

## Highlights

Part I is required for 2008 and later tax years, Parts II through IV are optional for 2008 tax years, but required for 2009 and later tax years.

Refundings after 2002 of pre-2003 issues must be treated as post-2002 issues and reported on the Schedule K.

Instructions provide flexible “reporting years” for each bond issue required to be reported on the Schedule (see Period Covered instructions).

Instructions contain definitions of most key terms rather than refer to regulations or separate glossary of terms.

Instructions provide that supplemental information may be reported on Schedule O.

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## 2008 Schedule K (Form 990) Instructions Supplemental Information on Tax Exempt Bonds

### General Instructions

#### Purpose of Schedule

Schedule K (Form 990) is used by an organization that files Form 990 to provide certain information on their outstanding liabilities associated with tax exempt bond issues.

Use Schedule O to provide additional information or comments relating to the information provided on this schedule.

#### Who Must File

Any organization that answered “Yes” to any of questions 24a through 24d of Form 990, Part IV, *Checklist of Required Schedules*, or reported an amount on either Form 990, Part VIII, *Statement of Revenue*, line 4 or Form 990, Part X, *Balance Sheet*, line 20, must complete and attach Schedule K to Form 990 for each outstanding tax-exempt liability which both had an outstanding principal amount in excess of \$100,000 as of the last day of the tax year and was issued after December 31, 2002. Up to five separate outstanding tax-exempt liabilities can be reported on each Schedule K. Use additional Schedule Ks if necessary to report more than five liabilities.

If the organization is not required to file Form 990, it is not required to file Schedule K.

#### Period Covered

The filing organization may complete Schedule K (Form 990) with respect to any tax-exempt liability using the same period as the Form 990 with which it is filed. In the alternative, the filing organization may use any other 12-month period or periods selected by the organization and used consistently for an obligation for purposes of Schedule K and computations in accordance with the requirements under sections 141-150. Under this alternative, the organization may use a different 12-month period with respect to each liability or obligation reported on a Schedule K, provided such alternative 12-month periods are sufficiently described in Schedule O.

### Specific Instructions

#### Definitions

*Tax-exempt bond.* This is an obligation issued by or on behalf of a governmental issuer on which the interest paid is excluded from the holder’s gross income under section 103. For this purpose, a bond can be in any form of indebtedness under federal tax law, including a bond, note, loan or lease-purchase agreement.

*Qualified 501(c)(3) bond.* This is a tax-exempt bond the proceeds of which are used by a 501(c)(3) organization in furtherance of its charitable purpose. Requirements applicable to a qualified 501(c)(3) bond under section 145 include: (1) all property financed by the bond issue is to be owned by a 501(c)(3) organization or a governmental unit; and (2) at least 95% of the net proceeds of the bond issue are used by either a

governmental unit or a 501(c)(3) organization in activities which do not constitute unrelated trade or businesses (determined by applying section 513).

*Bond issue.* This is an issue of two or more bonds which are: (1) sold at substantially the same time; (2) sold pursuant to the same plan of financing; and (3) payable from the same source of funds. See Regulations section 1.150-1(c).

*Governmental issuer.* A State or local governmental unit which issues a tax-exempt bond.

*On behalf of issuer.* A corporation organized under the general nonprofit corporation law of a state whose obligations are considered obligations of a State or local governmental unit. See Rev. Proc. 82-26, 1982-1 C.B. 476, for a description of the circumstances under which the Service will ordinarily issue an advance ruling that the obligations of a nonprofit corporation were issued on behalf of a State or local governmental unit. See also: Rev. Rul. 63-20, 1963-1 C.B. 24; Rev. Rul. 59-41, 1959-1 C.B. 13; and Rev. Rul. 54-296, 1954-2 C.B. 59. An “on behalf of issuer” also includes a constituted authority organized by a State or local governmental unit specifically to issue tax-exempt bonds in order to further public purposes. See Rev. Rul. 57-187, 1957-1 C.B. 65.

*Gross Proceeds.* The term “gross proceeds” generally means any sale proceeds, investment proceeds, transferred proceeds, and replacement proceeds of an issue. See Regulations section 1.148-1(b),(c).

*Proceeds.* The term “proceeds” generally means the sale proceeds of an issue (other than those sale proceeds used to retire bonds of the issue that are not deposited in a reasonably required reserve or replacement fund). Proceeds also include any investment proceeds from investments that accrue during the project period (net of rebate amounts attributable to the project period). See Regulations section 1.141-1(b).

*Defeasance escrow.* A defeasance escrow is an irrevocable escrow established to redeem the bonds on their earliest call date in an amount that, together with investment earnings, is sufficient to pay all the principal of, and interest and call premiums on, bonds from the date the escrow is established to the earliest call date. See Regulations section 1.141-12(d)(5).

*Refunding escrow.* A refunding escrow means one or more funds established as part of a single transaction or a series of related transactions, containing proceeds of a refunding issue and any other amounts to provide for payment of principal or interest on one or more prior issues. See Regulations section 1.148-1(b).

*Refunding issue.* A refunding issue is an issue of obligations the proceeds of which are used to pay principal, interest, or redemption price on another issue (a prior issue), including the issuance costs, accrued interest, capitalized interest on the refunding issue, a reserve or replacement fund, or similar costs, if any, properly allocable to that refunding issue. A *current refunding issue* is a refunding issue that is issued not more than 90 days before the last expenditure of any proceeds of the refunding issue for the payment of principal or interest on the prior issue. An *advance refunding issue* is a refunding issue that is not a current refunding issue. See Regulations sections 1.150-1(d)(1), (3), and (4).

*Private Business Use.* Private business use means use by your organization or another 501(c)(3) organization in an unrelated trade or business as defined by section 513. Private business use also means any use by a nongovernmental person other than a 501(c)(3) organization.

**Part I Bond Issues (Required for 2008)**

In Part I, provide the requested information for each outstanding tax-exempt bond issue which both had an outstanding principal amount in excess of \$100,000 as of the last day of the tax year and was issued after December 31, 2002. Use one row for each issue, and use the Part I row designation for a particular issue (e.g., “A” or “B”) consistently throughout Parts I through IV of Schedule K. The information provided in columns (a) through (e) should be consistent with the corresponding information included on the Form 8038, *Information Return for Tax-Exempt Private Activity Bond Issues*, filed by the governmental issuer upon the issuance of the bond issue. Complete multiple Schedule Ks if necessary to account for all outstanding tax-exempt bond issues.

Columns (a) and (b): Provide the name and EIN of the issuer of the bond issue. The issuer's name is the name of the entity which issued the bond issue (typically a state or local governmental unit). The issuer's name and EIN should be identical to the name and EIN listed on the Form 8038, Part I, lines 1 and 2 filed with respect to the bond issue.

Column (c): Enter the CUSIP (Committee on Uniform Securities Identification Procedures) number on the bond with the latest maturity. The CUSIP number should be identical to the CUSIP number listed on the Form 8038, Part I, line 8 filed with respect to the bond issue. If the bond issue was not publicly offered and there is no assigned CUSIP number, then write “None.”

Column (d): Enter the issue date of the obligation. The issue date should be identical to the issue date listed on the Form 8038, Part I, line 6 filed with respect to the bond issue. The issue date generally is the date on which the issuer receives the purchase price in exchange for delivery of the evidence of indebtedness (e.g. a bond). In no event is the issue date earlier than the first day on which interest begins to accrue on the bond for Federal income tax purposes. See Regulations section 1.150-1(b).

Column (e): Enter the issue price of the obligation. The issue price should be identical to the issue price listed on the Form 8038, Part III, line 21(b) filed with respect to the bond issue. The issue price is generally determined under Treasury Regulations section 1.148-1(b). When issued for cash, the issue price is the price at which a substantial amount of the obligations are sold to the public. To determine the issue price of an obligation issued for property other than cash, see sections 1273 and 1274 and related regulations. The issue price does not include “accrued interest” from the date the bonds are dated to the date of the issue.

Column (f): Describe the purpose of the bond issue, such as to construct a hospital or provide funds to refund a prior issue. If any of the bond proceeds were used to refund a prior issue, enter the date of issue for each of the refunded issues. If the issue has multiple purposes, state each purpose. If the issue financed various projects or activities corresponding to a related purpose, only state the purpose once. For example, if proceeds are used to acquire various items of office equipment, the amount of such

expenditures should be aggregated and identified with the stated purpose of “office equipment.” Use Schedule O if additional space is needed for this purpose.

Column (g): Indicate whether a defeasance or refunding escrow has been established to irrevocably defease the bond issue.

Column (h): Answer “yes” if the organizations acted as an “on behalf of issuer” in issuing the bond issue. Answer “no” if the organization only acted as the borrower of the bond proceeds pursuant to a conduit loan with the governmental unit issuing the bond issue.

**Part II Proceeds (Optional for 2008)**

Complete for each bond issue listed in rows A through E of Part I.

Line 1: Enter the total amount of proceeds of the bond issue as of the end of the 12-month period used in completing this Schedule.

Line 2: Enter the amount of gross proceeds of the bond issue deposited into a reasonably required reserve or replacement fund, sinking fund, or pledged fund.

Line 3: Enter the amount of proceeds of the bond issue deposited into either a refunding or defeasance escrow. For this purpose, proceeds deposited into a refunding escrow are irrevocably pledged to refund a prior bond issue (the refunded issue). Unless the amount of proceeds of the bond issue used to currently or advance refund a prior issue exceeds the amount reported on Form 8038, Part IV, lines 27 and 28 filed with respect to the bond issue, the aggregate amount listed on those lines may be entered here.

Line 4: Enter the amount of unspent proceeds of the bond issue other than those amounts identified in Part II, lines 2 and 3.

Line 5: Enter the amount of proceeds of the bond issue used to pay bond issuance costs, including (but not limited to) fees for trustees and bond counsel. Issuance costs are costs incurred in connection with, and allocable to, the issuance of a bond issue. See Regulations section 1.150-1(b) for an example list of issuance costs.

Line 6: Enter the amount of proceeds of the bond issue used to finance working capital expenditures. A working capital expenditure is any cost that is not a capital expenditure (e.g. current operating expenses). See Regulations section 1.150-1(b).

Line 7: Enter the amount of proceeds of the bond issue used to finance capital expenditures. Capital expenditures include costs incurred to acquire, construct, or improve land, buildings, and equipment. See Regulations section 1.150-1(b).

Line 8: Provide the year in which construction, acquisition or rehabilitation of the financed project was substantially completed. A project may be treated as substantially completed when, based upon all the facts and circumstances, the project has reached a degree of completion which would permit its operation at substantially its design level and it is, in fact, in operation at such level. See Regulations section 1.150-2(c). If the bond issue financed multiple projects, provide the latest year in which construction, acquisition or rehabilitation of each of the financed projects was substantially completed.

If the bond issue financed working capital expenditures, provide the latest year in which the proceeds of the issue were allocated to those expenditures.

Line 9: Indicate whether the bond issue is a current refunding issue.

Line 10: Indicate whether the bond issue is an advance refunding issue.

Line 11: Indicate whether the final allocation of proceeds of the bond issue has been made. Proceeds of a bond issue must be accounted for using any reasonable, consistently applied accounting method. See Treasury Regulation section 1.148-6.

Line 12: Indicate whether the organization maintains adequate books and records to support the final allocation of proceeds. Answer this question only with respect to the tax year applicable to this Schedule.

### **Part III Private Business Use (Optional for 2008)**

Complete for each bond issue listed in rows A through E of Part I.

Line 1: Indicate whether the organization was at any time during the year a general partner in a partnership, a managing member of a limited liability company, or held more than a 50% profits or capital interest in a partnership or limited liability company, that owned property that was financed by the bond issue.

Line 2: Indicate whether there are any lease arrangements with respect to the property financed by the bond issue which may result in private business use. The lease of financed property to a nongovernmental person other than a 501(c)(3) organization is generally private business use. See Regulations section 1.141-3(b)(3).

Line 3a: Indicate whether the organization has entered into any management or service contracts with respect to property financed by the bond issue which may result in private business use. A management or service contract with respect to financed property may result in private business use of the property, based on all of the facts and circumstances. A management or service contract with respect to financed property generally results in private business use of that property if the contract provides for compensation for services rendered with compensation based, in whole or in part, on a share of net profits from the operation of the facility. See Regulations section 1.141-3(b)(4). See Rev. Proc. 97-13, 1997-1 C.B. 632, for applicable safe harbors under which a management or service contract will not result in private business use.

Line 3b: Indicate whether the organization has entered into any research agreements with respect to property financed by the bond issue which may result in private business use. An agreement by a nongovernmental person to sponsor research performed by the organization may result in private business use of the property used for the research, based on all the facts and circumstances. A research agreement with respect to financed property will generally result in private business use of that property if the sponsor is treated as the lessee or owner of financed property for federal income tax purposes. See Regulations section 1.141-3(b)(6). See Rev. Proc. 2007-47, 2007-29 I.R.B. 108, for applicable safe harbors under which a research agreement will not result in private business use.

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Line 3c: Indicate whether the organization requires bond counsel or other outside counsel to review any management or service contracts or research agreements relating to the financed property. If there are no such agreements, enter “None.” Answer this question only with respect to the tax year applicable to this Schedule.

Line 4: Report the highest percentage during the year of the property financed by the bond issue that was used in a private business use by a nongovernmental person other than a 501(c)(3) organization. Report the highest percentage to the nearest tenth of a percentage point (for example, 8.9%).

Line 5: Report the highest percentage during the year of the property financed by the bond issue that was used in an unrelated trade or business activity (a private business use) by your organization, another 501(c)(3) organization, or a state or local government. Report the highest percentage to the nearest tenth of a percentage point (for example 8.9%).

Line 7: Indicate whether the organization has adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities. Answer this question only with respect to the tax year applicable to this Schedule.

**Part IV Arbitrage (Optional for 2008)**

Complete for each bond issue listed in rows A through E of Part I.

Line 1: Indicate whether a Form 8038-T, *Arbitrage Rebate, Yield Restriction and Penalty in Lieu of Arbitrage Rebate*, has been filed with respect to the bond issue.

Line 2: Indicate whether the bond issue is a variable rate issue. A variable rate issue is an issue that contains a bond that has a yield that is not fixed and determinable on the issue date.

Lines 3a, 3b and 3c: In general, payments made or received by a governmental issuer or borrower of bond proceeds under a qualified hedge are taken into account to determine the yield on the bond issue. A hedge may be entered into before, at the same time as, or after the date of issue. See Regulations section 1.148-4(h). Indicate whether the organization or the governmental issuer has entered into a qualified hedge and identified it on the entity’s books and records. If the answer to line 3a is “yes,” enter the name of the provider of the hedge and the term of the hedge to the nearest tenth of a year (for example, 2.4 years) on lines 3b and 3c.

Lines 4a, 4b and 4c: Indicate whether any gross proceeds of the bond issue were invested in a guaranteed investment contract (“GIC”). A GIC includes any nonpurpose investment that has specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate, and also includes any agreement to supply investments on two or more dates (for example, a forward supply contract). If the answer in line 4a is “yes,” enter the name of the provider of the GIC on line 4b, the term of the GIC to the nearest tenth of a year on line 4c, and indicate whether the regulatory safe harbor for establishing fair market value provided in Regulations section 1.148-5(d)(6)(iii) was satisfied on line 4d. If

Line 5: Indicate if any gross proceeds were invested beyond a temporary period. For example, the 3-year temporary period applicable to proceeds spent on expenditures for

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capital projects or the 13-month temporary period applicable to proceeds spent on working capital expenditures. See Treasury Regulations section 1.148-2(e).

Line 6: Indicate if the bond issue qualified for an exception to rebate set forth in Regulations sections 1.148-7 or 1.148-8. For example, the 2-year spending exception described under section 1.148-7(e).

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