent source of income.

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<sup>2</sup> SFAS 117 p.8

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- excess benefit transaction** Any transaction in which an excess benefit is provided by the organization, directly or indirectly to, or for the use of, any disqualified person. Excess benefit means the excess of the economic benefit received from the applicable organization over the consideration given (including services) by a disqualified person.
- excess benefit transaction, donor advised funds** For a donor advised fund, an excess benefit transaction also includes a grant, loan, compensation, or similar payment from the fund to a:
- Donor or donor advisor
  - Family member of a donor, or donor advisor
  - 35% controlled entity of a donor, or donor advisor
  - 35% controlled entity of a family member of a donor or donor advisor.
- excess benefit transaction, supporting organization** The excess benefit in this transaction is the amount of the grant, loan, compensation, or similar payments. For additional information see the Instructions for Form 4720. For any *supporting organization*, defined in section 509(a)(3), an excess benefit transaction also includes grants, loans, compensation, or similar payments provided by the supporting organization to a:
- Substantial contributor
  - Family member of a substantial contributor
  - 35% controlled entity of a substantial contributor
  - 35% controlled entity of a family member of a substantial contributor.
- The excess benefit in this transaction is the amount of the grant, loan, compensation, or similar payments. Additionally, an *excess benefit transaction* includes any loans provided by the supporting organization to a disqualified person (other than an organization described in section 509(a)(1), (2), or (4)).
- excess benefit, correction** For more information see the Instructions for Form 4720. A disqualified person corrects an *excess benefit transaction* by undoing the excess benefit to the extent possible, and by taking any additional measures necessary to place the organization in a financial position not worse than that in which it would be in if the disqualified person were dealing under the highest fiduciary standards. The organization is not required to rescind the underlying agreement; however the parties may need to modify an ongoing contract with respect to future payments.
- A disqualified person corrects an excess benefit by making a payment in cash or cash equivalents equal to the correction amount to the tax-exempt organization. The correction amount equals the excess benefit plus the interest on the excess benefit; the interest rate may be no lower than the applicable Federal rate.
- Exception.** For a correction of an excess benefit transaction described in *Donor Advised Funds*, no amount repaid in a manner proscribed by the Secretary may be held in a donor advised fund.
- Property. With the agreement of the applicable tax-exempt organization, a disqualified person may make a payment by returning the specific property previously transferred in the excess benefit transaction. The return of the property is considered a payment of cash (or cash equivalent) equal to the lesser of:

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<sup>3</sup> SFAS 117.

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- The fair market value of the property on the date the property is returned to the organization, or
- The fair market value of the property on the date the excess benefit transaction occurred.

<b>family relationship</b>	No uniform definition of family applies throughout the Code or for purposes of the Form 990. Look to the specific definition set forth in the applicable instructions.
<b>financial statements</b>	The statements of revenue and expenses and balance sheet, or similar statements prepared regarding the financial operations of the organization.
<b>GAAP or generally accepted accounting principles</b>	The accounting principles set forth by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA) that guide the work of the accountants in reporting financial information and preparing audited <i>financial statements</i> for organizations.
<b>governing body</b>	Group of persons having ultimate authority over and responsibility for the governance of the organization under the organization’s governing documents or applicable state law (e.g., the board of directors of a corporation, the co-trustees of a trust) in a capacity other than as owners, shareholders, or members of the organization.
<b>government official</b>	A federal, state or local official described within section 4946(c).
<b>gross receipts</b>	Except as otherwise provided, the total amounts the organization received from all sources during its annual accounting period, without subtracting any costs or expenses. Special rules apply to determine gross receipts of an organization claiming exemption under section 501(c)(15) organization.
<b>hospital facility</b>	A facility that provides <i>medical or hospital care</i> , which generally includes a building, other structure, or campus that is dedicated to providing medical or hospital care, but generally does not include a component wing or department of a hospital, clinic, or other discrete facility.
<b>independent member of governing body<sup>4</sup></b>	A person: <ul style="list-style-type: none"><li>▪ Who is not compensated as an employee of the organization;</li><li>▪ Who does not receive compensation or other payments from the organization as an <i>independent contractor</i> (other than reimbursement of expenses or reasonable compensation for services provided in the capacity of serving as a member of the <i>governing body</i>);</li><li>▪ Who does not receive, directly or indirectly, material financial benefits from the organization except, if applicable, as a member of the charitable class served by the organization; and</li><li>▪ Who is not a spouse, sibling, parent, or child of any individual who is employed by, or receives compensation or other material benefits from, the organization</li></ul> See Reg. 53.4958-6(c)(1)(iii).
<b>independent contractor</b>	A person who provides services to the organization but who is not treated as an employee for employment tax purposes.

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<sup>4</sup> Adapted from Panel on the Nonprofit Sector Revised Principles-Draft for Public Comment, p. 13.

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<b>institutional trustee</b>	A trustee other than an individual person.
<b>legislation</b>	Legislation includes action by Congress, any state legislature, any local council, or similar governing body with respect to acts, bills, resolutions, or similar items or by the public in referenda, ballot initiatives, constitutional amendments or similar procedures. It does not include actions by executive, judicial or administrative bodies.
<b>lobbying</b>	All activities intended to influence foreign, national, state or local legislation. Such activities include direct lobbying (attempting to influence the legislators) and grassroots lobbying (attempting to influence legislation by influencing the general public).
<b>medical or hospital care</b>	<p>“Medical or hospital care” includes the type of care provided by hospitals, rehabilitation institutions, outpatient clinics, skilled nursing facilities, and community mental health or drug treatment centers. An organization that provides medical or hospital care includes organizations that treat any physical or mental disability or condition, whether on an inpatient or outpatient basis. Such organizations also include non-medical institutions (e.g., colleges, prisons) that operate facilities that provide medical or hospital care.</p> <p>An organization that provides medical or hospital care does not include convalescent homes or homes for children or the aged, cooperative hospital service organizations, or institutions whose principal purpose or function is to train handicapped individuals to pursue a vocation. Nor does it include facilities whose principal purpose or function is to provide medical education or medical research, unless it is also actively used in providing medical or hospital care to patients as an integral part of medical education or medical research.</p>
<b>member of governing body</b>	A person who serves on the <i>governing body</i> , including a director, trustee, or co-trustee, regardless of whether the person has voting power.
<b>officer</b>	Person who, regardless of title, has or shares responsibility for implementing the decisions of the <i>governing body</i> , supervising the management, administration, or operation of the organization, or for managing the finances of the organization. Examples of officers include presidents, chief executive officers, chief operating officers, treasurers, chief financial officers, chief legal officers, chief compliance officers, and chief information officers. A person who is designated as an officer under the organization’s governing documents or under applicable state law is an officer. The term generally does not include persons in assistant or subordinate offices, such as an assistant secretary, whose duties generally are limited to ministerial functions.
<b>organization</b>	The filing organization listed on page 1, Item C of the Form 990.
<b>personal benefit contract</b>	Any life insurance, annuity, or endowment contract that benefits, directly or indirectly, the transferor, a member of the transferor’s family, or any other person designated by the transferor (other than an organization described in section 170(c)). A charitable organization is an organization described in section 170(c).
<b>political campaign activity</b>	All activities that directly or indirectly support or oppose candidates for elective federal, state or local public office. It does not matter whether the candidate is elected. A candidate is one who offers himself or is proposed by others for the public office. Political campaign activity does not include any activity intended to encourage participation in the electoral process, such as voter registration or voter education,

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provided that the activity does not directly or indirectly support or oppose any candidate. For organizations other than section 501(c)(3) organizations, political campaign activities include activities that support or oppose candidates for appointive federal, state, or local public office.

<b>principal officer</b>	Person who, regardless of title, has ultimate responsibility for implementing the decisions of the <i>governing body</i> , or for supervising the management, administration, or operation of the organization.
<b>prohibited tax shelter transaction</b>	Any listed transaction, within the meaning of section 6707A(c)(2), and any prohibited reportable transactions. A <i>prohibited reportable transaction</i> is a confidential transaction within the meaning of Regulations section 1.6011-4(b)(3), and a transaction with contractual protection within the meaning of Regulations section 1.6011-4(b)(4).
<b>qualified intellectual property</b>	Any patent, copyright (other than certain self created copyrights), trademark, trade name, trade secret, know-how, software (other than certain “canned” or “off-the-shelf” software or self created software), or similar property, or applications or registrations of such property.
<b>related organization</b>	Other organizations that have one or more of the following relationships to the organization: <ul style="list-style-type: none"><li>• Parent—an organization that <i>controls</i> the organization</li><li>• Subsidiary—an organization controlled by the organization</li><li>• Brother/Sister—an organization controlled by the same person or persons that <i>control</i> the organization, other than a parent/subsidiary relationship</li><li>• Supporting/Supported—an organization that is a 509(a)(3) supporting organization of the organization (or a supported organization, if the organization is a supporting organization)</li></ul>
<b>review of financial statement</b>	An examination of an organization’s financial records and practices by an independent accountant with the objective of assessing whether the <i>financial statements</i> are plausible, without the extensive testing and external validation procedures of an <i>audit</i> .
<b>Sarbanes-Oxley</b>	The Sarbanes-Oxley Act of 2002 (Pub. L. No. 107-204, 116 Stat. 745, also known as the Public Company Accounting Reform and Investor Protection Act of 2002) and commonly called “SOX” or “Sarbox. The legislation established new or enhanced governance and accountability standards for certain companies.
<b>SFAS 116</b>	Statement of Financial Accounting Standards No. 116, Accounting for Contributions Received and Contributions Made (June 1993)
<b>SFAS 117</b>	Statement of Financial Accounting Standards No. 117, Financial Statements of Not-for-Profit Organizations.
<b>sponsoring organization</b>	A sponsoring organization is an organization that maintains one or more <i>donor advised funds</i> and is: <ul style="list-style-type: none"><li>• An organization described in section 501(c)(3) (other than a private foundation or organization that tests for public safety),</li><li>• A domestic fraternal organization described in section 501(c)(8) or (10) that uses charitable contributions exclusively for charitable purposes,</li><li>• A cemetery company described in section 501(c)(13) , or</li></ul>

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- A veterans' organization that meets the requirements to receive deductible contributions under section 170(c)(3). [See Rev. Rul. 84-140, 1984-2 C. B. 51.]

<b>state of legal domicile</b>	The state of formation or incorporation of the organization.
<b>supported organization</b>	An organization supported by a <i>supporting organization</i> described within section 509(a)(3).
<b>supporting organization</b>	A public charity that is organized and operated to support other specified public charities or organizations, as a Type I, Type II, Type III (functionally integrated), or Type III (non-functionally integrated) organization.
<b>unrelated business income</b>	Income from an <i>unrelated trade or business</i> as defined in section 513.
<b>unrelated business gross income</b>	Gross income from an <i>unrelated trade or business</i> as defined in section 513.
<b>unrelated trade or business</b>	Any trade or business, the conduct of which is not substantially related to the exercise or performance by the organization of its charitable, educational, or other purpose or function constituting the basis for its exemption. See Publication 598 and the Form 990-T Instructions for a discussion of what is an unrelated trade or business.
<b>whistleblower policy</b>	A policy to encourage staff and volunteers to come forward with credible information on illegal practices or violations of adopted policies of the organization, specifies that the organization will protect the individual from retaliation, and identifies those staff or board members or outside parties to whom such information can be reported. (See Panel on the Nonprofit Sector June 2005 Final Report.)
<b>year of formation</b>	The year in which the organization was created or formed under applicable state law.