PacificCPE

COURSE
33758A

Tax-Exempt Orgs: Supplemental Financials, Schools, and Foreign Activities

Three important Form 990 schedules are covered in this course. Schedule D addresses supplemental financial statements, including endowment funds, conservation easements, and investments. Schedule E focuses on schools and their nondiscrimination policy requirements. Schedule F covers activities outside the United States, including grants and program services conducted internationally. Each section includes specific line-by-line guidance, making this course a practical resource for practitioners working with educational institutions or organizations operating globally.

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

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LEARNING ASSIGNMENTS AND OBJECTIVES

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

- Identify the types of items that are included on Schedule D.
- Recognize reporting requirements for filing Schedule E.
- Recognize reporting requirements for filing Schedule F.

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Publication Date: May 2026

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Chapter 1: SUPPLEMENTAL FINANCIAL STATEMENTS (SCHEDULE D)

Chapter Objective

After completing this chapter, you should be able to:

- Identify the types of items that are included on Schedule D.

I. OVERVIEW

A. PURPOSE OF SCHEDULE D

Schedule D (Form 990) is used by an organization that files a Form 990 to provide the required reporting for donor advised funds, conservation easements, certain art and museum collections, escrow or custodial accounts or arrangements, endowment funds, and supplemental financial information.

B. WHO MUST FILE SCHEDULE D

Any organization that answered “Yes” to Form 990, Part IV, Checklist of Required Schedules, Lines 6 through 12a must complete the appropriate parts of Schedule D (Form 990) and attach the schedule to Form 990. An organization that answered “Yes” to Form 990, Part IV, Line 12b can complete Parts XI and XII of Schedule D (Form 990), but is not required to do so.

If an organization is not required to file Form 990 but chooses to do so, it must file a complete return and provide all of the information requested, including the required schedules.

II. SPECIFIC INSTRUCTIONS

A. PART I. ORGANIZATIONS MAINTAINING DONOR ADVISED FUNDS OR OTHER SIMILAR FUNDS OR ACCOUNTS

An organization must complete Part I if the organization answered “Yes” to Form 990, Part IV, **Line 6.** Generally a donor advised fund is a fund or account:

- That is separately identified by reference to contributions of a donor or donors;

- That is owned and controlled by a sponsoring organization; and
- For which the donor or donor advisor has or reasonably expects to have advisory privileges in the distribution or investment of amounts held in the donor advised funds or accounts because of the donor's status as a donor.

1. Exceptions

A donor advised fund does not include any fund or account:

- That makes distributions only to a single identified organization or governmental entity; or
- In which a donor or donor advisor gives advice about which individuals receive grants for travel, study, or other similar purposes, if:

  a) The donor's or donor advisor's advisory privileges are performed exclusively by such person in his or her capacity as a member of a committee in which all of the committee members are appointed by the sponsoring organization;

  b) No combination of donors or donor advisors (and related persons as defined below) directly or indirectly control the committee; and

  c) All grants from the fund or account are awarded on an objective and nondiscriminatory basis following a procedure approved in advance by the board of directors of the sponsoring organization. The procedure must be designed to ensure that all grants meet the requirements of section 4945(g) (1), (2), or (3); or
- That the Secretary exempts from being treated as a donor advised fund because either such fund or account is advised by a committee not directly or indirectly controlled by the donor or donor advisor or because such fund benefits a single identified charitable purpose.[1]

A person related to a donor or donor advisor includes any family member (as defined in section 4958(f) (4)) of the donor or donor advisor and any 35% controlled entity (as defined in section 4958(f)(3)) of the donor, donor advisor, or their family members.

Column (a). Complete for all donor advised funds held at any time during the tax year by the organization as a sponsoring organization.

Column (b). Complete for each similar fund or account held by the organization at any time during the tax year over which a donor, or person appointed by the donor, had advisory privileges with respect to the distribution or investment of amounts held in such fund or account, but which is not a donor advised fund. Examples of other similar funds or accounts include the funds or accounts listed in Exceptions above, as well as

funds otherwise prescribed by statute as excepted from the meaning of a donor advised fund.

Line 1. Report in Column (a) the total number of donor advised funds and in Column (b) the total number of other similar funds or accounts held by the organization at the end of the year.

Line 2. Report in Column (a) the aggregate value of contributions during the year to all donor advised funds and in Column (b) the aggregate value of contributions during the year to all other similar funds or accounts held by the organization. [FOOTNOTE 1] See Notice 2006-109, 2006-51 I.R.B. 1121.

Line 3. Report in Column (a) the aggregate value of grants made during the year from all donor advised funds and in Column (b) the aggregate value of grants made during the year from all other similar funds or accounts held by the organization. Report both grants outside the organization and transfers within the organization.

Line 4. Report in Column (a) the aggregate value at the end of the year of all donor advised funds and in Column (b) the aggregate value at the end of the year of all other similar funds or accounts held by the organization.

B. PART II. CONSERVATION EASEMENTS

An organization must complete Part II if it answered “Yes” to Form 990, Part IV, **Line 7.** In addition to reporting on conservation easements, it must also report in Part II other interests in real property that under state law have attributes similar to a conservation easement and are established for the purpose of conservation and preservation (for example, certain restrictive covenants and equitable servitudes). Do not report utility easements.

Line 1. Check the box for the purpose or purposes for which the organization held the easement(s) during the tax year. Check all that apply.

Line 2. Provide an answer for each item.

Line 2a. Enter the number of conservation easements held by the organization at the end of the tax year. This should not be an estimate or a rounded number.

Line 2b. Enter the total acreage restricted by conservation easements held by the organization at the end of the tax year. Compute the total acreage by adding together all the acres of land subject to all the easements held as of the end of the tax year. Do not include conservation easements on certified historic structures. Acreage can be expressed in decimal points for properties subject to easements where the acreage

consists of less than whole numbers. For example, two and one-half acres may be expressed as 2.5 acres.

Line 2c. Enter the number of conservation easements on certified historic structures held by the organization at the end of the tax year.

A “certified historic structure” is any building or structure listed in the National Register of Historic Places as well as any building certified as being of historic significance to a registered historic district. See section 170(h)(4)(B) for special rules that apply to contributions of conservation easements on certified historic structures in registered historic districts.

Line 2d. Enter the number of conservation easements included in the answer to Line 2c that the organization acquired after July 25, 2006, and not on a historic structure listed in the National Register.

Line 3. To be eligible for a federal charitable income tax deduction for the donation of a conservation easement to a qualified organization, the easement must be granted in perpetuity. Enter the total number of conservation easements held by the organization that were modified, transferred, released, extinguished, or terminated, in whole or in part, during the tax year. For example, if two easements were modified and one easement was terminated during the tax year, enter the number 3. For each easement modified, transferred, released, extinguished, or terminated, in whole or in part, explain the changes in Part XIII. Tax exemption may be undermined by the modification, transfer, release, extinguishment, or termination of an easement. An easement is modified when the terms of easement are amended in any manner. For purposes of this Schedule D reporting requirement, an easement is modified when its terms are amended or altered in any manner. For example, if the deed of easement is amended to increase the amount of land subject to the easement or to add, alter, or remove restrictions regarding the use of the property subject to the easement, the easement is modified. An easement is transferred if, for example, the organization assigns, sells, releases, quit claims, or otherwise disposes of the easement whether with or without consideration. An easement is released, extinguished, or terminated when it is condemned, extinguished by court order, transferred to the land owner, or in any way rendered void and unenforceable, in each case whether in whole or in part. An easement is also released, extinguished, or terminated when all or part of the property subject to the easement is removed from the protection of the easement in exchange for the protection of some other property or cash to be used to protect some other property.

Line 4. Enter the total number of states where property is located and subject to a conservation easement held by the organization during the tax year.

Line 5. A qualified organization must have a commitment to protect the conservation purposes of the easement, and have the resources to enforce the restrictions. Report whether the organization has a written policy or policies regarding how the organization will monitor, inspect, and handle violations, and how it will enforce conservation easements. If "Yes," briefly summarize such policy or policies in Part XIII. Indicate whether such policy or policies are reflected in the organization's easement documents. Monitoring means the organization investigates the use or condition of the real property restricted by the easement to determine if the property owner is adhering to the restrictions imposed by the terms of the easement to ensure the conservation purpose of the easement is being achieved. Inspection means an onsite visit to observe the property to carry out a monitoring purpose. Enforcement of an easement means action taken by the organization after it discovers a violation to compel a property owner to adhere to the terms of the conservation easement. Such activities can include communications with the property owner explaining his or her obligations with respect to the easement, arbitration, or litigation.

Line 6. Enter the total number of hours devoted during the tax year to monitoring, inspecting, handling violations, and enforcing conservation easements, as those terms are defined in the instruction for Line 5, above. Include the hours devoted to this purpose by any of the organization's paid or unpaid staff and by any of the organization's agents or independent contractors.

Line 7. Enter the total amount of expenses incurred by the organization during the tax year to monitor, inspect, handle violations, and enforce the conservation easements it held during the year as those terms are defined in the instructions for **Line 5.**

Line 8. Answer "Yes" if each of the organization's facade easements acquired after July 25, 2006, satisfies the requirements of sections 170(h)(4)(B)(i) and 170(h)(4)(B)(ii). Section 170(h)(4)(B)(i) requires each facade easement donated after August 17, 2006, to include a restriction that preserves the entire exterior of the building, including the front, sides, rear, and height of the building, and to prohibit any change in the exterior of the building that is inconsistent with the historical character of such exterior.

Section 170(h)(4)(B)(ii) requires the donor and donee to enter into a written agreement certifying, among other things, that the donee organization has the resources to manage and enforce the restriction and a commitment to do so.

Line 9. Enter on Part XIII a description of how the organization reports conservation easements in its revenue and expense statement, and on its balance sheet. Include in Part XIII, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements and the basis for its reporting position (for example, FASB EITF 02-7, Example 1 (now codified in ASC 350-30-55-29 to 55-32)).

C. PART III. ORGANIZATIONS MAINTAINING COLLECTIONS OF ART, HISTORICAL TREASURES, OR OTHER SIMILAR ASSETS

Complete Part III if the organization answered "Yes" to Form 990, Part IV, Line 8. Organizations that receive contributions of works of art, historical treasures, and similar assets that do not maintain collections as described in FASB ASC 958 are not required to complete Part III but may be required to complete Schedule M. For Lines 1 and 2, refer to FASB ASC 958 for meanings of the various terms.

Lines 1-2. Pursuant to FASB ASC 958, certain organizations can choose one of two methods to report collections of works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service. An organization that does not recognize and capitalize its collections for financial statement purposes will report its collections on the face of its statement of activities, separately from revenues, expenses, gains, losses, and assets. An organization that recognizes and capitalizes its collections for financial statement purposes will report its collections as assets and revenues based upon its fair value measurement. Line 1 pertains to collection items held by the organization in furtherance of public service, and Line 2 pertains to collection items held by the organization for financial gain, as those terms are described in FASB ASC 958.

Line 1a. If an organization has elected not to capitalize its collections, then provide in Part XIII the footnote(s) to the organization's financial statements that describe these collection items.

Line 1b. If an organization has elected to capitalize its collections, provide on Line 1(b)(i) the revenues reported as to these collection items from the total revenues reported on Form 990, Part VIII, Line 1. Also, provide as total on Line 1(b)(ii), the value of the organization's collection items reported as total assets reported on Form 990.

Line 2. If an organization has received or held collections for financial gain, provide on Line 2(a) the revenues reported as to these collection items from the total revenues included on Form 990, Part VIII, Line 1. Also, provide on Line 2(b), the asset value