

Proceedings, type of activity was dropped since this information is featured in the Fall issue of the SOI Bulletin describing how the classification is structured and reported.

[2] U.S. Department of Commerce, Bureau of the Census, 1977 Census of Service Industries, Part 4, West Region, Other Service Industries, U.S. Government Printing Office, January, 1981.

#### REJOINDER

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This reply is in response to the comments made by Gabriel Rudney, which dealt with limitations of the data in the two nonprofit studies. Specifically, these topics are: activity classification, asset valuation, and double counting of receipts.

#### ACTIVITY CLASSIFICATION

For the 1974 private foundation study and the 1975 other tax-exempt organization study, three activity codes were picked-up directly from the return form. In only the latter case, however, were the filers told to rank the activities according to predominance. In the 1977 and 1978 Master File studies (for both private foundations and other tax-exempt organizations), the activity codes were no longer on the return form, so the activity code specified on prior return forms or the organization's application for exemption was used. In all of these studies, the activity that was predominant was assumed to be the principal activity. This is a limitation for organizations engaged in multiple activities, since all expenditures were attributed to this one activity. Thus, the activity codes in the nonprofit studies are considerably less than ideal.

While changes in the activity codes along the lines of the 1977 Census of Services (to make them more like the SIC) are beneficial, the most needed improvements in this area are better identification of an organization's activities and a methodology to split the activities of those organizations that engage in multiple activities. Both of these improvements require better information on the organization's return form (or supplemental forms which can be matched, such as the private foundations annual report). Improvements in these areas, however, will be difficult. We are a long way from being able to determine the actual amount of contributions paid for each type of activity. Nevertheless, improvements in the activity classification are a high priority.

#### ASSET VALUATION

Most organizations report the original cost (minus accumulated depreciation, if applicable) of an asset at its book value. However, for certain assets such as securities, we suspect that market valuation is commonly used. Therefore, the balance sheet probably contains both book and market valuations. While this situation is discomfoting because it is conceptually inconsistent, book valuation is

itself of questionable value, particularly in periods of rapid price change.

Nearly all private foundations are required to file an annual report (return form 990-AR) which includes an itemized statement of year-end asset holdings with both book and market valuations. This information can be used to evaluate the procedures that foundations employ to value assets. Furthermore, these data provide the only information on asset composition with market values. In general, we believe that utilization of the 990-AR asset information is the most-promising short run approach to a better understanding of the asset valuation situation.

The choice of the appropriate asset valuation method is by no means clear cut. While most analysts would agree that market valuation is the preferred method, the detailed balance sheet data on the return form are all (or predominantly) in terms of book values. Therefore, the examination of asset composition by size of assets is more meaningful in terms of book values. This situation has no easy solution. For foundations, a third asset measure, total average (as opposed to year-end) market value of assets not used for charitable purposes is available. Since this component is both a market value measure and is actually used in the determination of the mandatory distribution, it is the best asset measure for examination of the foundation payout data.

Tabulations by asset size classes of book and market values have been made for private foundations (1974) and other tax-exempt organizations (1975). (This latter comparison appears below as table 1). In both cases, organizations included in a book value asset size class also generally appear in the same market value size class. However, since the ranges within these size classes are fairly broad, and since the book value asset total (which is the sum of the asset detail on the balance sheet) probably includes some market valuations, it is difficult to speculate on the magnitude of the differences between book and market valuations.

#### DOUBLE COUNTING OF RECEIPTS

Double counting in the receipt data is also a problem that has no easy solution. An adjustment for double counting based on the Census of Services data is better than no

adjustment at all, despite incorporation of the dubious assumption that receipts equal expenditures in these organizations. The addition of a line item on the return form denoting contributions received from other tax-exempt organizations would greatly facilitate our comprehension of this problem. However, since this addition is not anticipated, users of the data will have to contend with the presence of an unmeasured amount of double counting in these data.

## CONCLUSION

In conclusion, we thank the discussant for his helpful comments, but hope he realizes that progress in any of these areas will be difficult. Nevertheless, we are committed to improving the tax-exempt organization database and recognize that improvements in the areas addressed in his comments are high on our list of priorities.

Table 1.--Exempt Organization Returns (Excluding Private Foundations and Farmers Cooperatives):  
Number of Returns, by Size of Total Book Value of Assets and by Size of Total Fair  
Market Value of Assets, 1975<sup>1</sup>

[All figures are estimates based on samples]

Size of total book value of assets	All returns	Number of returns, by size of total fair market value of assets				
		Under \$100,000	\$100,000 under \$500,000	\$500,000 under \$1,000,000	\$1,000,000 under \$5,000,000	\$5,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)
Total.....	220,197	170,221	29,126	7,397	9,246	4,207
Under \$100,000.....	155,967	154,090	1,634	107	40	96
\$100,000 under \$500,000.....	39,087	11,390	26,921	617	137	22
\$500,000 under \$1,000,000.....	9,193	1,881	470	6,378	455	9
\$1,000,000 under \$5,000,000.....	11,214	2,122	87	279	8,509	217
\$5,000,000 or more.....	4,736	738	14	16	105	3,863

<sup>1</sup>Data were obtained from unpublished Statistics Division tabulations on tax-exempt organizations (excluding private foundations and farmers cooperatives).