As we saw in Part I of this white paper series, the contents of the core Form 990 provide the big picture of a nonprofit organization and its related activities. The 16 schedules of Form 990 take a deeper dive into the activities of the reporting tax-exempt organization, providing detail in nearly every area of activity that the organization may be involved in. Understanding the purpose of each of the schedules allows the board member or those charged with the annual review of the Form 990 filings more in-depth insight as to why such information is contained in the annual information return and presented as attachments to the core Form 990 annual filing.

**Schedule A – Public charity status and public support**

Schedule A is a required attachment to the Form 990 for all section 501(c)(3) charitable organizations. No other tax-exempt organizations are required to prepare this schedule, nor do the rules applicable to Schedule A apply to those organizations. Generally, when a section 501(c)(3) organization is formed, by default classification, it is a section 501(c)(3) tax-exempt private foundation, unless for tax purposes, it wishes to not be treated as a private foundation. All section 501(c)(3) organizations are required to file an application to

What your nonprofit board members need to know about Form 990, Part II

Developing a better understanding of the schedules for Form 990: A deep dive into the data

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be recognized by the IRS as a valid charitable organization. It is worthy to note that the IRS does not grant tax-exempt status, but it is by operation of law that when tax-exempt organizations are formed, mostly via their organizational documents, that they are tax-exempt. The Internal Revenue Code (IRC) requires certain organizations that wish to be tax-exempt for federal income tax purposes, to be recognized as tax-exempt. Therefore, certain tax-exempt organizations must file an application to receive this recognition as tax-exempt. The recognition is provided by the IRS when it reviews an application of described activities and issues a favorable determination letter, also known by some as an IRS letter. So an important concept in tax-exempt law is that the IRS does not grant tax-exempt status, it only recognizes tax-exempt status.

The determination letter is important in that if someone questions their ability to claim a tax deduction for a contribution to your organization, providing a copy of this letter received from the IRS proves to that donor that a contribution to the organization should qualify as a tax-deductible contribution for tax purposes.

Schedule A, Part I, provides to the IRS the tax status of the section 501(c)(3) organization. Whichever tax status applies, that box is checked in this part. Public support is important to charitable organizations and for some certain types of section 501(c)(3) organizations, a mathematical support test must be shown annually to the IRS. The public support tests are presented as a part of Schedule A in Part II and Part III. Each test is different, and while both tests can apply to a tax-exempt charitable organization, only one test will be completed by the filing organization. In addition, some charitable organizations are innately broadly supported by the public and are not required to fill in a support schedule as presented in Schedule A, Part II or Part III. These organizations are usually churches, hospitals, schools, organizations that service schools or hospitals, medical research organizations, and federal, state and local governmental units.

If your organization fills in Part II of Schedule A, the important lines the audit committee and board should focus on are lines 14 and 15. These lines set forth the percentage of public support your organization received over the most recent five operating years. This amount should be at or above 33 1/3 percent in order for your organization to be considered to have passed the public support test that applies to the organization. The higher this percentage the better. If this percentage falls below the 33 1/3 percent level for two consecutive years, the organization’s public support status is jeopardized. If the organization’s public support percentage is at least 10 percent or higher, and the organization can show that it has plans and processes in place that will assist in getting back to or above the 33 1/3 percent public support level, the organization can continue to be considered a publicly supported organization. It is important to note that this 10 percent public support facts and circumstances test only applies to those organizations that are required to fill in Part II of Schedule A. All is not lost for a tax-exempt charitable organization if it fails its public support test. Some believe that by failing the public support test, the organization’s very tax-exempt status is lost, but this is far from reality. If a charitable organization fails its public support test for two consecutive years, it does not lose its tax-exempt status as a section 501(c)(3), but only its recognized status as a publicly supported organization. What happens operationally for tax purposes is that once an entity is no longer considered to be a public charity by failing the public support test for two consecutive years, the organization becomes a private foundation as its new tax status. The change in status means it retains its section 501(c)(3) tax-exemption recognition, but must now operate under a completely different set of tax rules and file a different kind of annual return with the IRS (i.e., Form 990–PF, Return of Private Foundation).

If your organization prepares Part III of Schedule A to show it is a publicly supported organization, it must meet two special ratios under this version of the public support test. One ratio, presented on lines 15 and 16 of Part III, Schedule A, represents public support and must be over 33 1/3 percent; and the other ratio, presented on lines 17 and 18 of Part III, Schedule A, represents investment income and must be at least equal or less than 33 1/3 percent. If this dual test is failed for two consecutive years, public support status is revoked, and the organization is treated as a section 501(c)(3) private foundation for tax purposes. As noted previously, there is no 10 percent fact and circumstance test level for these types of public charities.

If an organization fails either the Part II or Part III test, it should prepare the support test it had not previously prepared to see if the organization can pass that test instead. Thus, if your organization fails the Part III public support test, Part II should be filled out to see if the organization can pass this test. If the organization can pass the Part II test, it will remain as a publicly supported organization.

The remaining parts of Schedule A, Parts IV and V apply to special section 501(c)(3) organizations identified in Part I, Schedule A by checking boxes under line 11, which indicates that such an organization is a supporting organization to another public supported charitable organization. As you can see by these parts of Schedule A, there are quite a few rules that apply to supporting organizations, and these two parts attempt to provide the IRS with information it deems necessary to monitor compliance with these complicated arrangements. Further analysis of these parts is outside of the scope of this summary white paper.

**Schedule B — Schedule of contributors**

Schedule B highlights contributors to your tax-exempt organization. One misunderstanding surrounding this schedule is that it only applies to charitable contributions. Schedule B, however, applies to all contributions to any tax-exempt organization, whether tax deductible or not. In addition, it only is filed with the Form 990 if the organization received a contribution during the year that is over certain amounts determined by regulations.

Page 1 of Schedule B does a good job of highlighting these complicated regulations by asking the organization to identify itself and its tax-exempt status by checking a box. The box
checked will dictate what level of contribution is required to be reported in Part I of Schedule B. Schedule B highlights contributions only and does not report other required amounts paid to tax-exempt organizations. For instance, membership fees or membership dues or payments made in exchange for tax-exempt function services that form the basis of its recognized tax-exempt status are not reported here.

The information that is contained in Part I, Schedule B is the donor’s name and address and amount of donation from who or what the contribution represents (i.e., from a person, from a payroll deduction or as a noncash property contribution).

Depending on how the organization identifies itself in the first series of boxes will determine if it is required to report contributions received of $5,000 dollars or more (called the “general rule”) (or more than $1,000 for section 501(c)(7), (8) or (10) organizations), or only report contributions that are in excess of the greater of $5,000 or 2 percent of total contributions received during the year by the tax-exempt organization (called the “special rule”). This special rule may be used by those charitable tax-exempt organizations that are required to fill in Part II, Schedule A public support test calculation under its tax status. You can look at Schedule A and determine if the special rule applies to your organization, if Part II, Schedule A is filled in, then the special rule applies, if any other part of Schedule A is filled in, then the general rule applies to the disclosure of contributions.

The donor’s name and address are listed in Part I, Schedule B, column b on page 2; however, only the IRS receives this information and donor identifying information (which includes its address, is not subject to public disclosure). It is important to note that under the IRC, there are rules related to Form 990 public disclosure requirements to anyone who may request a copy (absent such a request being a part of a harassment campaign against the organization). Of the Form 990 and its attached schedules, only Schedule B can redacted. Only the donor’s name and address identifying information can be removed. The dollar amounts are kept on the schedule and are included in the public disclosure copy under these rules.

Schedule C – Political campaign and lobbying activities

Of importance to the IRS as well as the general public at large are the political or lobbying activities that tax-exempt organizations partake in on an annual basis. Section 501(c)(3) organizations are prohibited by statute from intervening in a political campaign of those running for public office. Other tax-exempt organizations may enter into limited amounts of such activity, but it may not be so frequent as to be considered its primary activity (over 50 percent test). In addition, lobbying activities for section 501(c)(3) organizations are important in that such activities may not be substantial in amount. For other tax-exempt organizations, lobbying seems to not be an issue except it may impact the deductibility of member dues paid to the organization.

Section 501(c)(3) organizations (other than private foundations)

Of interest to the general public and to the IRS are the lobbying activities of charitable organizations. Although lobbying is not prohibited by statute, the statute does specifically provide that no substantial part of a charitable organization’s activities may be associated with lobbying activity. There are two tests that charitable organizations may follow related to its lobbying activities, one is subjective and the other is mathematical.

The first of the two lobbying tests is called the “substantial part” test, which means that no substantial part of the charitable organization’s activities may consist of lobbying. The first question that is asked is what represents a substantial part of a charitable organization’s activities? Unfortunately, the statute and the regulations do not provide a definition of the term, which makes it a very subjective test.

Charitable organizations that do not expect to incur or come close to such levels (to be considered a substantial part of its overall activities) of lobbying expenditures operate under this subjective test. For organizations that are following the substantial part test, Part II-B, Schedule C is the applicable part that the organization provides lobbying information. However, for those organizations more active in the lobbying arena, there is another less subjective test that the charitable organization may elect to have apply to it. This election is called the “section 501(h) election.” This election, once made, applies a mathematical calculation in testing, whether a charitable organization has overstepped its bounds and has lobbied too much, and as such, has violated statutory restrictions. Thus, electing organizations fill in Part II-A of Schedule C, which provides for this mathematical test, setting forth its lobbying expenditures in direct lobbying and indirect, or grassroots, lobbying over its last four operating periods.

As a member of the audit committee or board of directors committee in charge of reviewing the Form 990 and its related schedules, you may ask, “How much lobbying is too much under these tests and what happens if there is too much lobbying activity taking place?”

Under the substantial part test, as stated in the previous paragraph, it is unknown exactly what may be considered substantial activity; therefore, this makes reliance on the substantial part test a bit of a daring proposition. The courts have, in some instances, stated that less than 5 percent of an organization’s overall activities as not being substantial, and other courts have stated that an activities test is not to be the determining factor in making a decision related to whether a charitable organization has entered into too much lobbying activity, which could jeopardize its continuing tax-exempt status. Pre-preparation activities, when looked at as a part of the whole, may also be considered under this subjective test. These uncertainties in determining what substantial activity exists, should be enough for any organization to make the safe harbor lobbying election under section 501(h).
The mathematical test under a section 501(h) election is called the expenditure test. Organizations that have made this election, know definitively when they are getting close to dangerous levels of lobbying activities if they are monitoring those activities. This test covers a four-year average testing period and specific levels of expenditure in determining whether or not the charitable organization’s lobbying activity may be considered substantial and jeopardize its continuing tax-exempt status. Generally, total lobbying expenditures may not exceed $1 million dollars annually. This is a mathematical test, and this $1 million-dollar limit is attained when a charitable organization’s total exempt income is over $17 million dollars.

Excess lobbying activity under the 501(h) test is subject to an excise tax and also subjects the charitable organization to possible revocation of its tax-exempt status.

Other section 501(c) organizations

Generally speaking, tax-exempt organizations, other than section 501(c)(3) organizations, have their own specific rules to follow in both the political and lobbying areas, but such rules are not as stringent in restricting amounts. For example, it is prohibited for any political activity to be entered into by a section 501(c)(3), where for other exempt organizations, it may be up to 49 percent of its activities, it just may not be its primary activity.

For membership organizations that have dues-paying members who are section 501(c)(4), (5) or (6) organizations, lobbying and political expenditures are deemed to come from dues first since such amounts are generally nondeductible for income tax purposes, these organizations must do a calculation each year to determine what amount of its dues collected is not deductible and is attributable to such nondeductible expenditures. This is called the “dues notice” calculation and is performed on Schedule C in Part III–A and III–B for these types of membership organizations.

Schedule D – Supplemental financial statements

This schedule sets forth certain balance sheet disclosures present in the balance sheet portion of Form 990 in Part X. It provides an organized listing, for comparative purposes across different organizations, of total amounts that may be listed on the organization’s balance sheet. Only the parts in Schedule D that apply will be populated with numerical information. There are also other questions the organization may have to answer related to amounts disclosed; for example, who holds the organization’s endowment assets.

Some of the important disclosures that make up this schedule include donor-advised fund makeup, conservation easement disclosures, information related to historical collections held and accounted for, fixed-asset classifications, escrow and custodial arrangements, endowment assets, fixed assets, investment holdings, liabilities, and other assets and liability disclosures.

Another important part of this schedule is contained in Parts XI and XII, the reconciliations of Form 990 income and expense amount totals to income and expense amount totals reported on the organization’s audited financial statements. The intention of this reconciliation is to account for those items that are not reportable on Form 990, but are a part of an organization’s audited financial statements. Some of these differences are specifically provided for in the instructions to Form 990, where others may be tax or book differences themselves, or reporting certain expense items as a part of the revenue disclosures of Form 990 (as “cost of” amounts) as opposed to such expense listed as an expenditure.

Schedule E – Schools

This schedule is only filed by private schools. The specific information that is reported on this schedule highlights an educational organization’s practices related to admissions, discrimination, etc. Specific questions require disclosures related to how its nondiscrimination policies are housed in the school’s organizational documents, specific statements of such policies, promotion and publishing activities of such policy, and that it adheres to it in all respects related to its faculty and staff, educational programs, scholarship and loan programs, including an official certification by an authorized person of the school that the school adheres to the government’s strict rules related to nondiscrimination in all aspects of its operations.

Schedule F – Statement of activities outside the United States

For organizations operating overseas, both the U.S. government and the general public are interested in the activities that are actually being performed internationally. This schedule only highlights regional activities and does not disclose specific country locations and addresses due to safety concerns for those administering reportable activities in that foreign region. The instructions break the world down into 10 defined regions, with each region containing a list of countries that are considered a part of that region for this reporting purpose. The regions are Antarctica, Central America and the Caribbean, East Asia and the Pacific, Europe (to include Iceland and Greenland), Middle East and North Africa, North America, Russia and neighboring states, South America, South Asia, and the sub-Saharan Africa.

Schedule F, Part I is a summary of the activities that the organization operates, or receives funding from, in a described region as listed in the instructions. Specific activities that are reportable on a per region basis include grant-making, fundraising, business activities, investments activities and program services all which take place outside of the United States. The general public is very interested in observing where in the world your organization has established itself in accomplishing its tax-exempt purposes. Therefore, these disclosures inform the public where overseas activities are occurring as opposed to the exact place or location or country. It is also interesting to note that for each activity listed in this part of Schedule F, the number of specific offices and employees and/or agents associated with that activity is also required to be disclosed as well. So for the five listed activities that may be disclosed by an organization, it may have up to five entries for each region, one for each activity. If one of the listed
activities is grant-making. Part II and/or Part III may be required to provide further information related to grants to organizations in foreign jurisdictions (Part II) and/or grants to individuals in foreign jurisdictions (Part III). It is interesting to note that this schedule is of particular interest to the general public related to your overseas activities, but also to foreign governments in assisting those governmental entities in identifying U.S.-based organizations either performing activities within their borders or actually moving cash into their country in the form of cash grants. Of course, since only regions are offered up on the Schedule F in all parts, and names of specific grant recipients are also not disclosable on Form 990, identification of the U.S. tax-exempt organization partaking in activities in various regions around the world is not specific and is subject to regional and other geographic challenges related to identification.

The last important area in this schedule a reviewer should understand is Part IV. For organizations that have investment activities or operating activities in foreign jurisdictions, the series of questions in a yes or no format ensures that organizational management has reviewed its investment portfolio, and/or other operations and have determined that the very important compliance forms that would be required to be filed for certain activities, either applies or does not apply. The minimum penalty for failure to file one of the forms listed in this part is $10,000 dollars per instance, with one of the forms, Form 5713, having a potential one year of imprisonment penalty for willful disregard to file its required information to the IRS. So to say the least, from a financial perspective, this is a very important part of Schedule F that needs to be understood by leadership to ensure that the organization is meeting its annual compliance obligations in addition to Form 990 and its attached schedules.

Schedule G – Supplemental information regarding fundraising or gaming activities

Schedule G is used by an organization that files Form 990 to report professional fundraising services, fundraising events and gaming. The information that is important to donors is what methods of fundraising the organization enters into and if such arrangements are in association with the use of a fundraising professional. Fundraising professionals are usually paid for their efforts, so the schedule in Part I, will highlight who those professional fundraisers were, but also how much they were paid for their fundraising services. The organization also has an opportunity to highlight its most revenue worthy fundraising events in Part II, and also if it uses gaming to generate funds (Part III), how those gaming activities are managed and what they specifically may be.

Schedule H – Hospitals

Schedule H must be completed by a hospital organization that operated at any time during the tax year at least one hospital facility. For this purpose, a hospital facility is one that is required to be licensed, registered or similarly recognized by a state as a hospital. In addition, a hospital organization may treat multiple buildings operated by a hospital organization under a single state license as a single hospital facility.

Part I requires reporting of financial assistance policies (sometimes referred to as charity care policies), the availability of community benefit reports, and the cost of financial assistance and other community benefit activities and programs.

In Part II of Schedule H, the health care facility reports the costs of the organization’s activities that it engaged in during the tax year to protect or improve the community’s health or safety. Activities reported in this part include, but are not limited to, physical improvements and housing, economic development, community support, environmental improvements, leadership development and training for community members, coalition building (to address health and safety issues), community health improvement advocacy (to improve public health), workforce development and other community-building activities that protect or improve the community’s health or safety.

Other reportable items on Schedule H include bad debt, Medicare and collection practices, relationships with management companies and joint ventures where such entities are owned 10 percent or more by officers, directors, trusts, key employees and physicians and also facility information, including descriptions related to the hospital organization’s community health needs assessment (CHNA) which is an assessment of the significant health needs of the community.

Schedule I – Supplemental information on grants and other assistance to organizations, governments, and individuals in the United States

Schedule I is used by an organization that files Form 990 to provide information on grants and other assistance made by the filing organization during the tax year to domestic organizations, domestic governments and domestic individuals.

Grants and other assistance include awards, prizes, contributions, noncash assistance, cash allocations, stipends, scholarships, fellowships, research grants, and similar payments and distributions made by the organization during the tax year.

Domestic grant-making is an important aspect of operations for many tax-exempt organizations. The general public is interested in the types of support that the organization may be granting, where, to whom and for what reason. All of this information is provided for in detail in Schedule I. Unlike foreign activities, specific information related to domestic (U.S.-based) grantees is fully disclosed including name, address and specifically what such grant proceeds were intended to be used for by recipients.

Schedule J – Compensation information

One of the most scrutinized areas of Form 990 is its Part VII compensation disclosures. Schedule J is really an extension of the compensation information presented in Part VII, Form 990. If your exempt organization is required to list persons in Part VII, Form 990, and you answered yes to Question 23, in Part IV of Form 990, Part I, Schedule J, covers certain compensation practices that your organization may partake in with those persons who are listed in Part VII, Form 990.
The questions in Schedule J, Part I provide listed benefits that may be available to those persons required to be listed in Part VII, of Form 990. This part of Schedule J attempts in many respects to uncover “automatic excess benefit” transactions or other arrangements that may exist at the organization. An automatic excess benefit transaction is a transaction between the tax-exempt organization and its highly compensated personnel which are referred to as “disqualified persons.” Generally speaking, most if not all persons that are required to be listed in Part VII, Form 990 will be considered a “disqualified person” for this purpose. A transaction, or a benefit, provided to such a person, which is not properly reported as taxable compensation, if required, not reported on payroll tax returns as compensation or reported as compensation on Form 990 could result in penalties being assessed not only against those recipients of the benefit, but also to those who knowingly approved the transaction in management or at the board or committee level. If any of the boxes on Line 1a, of Part I, Schedule J are checked, the reviewer of this schedule should ensure that a description of who or what class of person received the benefit, and whether or not the benefit was included or not included in the taxable compensation of the recipient will need to be disclosed in Part III, Schedule J, Supplemental Information.

Other questions in Part I, Schedule J consider various ways compensation arrangements may be approved and paid for those specific persons mentioned in each question, including how bonuses are determined and whether or not special compensation packages exist for certain participants like change in control arrangements, severance arrangements, equity-based compensation and supplemental retirement plan arrangements. The reviewer should note that if any of the boxes in Question 4a – 4c are checked, certain global explanations are required by this schedule’s instructions which require specific information be presented in Part III, Schedule J, Supplemental Information, related to those arrangements that are checked yes on these lines. If this global disclosure is missing, the instructions for a properly filled out Schedule J are not being followed.

Most if not all the questions that are asked of the tax-exempt organization on Schedule J, Part I, are also specifically addressed in the excess benefit transaction regulations under section 4958. So answering these questions correctly and providing all the necessary information related to the instructions is very important for this part. In addition, care should be taken in addressing all of the issues presented in Part I, Schedule J, as a lackadaisical approach to disclosure may be considered by the IRS as reflective of poor management of the organization.

Part II, Schedule J is a table that expands compensation reporting for some of those persons who are required to be listed in Part VII, Form 990. The persons highlighted on Part II, Schedule J, are determined by the instructions which provide that only those persons (current officers, directors, trustees, key employees or highest compensated employees) required to be listed in Part VII, Form 990, whose compensation and benefits across columns D, E and F in Part VII, Form 990, total greater than $150,000 are to be further listed again on Part II, Schedule J.

Part II, Schedule J, provides for a more detailed presentation of compensation and benefits for those that meet the tests to be included. For example, for W-2 wage information presented in Part VII, Form 990 in columns D and/or E, the W-2 amount reported in that part of the Form 990 is further broken down to highlight base compensation, bonus and incentive compensation, and other taxable benefits that are reported on that W-2. Retirement plan or deferred compensation amounts are provided for in column C of this part as well as nontaxable benefits paid or provided in column D. So one of the main purposes of Part II, Schedule J is to provide a snapshot of the entire compensatory arrangement in place for those persons who are required to be listed on it.

**Schedule K – Supplemental information on tax-exempt bonds**

Some organizations issue tax-exempt bonds to finance certain fixed asset activities, and this schedule highlights that financing activity. This schedule will be attached only if the organization had a tax-exempt bond issue outstanding principal amount in excess of $100,000 as of the last day of the tax year, and was issued after Dec. 31, 2002.

So if your organization in your recent memory financed a project with tax-exempt bonds, and they were not paid off or retired, you should be presented with a Schedule K attached to your Form 990. This form is missed for a number of reasons, most of them due to the complexity of a tax-exempt bond issue, and the related compliance rules.

**Schedule L – Transactions with interested persons**

Persons internally, who may have undue influence on organizational operations, may sometimes enter into transactions with the tax-exempt organizations with which they are associated. The IRS believes that the presence of such transactions could not only lead to unreasonable benefits received by such persons, but also could result in conflicts of interest, which could jeopardize compliance with the income tax laws of the United States to which the organization must conform and follow.

As such, transactions at certain levels between the organization and certain defined interested persons, (as defined in the Schedule L instructions), are set forth in this schedule. One thing that you should know is that it is not illegal in most respects for insiders to enter into certain business transactions with organizations they are affiliated with, as long as those transactions are fair and at arm’s length, with terms and repayment obligations that are no more favorable to the insider than would be to an unrelated party entering into the same transactional arrangement.

This schedule specifically asks for disclosures related to loans to or from the organization with or to the interested person, grants received and business dealings over certain dollar
threshold amounts. It is interesting to note that although as stated in the previous paragraph it is not illegal for a person of influence (e.g., a board member) to enter into a transaction with an exempt organization to which they serve, such a Schedule L disclosure will taint that person’s independence for the purposes of determining whether they are operating as an independent board member.

**Schedule M – Noncash contributions**

This schedule highlights an organization’s receipt of noncash contributions if total noncash contributions are over $25,000 for a given tax year, or if any value (including S1) of a conservation contribution was given to the organization during the year. The form has been pre-printed with many forms of noncash contributions that are frequently given to tax-exempt organizations. This disclosure is important since certain noncash contributions are deductible by donors if the donated items can be used by the recipient organization in accomplishing its tax-exempt purposes. This is mostly important for contributions of tangible property to charitable organizations in order for the donor to secure a fair market value deduction on their respective tax filings.

Other questions related to gift acceptance policies, and asset disposition arrangements are also addressed as a part of this schedule.

**Schedule N – Liquidation, termination, dissolution, or significant disposition of assets**

Schedule N is used by an organization that files Form 990 to report that it is going out of existence or if the organization disposed of more than 25 percent of its net assets through sale, exchange or other disposition. An organization that completely liquidated, terminated, or dissolved and ceased operations during the tax year must complete Part I of this schedule.

An organization that was still in the process of winding up its affairs at the end of the tax year, but had not completely liquidated, terminated, or dissolved and ceased operations, or has made a significant disposition of net assets must complete Part II.

A significant disposition of the organization’s net assets includes a sale, exchange, disposition or other transfer of more than 25 percent of the fair market value (FMV) of its net assets during the tax year, regardless of whether the organization received full and adequate consideration. A significant disposition of net assets which may result in reporting on this schedule involves:

1. One or more disposals during the organization’s tax year amounting to more than 25 percent of the FMV of the organization’s net assets as of the beginning of its tax year; or
2. One of a series of related disposals or events commenced in a prior year, that, when combined, comprised more than 25 percent of the FMV of the organization’s net assets as of the beginning of the tax year when the first disposition in the series was made. Whether a significant disposition occurred through a series of related disposals or events depend on the facts and circumstances in each case.

The following types of situations are not required to be reported in Schedule N:

- The change in composition of publicly traded securities held in an exempt organization’s passive investment portfolio.
- Asset sales made in the ordinary course of the organization’s exempt activities to accomplish the organization’s exempt purposes; for instance, gross sales of inventory.
- Grants or other assistance made in the ordinary course of the organization’s exempt activities to accomplish the organization’s exempt purposes; for instance, the regular charitable distributions of a United Way or other federated fundraising organization.
- A decrease in the value of net assets due to market fluctuation in the value of assets held by the organization.
- Transfers to a disregarded entity of which the organization is the sole member.

In the event you are reviewing Schedule N for one of these five specific items, which are generally day to day events that may occur during the normal course of a business day or cycle, it should not be attached and it should be mentioned to the preparer of your annual filing that it should be removed before the return is filed.

A good general rule to follow with Schedule N is that you should not see it in your return, and if you do, please ask why it is attached and have your management team or tax professionals give you a specific reason why it is required to be attached.

**Schedule O – Supplemental information to Form 990**

This schedule is often referred to as a ‘glorified page of notebook paper.’ It is a schedule with nothing more than lines on it. An organization should use Schedule O rather than separate attachments, to provide the IRS with narrative information required for responses to specific questions on Form 990, and to explain the organization’s operations or responses to various questions. It also allows organizations to supplement information reported on Form 990, and to make any clarifications related to specifically identified disclosures that have been made. There are 24 specific areas of Form 990 that request additional explanations to be provided on Schedule O, but as stated previously, an organization may elect to disclose and explain information contained in the core Form 990, Parts I–XII as it sees or does not see fit.

Schedule O is not used to supplement responses to questions in other schedules of the Form 990, as each separate schedule has its own distinct supplemental information area attached to it. At a minimum, the schedule must be used to answer Form 990, Part VI, lines 11b (describing the review process of Form 990 before it is filed) and 19 (availability of other documents to public disclosure that are not required to be made available).
Schedule R — Related organizations and unrelated partnerships

A tax-exempt organization may be related to other organizations, whether they be tax-exempt themselves, or via ownership in shares of stock, interests in a partnership or beneficial interest in a trust. The IRS is very interested in not only what kind of organizations have control relationships with the filing tax-exempt organization, but also interested in the kinds and types of transactions that may be occurring between certain related organizations in a complex web of tax-exempt and taxable entities that the filing organization may be involved in.

As such, because some of these relationships assist tax-exempts in accomplishing tax-exempt purposes, protect tax-exempt status or mask the identity of the control relationship under a different name, Schedule R was born and is a requirement for all tax-exempt organizations that are related to any other organization, be it taxable or nontaxable.

Conclusion

We have seen in both parts of our white paper series a detailed explanation as to why certain reporting areas exist on the core Form 990 as well as its associated schedules. Even after reviewing these concise summaries of why each area of reporting may be potentially important, as a reviewer of Form 990 you may still ask, ‘Now that I have a better working knowledge related to why the Form 990 and its schedules are constructed, how far does my fiduciary responsibility really go related to the review that I have been charged with by the organization?’ Stay tuned to our next white paper series, where we will address the fiduciary responsibility of board members and how far it could reach for you as a nontechnical reviewer of your organization’s Form 990.