PacificCPE

COURSE
33754A

Tax-Exempt Orgs: Compensation and Statement of Revenue

Compensation disclosure is one of the most scrutinized areas of Form 990, and this course breaks it down clearly. You'll learn how to complete the compensation sections for officers, directors, trustees, key employees, and highest-compensated independent contractors. The course then shifts to the Statement of Revenue, covering reporting requirements across all revenue lines. Tax professionals working with nonprofits of any size will benefit from this detailed look at two high-visibility sections of the return.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

Start Course ↓ | Final Exam Copy ↓

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recognize who must be listed in the organization's Form 990 as highest compensated.
- Identify types of revenue that must be included in the Statement of Revenue.

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Publication Date: May 2026

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Chapter 1: COMPENSATION OF OFFICERS, DIRECTORS, AND OTHERS

Chapter Objective

After completing this chapter, you should be able to:

- Recognize who must be listed in the organization's Form 990 as highest compensated.

I. OVERVIEW

Form 990, Part VII requires the listing of the organization's current or former officers, directors, trustees, key employees and highest compensated employees, and current independent contractors, and reporting of certain compensation information relating to such persons.

A. COVERED ORGANIZATIONS

All organizations are required to complete Part VII, and when applicable, Schedule J (Form 990), for certain persons. Compensation must be reported for the calendar year ending with or within the organization's tax year. In some cases, persons are reported in Part VII or Schedule J (Form 990) only if their reportable compensation (as explained below) and "other compensation" (as explained below) from the organization and related organizations (as explained in the instructions for Schedule R (Form 990)) exceeds certain thresholds. In some cases, compensation from an unrelated organization must be reported on Form 990. The amount of compensation reported on Form 990, Part VII, for a listed person may differ from the amount reported on Form 990, Part IX, Line 5, for such person due to factors such as a different reporting period (calendar vs. fiscal year) or a different accounting method.

B. REPORTABLE COMPENSATION

Form 990, Part VII relies on definitions of reportable compensation and other compensation. Reportable compensation generally refers to compensation reported on Form W-2, Box 1 or 5 (whichever is greater), Form 1099-NEC, Box 1, and Form 1099-MISC, Box 6. Organizations also must report other compensation in Part VII as well, as discussed further below.

C. CURRENT AND FORMER PERSONS

Organizations must report compensation for both current and former officers, directors, trustees, key employees, and highest compensated employees. The distinction between current and former such person is discussed below. The determination of “former” uses a 5-year look-back period.

Organizations must report compensation from themselves and from related organizations, which generally consist of parents, subsidiaries, brother/sister organizations, supporting organizations, and supported organizations. See the instructions for Schedule R (Form 990) for a fuller discussion of related organizations.

Part VII, Section A, requires reporting of officers, directors, trustees, key employees, and up to five of the organization’s highest compensated employees. Compensation from related organizations must also be taken into account in determining a person’s compensation and reported in columns (E) and (F) of Part VII, Section A.

Section B requires reporting of the five highest compensated independent contractors. Section B doesn’t require reporting of compensation from related organizations.

II. SECTION A. OFFICERS, DIRECTORS, TRUSTEES, KEY EMPLOYEES, AND HIGHEST COMPENSATED EMPLOYEES

Organizations are required to list in Part VII, Section A, the following officers, directors, trustees, and employees of the organization whose reportable compensation from the organization and related organizations (as explained in the instructions for Schedule R (Form 990)) exceeded the following thresholds for the tax year:

- Current officers, directors, and trustees (no minimum compensation threshold);
- Current key employees (over $150,000 of reportable compensation);
- Current five highest compensated employees other than officers, directors, trustees, or listed key employees (over $100,000 of reportable compensation);
- Former officers, key employees, and highest compensated employees (over $100,000 of reportable compensation, with special rules for former highest compensated employees); and
- Former directors and trustees (over $10,000 of reportable compensation in the capacity as a former director or trustee).

To determine which persons are current or former officers, directors, trustees, key employees, or highest compensated employees, see the instructions for column (C) of Part VII, Section A, later.

A. FISCAL-YEAR FILERS

To determine which persons are listed in Part VII, Section A, the organization must use the calendar year ending with or within the organization's fiscal year for some (those whose compensation must exceed minimum thresholds in order to be reported) and the fiscal year for others. Report officers, directors, and trustees that served at any time during the fiscal year (such as "current" officers, directors, and trustees). Report the following persons based on reportable compensation and status for the calendar year ending within the fiscal year:

- Current key employees (over $150,000 of reportable compensation from the organization and related organizations);
- Current five highest compensated employees (over $100,000 of reportable compensation from the organization and related organizations), other than current officers, directors, trustees, and key employees;
- Former officers, key employees, and five highest compensated employees (over $100,000 of reportable compensation from the organization and related organizations, with special rules for former highest compensated employees); and
- Former directors and trustees (over $10,000 of reportable compensation for services in the capacity as director or trustee of the organization, from the organization and related organizations).

Organizations must report compensation on Form 990, Part VII, for the calendar year ending within the organization's fiscal year, including that of current officers, directors, and trustees, even if the fiscal year is used to determine which such persons must be listed in Part VII.

B. DIRECTOR OR TRUSTEE

A "director or trustee" is a member of the organization's governing body, but only if the member has voting rights. A director or trustee that served at any time during the organization's tax year is deemed a current director or trustee. Members of advisory boards that don't exercise any governance authority over the organization aren't considered directors or trustees.

An “institutional trustee” is a trustee that isn’t an individual or natural person but an organization. For instance, a bank or trust company serving as the trustee of a trust is an institutional trustee.

C. OFFICER

An “officer” is a person elected or appointed to manage the organization’s daily operations. An officer that served at any time during the organization’s tax year is deemed a current officer. The officers of an organization are determined by reference to its organizing document, bylaws, or resolutions of its governing body, or as otherwise designated consistent with state law, but, at a minimum, include those officers required by applicable state law. Officers can include a president, vice-president, secretary, treasurer and, in some cases, a Board Chair. For purposes of Form 990, including Part VII, Section A, and Schedule J (Form 990), treat as an officer the following persons, regardless of their titles.

1. Top Management Official

The person who has ultimate responsibility for implementing the decisions of the governing body or for supervising the management, administration, or operation of the organization; for example, the organization’s president, CEO, or executive director.

2. Top Financial Official

The person who has ultimate responsibility for managing the organization’s finances, for example, the organization’s treasurer or chief financial officer.

If ultimate responsibility resides with two or more individuals (for example, co-presidents or co-treasurers), who can exercise such responsibility in concert or individually, then treat all such individuals as officers.

D. KEY EMPLOYEE

For purposes of Form 990, a current “key employee” is an employee of the organization (other than an officer, director or trustee) who meets all three of the following tests, applied in the following order:

1. **$150,000 Test:** Receives reportable compensation from the organization and all related organizations in excess of $150,000 for the calendar year ending with or within the organization’s tax year.
2. **Responsibility Test:** At any time during the calendar year ending with or within the organization’s tax year.

a) Has responsibilities, powers, or influence over the organization as a whole that is similar to those of officers, directors, or trustees;

b) Manages a discrete segment or activity of the organization that represents 10% or more of the activities, assets, income, or expenses of the organization, as compared to the organization as a whole; or

c) Has or shares authority to control or determine 10% or more of the organization's capital expenditures, operating budget, or compensation for employees.

3. **Top 20 Test:** Is one of the 20 employees (that satisfy the $150,000 Test and Responsibility Test) with the highest reportable compensation from the organization and related organizations for the calendar year ending with or within the organization's tax year.

If the organization has more than 20 individuals who meet the $150,000 Test and Responsibility Test, it should report as key employees only the 20 individuals that have the highest reportable compensation from the organization and related organizations. Note that any others, up to five, might be reportable as current highest compensated employees, with over $100,000 in reportable compensation. An organization should use the calendar year ending with or within the organization's tax year for determining the organization's current key employees.

An individual that isn't an employee of the organization (or of a disregarded entity of the organization) is nonetheless treated as a key employee if he or she serves as an officer or director of a disregarded entity of the organization and otherwise meets the standards of a key employee set forth above. See Disregarded Entities, later, for treatment of certain employees of a disregarded entity as a key employee of the organization.

If an employee is a key employee of the organization for only a portion of the year, that person's entire compensation for the calendar year ending with or within the organization's tax year, from both the filing organization and related organizations, should be reported in Part VII, Section A.

Management companies and similar entities that are independent contractors shouldn't be reported as key employees. The organization's top management official and top financial official are deemed officers rather than key employees.

In the examples set forth below, assume the individual involved is an employee that satisfies the $150,000 Test and Top 20 Test and isn't an officer, director, or trustee.

Example 1

Johnson State is a large section 501(c)(3) university. James Dean is the dean of the law school of Johnson State, which generates more than 10% of the revenue of the school, including contributions from alumni and foundations. Although James Dean doesn't have ultimate responsibility for managing the university as a whole, he meets the Responsibility Test and is reportable as a key employee of Johnson State.

Example 2

Professor Jones chairs a small academic department in the College of Arts and Sciences of the same university, Johnson State, in **Example 1**, above. As department chair, Professor Jones supervises faculty in the department, approves the course curriculum, and oversees the operating budget for the department. The department represents less than 10% of the university's activities, assets, income, expenses, capital expenditures, operating budget, and employee compensation. Under these facts and circumstances, Professor Jones doesn't meet the Responsibility Test and isn't a key employee of Johnson State.

Example 3

Pinehurst is a large acute-care section 501(c)(3) hospital. Pinehurst employs Dr. Yim as a radiologist. Dr. Yim gives instructions to staff with respect to the radiology work he conducts, but Dr. Yim doesn't supervise other Pinehurst employees, manage the radiology department, or have or share authority to control or determine 10% or more of Pinehurst's capital expenditures, operating budget, or employee compensation. Under these facts and circumstances, Dr. Yim doesn't meet the Responsibility Test and isn't a key employee of Pinehurst.

Example 4

Dr. Curran is a cardiologist and head of the cardiology department of the same Pinehurst Hospital described in **Example 3**, above. The cardiology department is a major source of patients admitted to Pinehurst Hospital and consequently represents more than 10% of its income, as compared to the hospital as a whole. As department head, Dr. Curran manages the cardiology department. Under these facts and circumstances, Dr. Curran meets the Responsibility Test and is a key employee of Pinehurst Hospital.

E. FIVE HIGHEST COMPENSATED EMPLOYEES

The organization is required to list its current five highest compensated employees whose reportable compensation combined from the organization and related organizations is greater than $100,000 for the calendar year ending with or within the organization's tax year and who aren't also current officers, directors, trustees, or key employees of the organization. Such individuals are the "current" five highest compensated employees. These can include persons who meet some but not all of the tests for key employee status. The organization isn't required to enter more than the top five such persons, ranked by amount of reportable compensation. Use the calendar year ending with or within the organization's tax year for determining the organization's current five highest compensated employees.

Example

Professor Stillwater is an employee of Lousy University and isn't an officer, director, or trustee. Professor Stillwater's reportable compensation for the calendar year exceeds $150,000, and he meets the Responsibility Test. Professor Stillwater would qualify as a key employee of Lousy University, except that 20 employees had higher reportable compensation and otherwise qualify as key employees; therefore, those 20 are listed as the organization's key employees. Professor Stillwater has the highest reportable compensation from the organization and related organizations of all employees other than the 20 key employees. Professor Stillwater must be listed as one of the organization's five highest compensated employees.

1. $10,000 Exceptions for Reporting Compensation

An organization must report compensation paid or accrued by the filing organization and related organizations. Special rules apply with respect to reporting reportable