



HOW TO READ FORM 990 AND FIND OUT WHAT IT MEANS

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INTRODUCTION

There is information in the Form 990 that you may find interesting and helpful for learning about the nonprofit organization that filed the Form 990. But you need to know where to find this information and how to interpret it. To help you do this, we offer a list of the ten most significant pieces of information that can be found in the Form 990 and show you exactly where you can find the information.

Of course, your particular interest in the organization whose Form 990 you are reviewing will influence what information you may consider significant. For example, if you are thinking of contributing to a nonprofit, you may want to know what it does and how strong it is financially (its ability to attract resources, its level of reserves, etc.). If you are a board member, you may be interested in reviewing your own nonprofit's Form 990 for information that might prove embarrassing upon inspection by the public. Some believe that board members have a responsibility to review their organization's Form 990 before it is filed.

Immediately below we list the ten most important items we address along with where they can be found on the Form 990. You can go directly to any particular item by clicking on its line. (In some cases an item refers to more than one part of the Form 990. We indicate just the most important part below.)

1. Identity and tax status
2. How much income did the filer receive and from what sources?
3. How did the filer's total expenses break down between program, management and fundraising expenses?
4. What can you tell from net assets?
5. What kinds of programs does the filer run and how much does it spend on them?
6. Who are the filer's board members and how much does its top staff get paid?
7. Did the filer initiate some new activity, change its processes for governing or engage in any excess benefit transactions ?
8. Did the filer engage in any self-dealing transactions during the year?
9. Is the filer a private foundation?
10. Does the filer lobby?

The Form 990, entitled "Return of Organization Exempt From Income Tax," is a report that must be filed each year with the Internal Revenue Service (IRS) by organizations exempt from Federal income taxes under section 501 of the Internal Revenue Code, and whose annual receipts are normally more than \$25,000 a year. It is an information return and not an income tax return since the organizations that file it do not pay taxes (except, as

explained below, in certain cases an organization may have to pay an "unrelated business income tax").

There are many different kinds of nonprofit organizations that are exempt under section 501 of the Code. Charitable organizations are the principal focus of this guide. They are exempt from taxation under section 501(c)(3) of the Code and, in addition to being required to file the Form 990 itself, must also file Schedule A to Form 990. (Schedule A need not be filed by most other organizations exempt under section 501, such as trade associations, social clubs and the like.) Generally, organizations are exempt under section 501(c)(3) if they pursue charitable, educational or religious purposes.

An organization normally receives more than \$25,000 a year if its gross receipts for the immediately preceding three tax years average \$25,000 per year or more. Organizations with gross receipts of less than \$100,000 may file a short-form Form 990 called Form 990-EZ. Organizations that are classified as private foundations (generally organizations that receive funding from a very few sources) are required to file a Form 990-PF. Generally churches are not required to file a Form 990 (although some churches file voluntarily). Today the Form 990, in addition to being the main IRS reporting form for nonprofits, is the basic component of the annual report that must be filed with a large number of state offices that regulate charitable solicitation. Many states require supplemental reports as well as the Form 990.

The Form 990 serves two essential purposes. First, it provides information that helps government agencies (the IRS and state charity regulators) enforce the laws that govern nonprofits. For example, it helps government regulators learn whether groups have been spending their funds in a way that might cause them to lose their charitable and tax-exempt status. Second, the Form 990 provides a great deal of financial information about the filing organization's financial condition, about its financial strength or weakness and about such things as the sources of its income.

The Form 990 is a very public document and it is becoming more public. Today an organization's Forms 990 for the past three years must be shown to anyone who wants to see them. In addition, copies of these forms must be given to anyone who requests them (either in person or in writing) and who pays a reasonable fee -- \$1 for the first page and 15 cents for every page thereafter and postage, if applicable. Furthermore, most Forms 990 beginning with the year 1997 are being posted on the Internet by the National Center for Charitable Statistics and Guidestar, two nonprofit groups in the Washington D.C., area. Finally, it is only a matter of time before all charities will be required to file their Forms 990 electronically. Thus, virtually every Form 990 is or soon will be accessible by anyone in the world.

We conclude this introduction with three final points. First, while much can be found out by examining an organization's Form 990 for one year, a great deal more can be learned from looking at its Forms 990 for three years. For example, if an organization reports the receipt of a considerable amount of income for three years from a particular source, such as program service revenue, it may be considered likely that the organization will continue to receive funds from this source in the future. This conclusion could not be made with as much confidence on the basis of one Form 990. (As noted above, an organization's Forms 990 for the past three years must be shown to anyone who wants to see them.)

Second, a great deal of very valuable information about the Form 990 can be found in the IRS's "Instructions for Form 990 and Form 990-EZ" and "Instructions for Schedule A (Form 990)." These instructions, which provide general information and elucidate what each line means, are clear and very well done. They can be found, along with the current Form 990

and Schedule A, on the Web at <http://www.irs.gov> (run a search for Form 990 under the "Search Forms & Publications search feature).

Finally, we will be offering suggestions on how information reported on the Form 990 might be interpreted. These suggestions should be taken as just that – suggestions. In many cases there will be other ways the data might be interpreted. An interpretation of each particular Form 990's data will depend on the myriad of particular facts reported in each Form 990. Our suggestions are offered to help you develop an aptitude for thinking about the various ways the information contained in the Form 990 might be interpreted. The 10 Most Significant Items of Information

We now canvass the ten most significant items of information that can be found on the Form 990 and show where they can be found. (In the text that follows we refer to each item as "Item #1", "Item # 2," etc.)

#1 IDENTITY AND TAX STATUS

At the top of page 1 of the Form 990 there is a section of about seven lines that elicits the name of the filing organization and certain other information.

Form 990		Return of Organization Exempt From Income Tax		OMB No. 1545-0047
Department of the Treasury Internal Revenue Service		Under section 501(c) of the Internal Revenue Code (except black lung benefit trust or private foundation), section 527, or section 4947(a)(1) nonexempt charitable trust		2000 Open to Public Inspection
▶ The organization may have to use a copy of this return to satisfy state reporting requirements.				
A For the 2000 calendar year, or tax year period beginning , 2000, and ending , 20				
B Check if applicable: <input type="checkbox"/> Change of address <input type="checkbox"/> Change of name <input type="checkbox"/> Initial return <input type="checkbox"/> Final return <input type="checkbox"/> Amended return	Please use IRS label or print or type. See Specific instructions.	C Name of organization		D Employer identification number
		Number and street for P.O. box if mail is not delivered to street address; Room/suite		E Telephone number
		City or town, state or country, and ZIP code		()
				F Check <input type="checkbox"/> if application pending
G Organization type (check only one) ▶ <input type="checkbox"/> 501(c) () ◀ (insert no.) <input type="checkbox"/> 527 or <input type="checkbox"/> 4947(a)(1)		Note: H and I are not applicable to section 527 orgs.		
• Section 501(c)(3) organizations and 4947(a)(1) nonexempt charitable trusts must attach a completed Schedule A (Form 990 or 990-EZ).		H(a) Is this a group return for affiliates? <input type="checkbox"/> Yes <input type="checkbox"/> No		
J Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual <input type="checkbox"/> Other (specify) ▶		H(b) If "Yes," enter number of affiliates ▶		
K Check here <input type="checkbox"/> if the organization's gross receipts are normally not more than \$25,000. The organization need not file a return with the IRS; but if the organization received a Form 990 Package in the mail, it should file a return without financial data. Some states require a complete return.		H(c) Are all affiliates included? <input type="checkbox"/> Yes <input type="checkbox"/> No (If "No," attach a list. See inst.)		
		H(d) Is this a separate return filed by an organization covered by a group ruling? <input type="checkbox"/> Yes <input type="checkbox"/> No		
		I Enter 4-digit group exemption no. (GEN) ▶		
		L Check this box if the organization is not required to attach Schedule B (Form 990 or 990-EZ) ▶ <input type="checkbox"/>		

Item A shows whether the filer is on a calendar fiscal year or some other fiscal year. This can be important since generally a Form 990 must be filed five and a half months after the end of the filer's fiscal year and as you review a form you may wish to know whether you have access to the most current form.

Item B elicits whether the filer has changed its address (discussed below) and whether the return is its initial or final return. If the return is a filer's initial return one will be on notice that it has a very short track record; if it is the final return one will be on notice that the filer is terminating operations.

Fundamental to your examination of a Form 990 is to make sure you are looking at the Form 990 that you set out to look at. By looking at the address information in the box (item C), you learn the name and address of the filer. As there may be more than one organization with the same name, you have to make sure you have the Form 990 of the organization you are interested in. There is usually only one organization with a particular name in a state, so the filer's address may provide the assurance you need. If the filer has

changed its address, it must check the first box under item B. If you still have doubts, item E reports the telephone number of the filer and a call to it will almost certainly clear the question up.

Item G shows what paragraph of section 501(c) the filer is exempt under. You may believe that the filer is exempt under section 501(c)(3) (the paragraph that exempts charitable, educational and religious organizations), when in fact it may be exempt under some other paragraph, such as section 501(c)(6) (which exempts trade associations). If you were considering making a contribution to the filer for whom you would expect to claim a charitable contribution deduction under section 170 of the Code, this information would be important to you, since generally only contributions to section 501(c)(3) organizations are eligible for the charitable-contribution deduction. There are 27 paragraphs under subsection section 501(c), all indicating different types of organizations that are exempt under section 501(a), but, as noted above only contributions to those exempt under section 501(c)(3) are eligible for the charitable contribution deduction.

Sometimes one nonprofit will file a group return for itself and its affiliates. Item H provides information on this subject.

Item J indicates what accounting method the filer uses. In virtually every case it will either be the cash or accrual method. It will be important for you in interpreting a Form 990 to know what accounting method a filer used. For example, if a filer used the cash method, it will not include accounts receivable and other accrual items of income in Part I as income or accounts payable and other accrual items of expenses in Parts I and II as expenses while these items would be included in income and expenses if the filer used the accrual method. (Check the Instructions for information on items D, J and K.)

#2

HOW MUCH INCOME DID THE FILER RECEIVE AND FROM WHAT SOURCES?

Part I (Revenue, Expenses and Changes in Net Assets) on page 1 is divided into three sub-parts: "Revenue," "Expenses," and "Net Assets." The Revenue sub-part reports a filer's total revenue broken down among some 13 different sources (e.g., contributions, fees for services (called program service revenue on the Form 990), etc.). The sum of these lines is totaled at Line 12 (Total revenue) at the bottom of the Revenue sub-part. By going directly to Line 12, you can find out how much total income the filer received during the year. This will give you some idea of the size of the filer's operation. This may be misleading since in a banner year a filer may have received a greater amount of income than it needed to defray expenses for that year, or, as we shall see below, it may have received income that is not attributable to the year. Thus, in many cases the dimension of a filer's activities may be better reflected by considering its total expenses for the year. This amount can be found at Line 17 (Total expenses) in the Expenses sub-part near the bottom of page 1. You might also look at Line 90b on page 5, which indicates how many employees the filer engages. Below is an example of Part I. We have highlighted Line 17.

Example 1

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances (See Specific Instructions on page 16.)			
Revenue	1 Contributions, gifts, grants, and similar amounts received:		
	a Direct public support	1a	1,500,000
	b Indirect public support	1b	
	c Government contributions (grants)	1c	
	d Total (add lines 1a through 1c) (cash \$ 1,500,000 noncash \$)	1d	1,500,000
	2 Program service revenue including government fees and contracts (from Part VII, line 93)	2	
	3 Membership dues and assessments	3	
	4 Interest on savings and temporary cash investments	4	55,000
	5 Dividends and interest from securities	5	105,000
	6a Gross rents	6a	
	b Less: rental expenses	6b	
	c Net rental income or (loss) (subtract line 6b from line 6a)	6c	
7 Other investment income (describe)	7		
8a Gross amount from sales of assets other than inventory	(A) Securities		(B) Other
		8a	
	b Less: cost or other basis and sales expenses	8b	
	c Gain or (loss) (attach schedule)	8c	
d Net gain or (loss) (combine line 8c, columns (A) and (B))	8d		
9 Special events and activities (attach schedule)			
a Gross revenue (not including \$ of contributions reported on line 1a)	9a		
b Less: direct expenses other than fundraising expenses	9b		
c Net income or (loss) from special events (subtract line 9b from line 9a)	9c		
10a Gross sales of inventory, less returns and allowances	10a		
b Less: cost of goods sold	10b		
c Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a)	10c		
11 Other revenue (from Part VII, line 103)	11		
12 Total revenue (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11)	12	1,660,000	
Expenses	13 Program services (from line 44, column (B))	13	962,000
	14 Management and general (from line 44, column (C))	14	222,000
	15 Fundraising (from line 44, column (D))	15	296,000
	16 Payments to affiliates (attach schedule)	16	
	17 Total expenses (add lines 16 and 44, column (A))	17	1,480,000
Net Assets	18 Excess or (deficit) for the year (subtract line 17 from line 12)	18	180,000
	19 Net assets or fund balances at beginning of year (from line 73, column (A))	19	1,500,000
	20 Other changes in net assets or fund balances (attach explanation)	20	
	21 Net assets or fund balances at end of year (combine lines 18, 19, and 20)	21	1,680,000

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As a preliminary point, we believe a principal value of studying the financial information found in the Form 990 is to help you arrive at informed conclusions about the filer's ability to garner financial support in the future and thus to be able to continue its operations. Part I contains much financial information that can help you with this effort.

Generally Line 12 may give you an overall idea of the level of the filer's income generating potential for the year being reported on. If you have access to the filer's Forms 990 for the past three years and you observe that for each year its Line 12 is about at the same level, you might conclude that it will be able to generate a similar amount in the immediately ensuing period. If the filer reports increasing amounts of revenue for the three years, you might conclude its ability to generate income is growing stronger. A contrary conclusion may be reached if its total revenue decreases across the three years. As noted in the Introduction, these possible interpretations may or may not be appropriate to the actual situation of a particular filer. You would need to know a great deal more about the filer's circumstances to be able to draw firm conclusions.

Above we pointed out that the Revenue section of Part 1 is broken down among 13 different sources of income (e.g., contributions, fees for services, dividends, etc.) You may be able to reach some interesting conclusions about the nature of a filer from examining the sources of its income and their relative amounts. For example, some nonprofits may receive most of their funds from gifts. This income would be reported on Line 1 (Contributions, gifts, grants and similar amounts received). In contrast, some nonprofits may receive most of

their funds from charging fees for services. This income would be reported on Line 2 (Program service revenue). If the distinction between what may be called donative nonprofits (those that rely primarily on contributions) and what might be called entrepreneurial nonprofits (those that rely primarily on charging for their services) is important to you, learning about the relative amounts of the income that the filer receives from these different sources will be significant.

Below is an example of a Part I which shows that the filer received most of its income from program services (Line 2) (viz., 70%). Note in contrast in Example 1 above, the filer received most of its income from contributions (Line 1) (i.e., over 90% of its total revenue came from contributions).

Example 2

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances (See Specific Instructions on page 16.)			
Revenue	1 Contributions, gifts, grants, and similar amounts received:		
	a Direct public support	1a 770,000	
	b Indirect public support	1b	
	c Government contributions (grants)	1c	
	d Total (add lines 1a through 1c) (cash \$ 770,000 noncash \$)		1d 770,000
	2 Program service revenue including government fees and contracts (from Part VII, line 93)		2 2,230,000
	3 Membership dues and assessments		3
	4 Interest on savings and temporary cash investments		4
	5 Dividends and interest from securities		5 100,000
	6a Gross rents	6a	
	b Less: rental expenses	6b	
	c Net rental income or (loss) (subtract line 6b from line 6a)		6c
7 Other investment income (describe)		7	
8a Gross amount from sales of assets other than inventory	(A) Securities	(B) Other	
		8a	
	b Less: cost or other basis and sales expenses	8b	
	c Gain or (loss) (attach schedule)	8c	
d Net gain or (loss) (combine line 8c, columns (A) and (B))		8d	
9 Special events and activities (attach schedule)			
a Gross revenue (not including \$ of contributions reported on line 1a)	9a		
b Less: direct expenses other than fundraising expenses	9b		
c Net income or (loss) from special events (subtract line 9b from line 9a)		9c	
10a Gross sales of inventory, less returns and allowances	10a		
	b Less: cost of goods sold	10b	
c Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a)		10c	
11 Other revenue (from Part VII, line 103)		11	
12 Total revenue (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11)		12 3,100,000	
Expenses	13 Program services (from line 44, column (B))		13 1,595,000
	14 Management and general (from line 44, column (C))		14 580,000
	15 Fundraising (from line 44, column (D))		15 725,000
	16 Payments to affiliates (attach schedule)		16
	17 Total expenses (add lines 16 and 44, column (A))		17 2,900,000
18 Excess or (deficit) for the year (subtract line 17 from line 12)		18 200,000	
19 Net assets or fund balances at beginning of year (from line 73, column (A))		19 800,000	
20 Other changes in net assets or fund balances (attach explanation)		20	
21 Net assets or fund balances at end of year (combine lines 18, 19, and 20)		21 1,000,000	

Program service revenue (Line 2) income may include income from an unrelated business activity, that is, an activity that is not related to the filer’s exempt purposes (other than in providing income to support such purposes). A considerable amount of unrelated business activity may be thought to reflect on the character of the filer. A reader of the filer’s Form 990 can find out about unrelated business income that the filer may have generated by examining Part VII (Analysis of Income-Producing Activities) on page 6 of the Form 990.

Line 2 income also includes income from government contracts. (You need to turn to Part VII on page 6 to learn about the type of a filer’s program service revenue.) A fair number

of nonprofits get nearly all their support from government contracts. If this fact is important to you, you can learn this from reviewing Part I (and Part VII) of the Form 990. Below Example 3 shows a Part VII reporting receipts of government contracts. (Example 3 is based on the figures reported in Part I of Example 2 above.)

Example 3

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Part VII Analysis of Income-Producing Activities (See Specific Instructions on page 30.)

	Unrelated business income		Excluded by section 512, 513, or 514		(E) Related or exempt function income
	(A) Business code	(B) Amount	(C) Exclusion code	(D) Amount	
Enter gross amounts unless otherwise indicated.					
93 Program service revenue:					
a <u>Human Resource Agency Contract</u>					2,000,000
b <u>Teen-Age Recreation Program</u>					230,000
c _____					
d _____					
e _____					
f Medicare/Medicaid payments					
g Fees and contracts from government agencies					
94 Membership dues and assessments					
95 Interest on savings and temporary cash investments					
96 Dividends and interest from securities					
97 Net rental income or (loss) from real estate:					
a debt-financed property					
b not debt-financed property					
98 Net rental income or (loss) from personal property					
99 Other investment income					
100 Gain or (loss) from sales of assets other than inventory					
101 Net income or (loss) from special events					
102 Gross profit or (loss) from sales of inventory					
103 Other revenue: a _____					
b _____					
c _____					
d _____					
e _____					
104 Subtotal (add columns (B), (D), and (E))					2,230,000
105 Total (add line 104, columns (B), (D), and (E))					2,230,000

Note: Line 105 plus line 1d, Part I, should equal the amount on line 12, Part I.

Part VIII Relationship of Activities to the Accomplishment of Exempt Purposes (See Specific Instructions on page 31.)

Line No.	Explain how each activity for which income is reported in column (E) of Part VII contributed importantly to the accomplishment of the organization's exempt purposes (other than by providing funds for such purposes).
▼	

Finally, it may be significant that a filer gets most of its income from membership dues reported at Line 3 (Membership dues and assessments). Income reported on Line 3 is for dues that members pay in return for benefits they receive from the filer. Some light on the nature of the filer may then be shed if it is found out that it gets most of its income from Line 3 membership dues.

In the preceding paragraphs, we have suggested that by looking at the sources of income a filer receives, something may be learned about its character. Also of importance is finding out about the filer's capacity to generate income. (As suggested above, here it is important that you have Forms 990 covering more than one year.) To begin with, it may be thought significant that the filer acquires its income from a variety of sources as this may suggest it is not particularly dependent on any one source. On the other hand, a steady flow of income for several years from one particular source (say, contributions or program service revenue) may support an assumption that such income may continue to be received in the future. Similarly a steady source of income for several years from dividends or rents may suggest considerable investment assets and a stable source of revenue. Finally, special events income reported on Line 9 (Special events and activities) may suggest the ability to bring in a singular source of income to help support the filer's activities. Some may wish to develop ratios showing the proportion of total support provided by various particular sources of support, such as the percent of total revenues made up by contributions.

n addition to supporting conclusions about a filer’s nature and capacity to raise income, continued strong support from contributions, program service revenue and/or membership dues may be taken as suggesting that there are those who believe that the filer does important work and this may be significant for you.

#3

HOW DID THE FILER’S TOTAL EXPENSES BREAK DOWN BETWEEN PROGRAM, MANAGEMENT AND FUNDRAISING EXPENSES?

Lines 13-17 of Part I on page 1 constitute the Expenses section of Part I. Line 17 reports total expenses. Except in the rare case that a filer reports payments to affiliates (Line 16), total expenses are the sum of program expenses (Line 13 (Program services)), management expenses (Line 14 (Management and general)) and fundraising expenses (Line 15 (Fundraising)).

We have already suggested that the total expenses reported at Line 17 is a good way to get a quick idea of how extensive a filer’s activities are. In addition, the Expenses section of Part I permits the reader of the Form 990 to quickly find out what proportions of total expenses are made up by the three functional categories of expenses that are elicited by the form, namely, program (Line 13), management (Line 14) and fundraising (Line 15) expenses. Readers of the Form 990 may want to assure themselves that the filer is spending most of its resources on program matters and not on management or fundraising. By simply dividing a particular functional expense total (say, program services) by total expenses, one can learn what percent of total expenses have been spent on that function. For example, in the example from a Form 990 set out below, program expenses makes up 60% of total expenses ($\$1,200,000/\$2,000,000 = 60\%$).

Example 4

Expenses	13	Program services (from line 44, column (B))	13	1,200,000
	14	Management and general (from line 44, column (C))	14	200,000
	15	Fundraising (from line 44, column (D))	15	600,000
	16	Payments to affiliates (attach schedule)	16	
	17	Total expenses (add lines 13, 14, 15, and 16)	17	2,000,000

Program services expenses are those incurred to carry out the organization’s mission. Thus, expenses incurred by a social services organization in paying its social workers for delivering services to its clients would be program services expenses. By like token, payments made by a performing arts organization to produce a play would be program services expenses. For a 501(c)(3) group, the activities that these expenses support are usually the basis of the organization’s tax exemption.

Management and general expenses are those incurred in connection with providing overall administration to an organization. The IRS’s "Instructions For Form 990" (Instructions) note as management and general activities such things as preparing for and holding board meetings, working on office management and personnel problems, and accounting and investment activities. The Instructions also make clear that, for example, the expenses incurred in carrying out activities such as the supervision of program services or fundraising are included under those categories and are not included under management and general. Thus, for example, expenses incurred in preparing for and attending a staff meeting called to plan for a future program initiative or to assess present program activities would be part of the program services category (Line 13) and not the management and general category (Line 14). For many small organizations with small staffs, it is likely that management and general expenses will be low as most of management’s time of these groups is spent on supervising the program and fundraising and relatively little on overall management activities.

Fundraising expenses are pretty much self-defining. The Instructions define this category as " ... the total expenses incurred in soliciting contributions, gifts, grants, etc." Many believe that nonprofits should not spend an overly large part of their resources on fundraising. If a reader of the Form 990 is of this view, she might look to see what percent of total expenses is made up of fundraising expenses (Line 15 divided by Line 17). For example, in Example 4 from a Form 990 set out above, fundraising expenses make up 30% of total expenses ($\$600,000/\$2,000,000 = 30\%$). We suggest, however, that care should be taken in interpreting this "fundraising ratio." If, for instance, a group is new or advancing an unpopular cause, it may need to spend more on fundraising than a group that has been around for some time or is doing something recognized by all as useful. These kinds of qualitative differences are not elicited by the Form 990. Furthermore, a group which spends a fair amount on fundraising (and has a high "fundraising ratio") may, as a result of the increased revenue resulting from such efforts, be able to do a lot more than a group which spends very little on fundraising (and has a low "fundraising ratio") and consequently generates less income.

The amounts reported at Lines 13, 14, 15 and 17 are taken from Part II on page 2 of the Form 990. Part II consists of 23 lines (Lines 22 – 44), which list various "object" expenses and four columns of "functional" expenses. Object expenses include such things as compensation paid to staff, amounts paid for telephone and travel, etc. The four columns consist of the three functional expense categories discussed above, that is, program services (column (B)), management and general (column (C)) and fundraising (column (D)), and total expenses (column (A)). Each amount reported as an object expense is, depending on what it is spent on, allocated amongst the three functional expense columns ((except for Lines 22 (grants), 23 (assistance to individuals) and 24 (benefits to members) which are to be reported only as a program expenses). A reader may find it useful to review the types of expenditures a filer made during the year and what functional expense category they were spent on. This can be done by examining Part II.

A note on Line 16 (Payments to affiliates). Certain kinds of payments made to affiliated organizations, such as dues paid by a local charity solely to support its state or national parent, are reported at Line 16. As suggested above, this line is only rarely applicable and usually shows zero.

#4

WHAT CAN YOU TELL FROM NET ASSETS?

We now come to the bottom of page 1, the four lines that make up the Net Assets section of Part I. The first line, Line 18 (Excess or deficit for the year), indicates whether the filer operated at a surplus or deficit for the year being reported on and the size of such surplus or deficit. This is of obvious interest since on the face of it a surplus and its size may suggest future financial health while a deficit and its size may suggest future financial difficulty. We emphasize "*may suggest*" since either a surplus or a deficit may reflect something contingent to the year being reported on and have little bearing on the future. Nevertheless, many will want to know whether the filer ended the year in the red or the black. Of course, if you have access to three or more years of the filer's Forms 990 and they indicate a trend of surpluses or deficits, this may be more significant as a predictor of the filer's future financial condition. (We return to this point below.)

Line 19 (Net assets at the beginning of year) and Line 21 (Net assets at end of year) are of obvious interest as they indicate the amount of assets over all liabilities (i.e., net assets) that the filer holds or what the filer's net worth is at the beginning (Line 19) and end (Line 21) of the year. (We discuss Line 20 at the end of this Item.) In the usual case where Line 20 reports zero, Line 21, logically enough, is the combination of Lines 19 and 18, i.e., the net assets on hand at the beginning of the year plus the surplus reported at Line 18 (or less the deficit reported at Line 18) equals the net assets on hand at the end of the year. This

can be seen below in the excerpt of the Net Assets section. The amount reported at Line 21 is the same as the amount reported at Line 73(B) on Part IV. Below we set out an example of the Net Assets section of a Form 990 based on the figures shown in Example 1 above.

Example 5

Net Assets	18	Excess or (deficit) for the year (subtract line 17 from line 12)	18	180,000
	19	Net assets or fund balances at beginning of year (from line 73, column (A))	19	1,500,000
	20	Other changes in net assets or fund balances (attach explanation)	20	
	21	Net assets or fund balances at end of year (combine lines 18, 19, and 20)	21	1,680,000

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Net assets provide some indication of the level of resources the filer has to help support its activities in the future. Very generally it might be expected that a filer with a small amount of net assets at the end of the year would be quite dependent on a reliable and timely receipt of income in the ensuing period to be able to continue activities. Likewise, in a very general sense, it might be expected that a filer with a large amount of net assets at the end of the year, relative to its expenditures for the year being reported on, would begin the next period in a strong financial position and be able to endure a time of income shortfalls and still continue its activities.

What has just been suggested should, as noted, be taken as a very general first approach. It is often the case that some of the net assets on hand at the end of the year may not be easily drawn down to meet a filer’s needs or obligations. For example, some assets may consist of restricted endowments or if the filer owns a building that is central to its operations (e.g., a school building), it may not, as suggested, be possible to sell the building to produce cash to meet needs without virtually destroying the ability of the filer to carry out its (educational) goals. Consequently, as discussed below, net assets need to be analyzed to determine what portion of such assets are practically available to help the filer meet its future needs.

In making reference to meeting the filer’s needs, we primarily refer to its near-term needs and by this we have in mind its needs for the next year or so. Obviously, in the longer-term future, if the filer became financially destitute and needed to liquidate any assets to satisfy its creditors, most of the assets that we are suggesting are not available to meet near-term needs might well be accessible to satisfy creditor demands.

To conduct the analysis just suggested, it is necessary to turn to Part IV (Balance Sheets) of the filer’s Form 990. Part IV is found on page 3 and constitutes the filer’s balance sheet. It is divided into three sections: Assets (Lines 45 – 59), Liabilities (Lines 60 – 66) and Net Assets (Lines 67 – 74). Line 73 reports net assets; Line 73(A) reports net assets on hand at the beginning of the year and Line 73(B) (as noted above) those on hand at the end of the year. Line 73(B) (as also noted above) is identical to Line 21. The amount reported at Lines 21 and 73(B), the filer’s net assets on hand at the end of the year, is the amount we want to analyze to determine how much of this amount might be available to meet the needs of the filer in the near-term future.

To begin, we suggest that you should find out how much the filer reports on Line 69(B) (Permanently restricted [net assets]) as permanently restricted net assets held at the end of the year. Permanently restricted assets are assets that have been given with restrictions that they be preserved and not sold. One example would be an endowment gift that stipulates that the principal of the gift is to be permanently held and that only the income that the principal generates may be currently used. Another example would be a gift of a work of art or real estate with a restriction that it be held permanently and not sold. These permanently restricted assets therefore cannot be used to meet the general near-term needs of the filer. They should therefore be subtracted from Line 21 (and line 73(B)) to get

a more reliable sense of how much of total net assets are available to meet near-term needs.

Next, it might be instructive to look at the amount of net assets that are reported on Line 68(B) (temporarily restricted [net assets]). Line 68 reports temporarily restricted net assets. These are assets that have been given with restrictions that they be used in a later period, or for a specified purpose or both. A typical example might be a grant from a foundation with a stipulation that the funds be used over several years (a multi-year grant) to support a particular program. A careful reader of the Form 990 might decide to take the amount reported at Line 68(B) into account in evaluating how much of total net assets are available to meet the filer's near-term needs. For example, some part of the amount listed at Line 68(B) may not be available for spending until some time in the future or might be restricted to a particular program which might not be part of the filer's core or general program. As to the later type of restriction, if the reader of the filer's Form 990 was primarily interested in the filer's ability to continue its core program, these assets would not be available for such needs. Thus, as just mentioned, it might be decided to take the amounts listed at Line 68(B) into account in assessing how much of a filer's total net assets are available to meet near-term needs.

If one subtracts the sum of permanently restricted and temporarily restricted net assets, from total net assets, you are left with unrestricted net assets which is the amount reported at Line 67 (unrestricted [net assets]). Line 67(A) reports the unrestricted net assets on hand at the beginning of the year and Line 67(B) those on hand at the end of the year. Line 67(B), unrestricted net assets on hand at the end of the year, is a good place to look to get a general idea of the level of assets available to the filer to meet near-term needs. Of course, as suggested above, some or all of a filer's temporarily restricted net assets may be available for near-term use, although the exact amount of such assets available for these purposes may not be known.

Below is an example (based on Example 1) of the Net Assets section of Part IV reporting unrestricted, temporarily restricted and permanently restricted net assets. (The example assumes the filer reported no liabilities.) Note, that it is the amount reported at Line 67(B), namely, \$580,000 that would be the amount that one should consider as likely to be available to meet the filer's near-term needs and not the total net assets of \$1,680,000 reported at Line 73(B) and Line 21.

Example 6

Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input type="checkbox"/> and complete lines 67 through 69 and lines 73 and 74.			
	67 Unrestricted	500,000	67	580,000
	68 Temporarily restricted		68	100,000
	69 Permanently restricted	1,000,000	69	1,000,000
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 70 through 74.			
	70 Capital stock, trust principal, or current funds		70	
	71 Paid-in or capital surplus, or land, building, and equipment fund		71	
	72 Retained earnings, endowment, accumulated income, or other funds		72	
	73 Total net assets or fund balances (add lines 67 through 69 OR lines 70 through 72; column (A) must equal line 19 and column (B) must equal line 21)	1,500,000	73	1,680,000
	74 Total liabilities and net assets / fund balances (add lines 66 and 73)		74	

Finally, as mentioned above, a careful reader of the Form 990 will also want to look at the Assets section of Part IV to find out whether any of the assets held by the filer might be difficult to readily convert to cash (i.e., might not be easily liquidated). The Assets section of Part IV lists assets roughly in order (Lines 45 – 58) of their relative availability for use. For example, Line 45 reports cash and Line 57 reports the value of buildings and similar assets held by the filer. A building, whether it is a permanently restricted asset or an

unrestricted asset, may as a practical matter be difficult to liquidate. The same may be said about certain investments the filer holds, such as investments in land or buildings (reported at Line 55). So in assessing a filer's net assets to determine their availability to meet near-term needs, it may be desirable to review the kinds and relative amounts of assets that the filer reports in the Assets section (Lines 45 - 59) of Part IV.

We conclude our discussion of the Net Assets section of Part I by returning to a point made above and briefly consider the effect that recurring deficits may have on a filer's net asset position. In most cases repeated deficits will cause a reduction in unrestricted net assets. This reduction may not be reflected in total net assets since, for example, in some instances a filer may have received a contribution to its permanently restricted net assets (Line 69) (such as a gift to an endowment fund) so that its total net assets (Lines 21 and 73(B)) may not decrease or may even increase. Usually, however, this will not be a problem since many filers will have only unrestricted net assets (i.e., they will not have any temporarily or permanently restricted net assets) In any event, as suggested above, a reader of the Form 990 can learn about the impact of a deficit on the filer's ability to meet the near-term needs of its core program by going directly to Line 67 – unrestricted net assets -- and calculating the reduction in unrestricted net assets from the beginning of the year to the end of the year (Line 67(B) – Line 67(A) = reduction in unrestricted net assets). If it is observed that, as a result of the recurring deficits, the level of a filer's unrestricted net assets is declining in a significant way, it may reasonably be concluded that the filer's financial position is weakening, and, depending on the relationship between the most recent yearly deficits and the amount of the filer's unrestricted net assets, it may be weakening significantly. For example, if a reader of three consecutive Forms 990 of a filer observes that the filer had \$750,000 of unrestricted net assets at the start of the period being examined (Line 67(A) of the first year's Form 990) and sustained deficits in the neighborhood of \$200,000 for each of the three years, so that the filer's unrestricted net assets had diminished to about \$150,000 at the end of the period being examined (Line 67(B) of the last year's Form 990), there would be reason for serious concern about the filer's future financial health. On the other hand, if the deficits ran at about the level of \$50,000 a year, while this may be taken as an indication of some problems, they would clearly not be as serious as in the first case.

A note on Line 20 (Other changes in net assets or fund balances). In some instances, there will be changes between an organization's net assets at the start and end of the year that cannot be accounted for by the amount on Line 18. They would include such items as adjustments of earlier years' activities and, not uncommonly for those groups that hold securities as assets, unrealized gains or losses on investments carried at market value. The net of these changes is entered at Line 20. If a filer reports on Line 20, it must attach a schedule.

#5 WHAT KINDS OF PROGRAMS DOES THE FILER RUN AND HOW MUCH DOES IT SPEND ON THEM?

Part III on page 2 of the Form 990 elicits information on what a filer does. The filer is required to state the organization's primary purpose on a very short line near the top of this part. Then for each program it conducts the filer is to describe, on several lines provided for this, each such program's purpose, stating the outputs of the program, such as number of clients served, publications issued, and students taught. In a column to the right of this description, the filer is to list the total of program expenses for each such program. Four subparts (a-d) are provided for four programs. A fifth subpart or line (e) instructs the filer to attach a schedule for other programs. A final subpart or line (f) requires the filer to report the total of program expenses, the sum of the expenses for each of the particular programs reported above, which should be identical to the amount reported at Lines 13 and 44(B). Here is Part III.

Part III Statement of Program Service Accomplishments (See Specific Instructions on page 23.)

	Program Service Expenses <small>(Required for 501(c)(3) and (4) orgs. and 4947(a)(1) trusts, but optional for others.)</small>
What is the organization's primary exempt purpose? ▶ All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable. (Section 501(c)(3) and (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants and allocations to others.)	
a (Grants and allocations \$)	
b (Grants and allocations \$)	
c (Grants and allocations \$)	
d (Grants and allocations \$)	
e Other program services (attach schedule) (Grants and allocations \$)	
f Total of Program Service Expenses (should equal line 44, column (B), Program services), ▶	

A careful filer, in describing its programs, should be able to provide a fairly good idea of its activities, and, by comparing the relative amounts spent on each program, one may derive some sense of their relative importance. This is the only part of the Form 990 where you can pick up descriptive data about a filer's activities and this qualitative information can be helpful for putting all the numbers in the Form 990 in context. One should be aware, however, that this information cannot reveal whether the filer is doing its work effectively and efficiently or achieving satisfactory ultimate outcomes.

#6 WHO ARE THE FILER'S BOARD MEMBERS AND HOW MUCH DOES ITS TOP STAFF GET PAID?

Part V (List of Officers, Directors, Trustees, and Key Employees) on page 4 of the Form 990 contains information of considerable interest. The name of each board member is listed. (The address of each board member is also given, but in many cases the address will be the same as the address of the filer). If the board member receives any compensation for her or his duties, the amounts are reported here. Of course, most board members do not receive compensation for their work as board members. Here is Part V.

Part V List of Officers, Directors, Trustees, and Key Employees (List each one even if not compensated; see Specific Instructions on page 25.)

(A) Name and address	(B) Title and average hours per week devoted to position	(C) Compensation (if not paid, enter -0-.)	(D) Contributions to employee benefit plans & deferred compensation	(E) Expense account and other allowances
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75 Did any officer, director, trustee, or key employee receive aggregate compensation of more than \$100,000 from your organization and all related organizations, of which more than \$10,000 was provided by the related organizations? **▶** Yes No
If "Yes," attach schedule—see Specific Instructions on page 26.

If the reader of a Form 990 knows something about some or all of a filer’s board members, their identity can be significant information since the quality of an organization’s board members may reflect on the organization itself. Even if the reader knows little about the board members, if it appears from their last names for instance that several or many board members are from the same family, this may be significant to a reader. For example, a group which is essentially directed by a single family may be of a different nature than one that has broad public representation. Finally, the number of people on the board of the filer may be of interest.

Part V also elicits compensation information about the filer’s top management officials. Part V elicits the names, addresses and compensation information of key employees. Key employees are defined by the Instructions as including a filer’s “chief management and administration officials” including the filer’s “chief financial officer and the officer in charge of administration or program operations ... if they have authority to control the organization’s activities, its finances or both.” While the term “key employees” is somewhat imprecise, it clearly includes an organization’s executive director and its chief financial officer, if such person has control over the organization’s finances independent of the executive director. Part I of Schedule A elicits compensation of the five highest paid employees who are paid more than \$50,000 that are not listed in Part V. (Schedule A, as noted in the Introduction, is a six page supplementary information return that is filed along with the Form 990 by organizations exempt under section 501(c)(3).) Thus, the Form 990 and Schedule A will report on the salaries of at least the top six managers of the filer, assuming that there are five employees after the key employees listed at Part V who make more than \$50,000. In some cases, where, for example, more than one key employee is listed on Part V, a higher number will be reported. We believe that for most filers this provides ample information about the compensation of a filer’s top management.

Part V of the Form 990 and Part I of Schedule A require that the full compensation be given for each individual listed. For both Part V and Part I of Schedule A, column (C) calls for an individual’s basic compensation; column (D) for deferred compensation and employee benefits; and column (E) for expense account and allowance. A compensation package includes many elements (base salary, bonuses, deferred compensation, benefits, etc.).

These parts of the Form 990 have been drawn so as to pick up a person's entire compensation package. Thus, if the Form 990 has been filled out correctly, it will all be there.

Together these two parts report about the salaries of a good number of the filer's highest paid staff members. This information may be of considerable interest. A reader may, for example, want to learn what persons in top management positions are being paid in organizations similar to one she is interested in (e.g., one she works for or serves on the board of). Or a reader may draw some very preliminary conclusions about the quality of a filer's management from the level of salaries that are being paid. Or a reader may have ideas about how much it is appropriate for a nonprofit group to pay top management officials and want to compare a filer's compensation arrangements with what she believes are appropriate levels of compensation. She may conclude that such payments by the filer are too high or too low by his standards. Finally, a reader may discover that the compensation reported as being paid to a particular employee is not what he believes the filer in fact paid the employee or that the compensation of the employee about whom the reader is concerned is omitted from the Form 990. This omission may raise questions in the reader's mind.

In cases where a filer may have paid certain employees (among whom key employees would be included) compensation at unreasonably high levels, the payments might be found to be "excess benefit transactions" under section 4958 of the Code. This would result in a tax being imposed on the employees who received the unreasonably high compensation (and in some cases upon the board members who approved the payments). As noted below in Item #7, Line 89b in Part VI on page 5 asks whether the filer engaged in any section 4958 excess benefit transactions during the year. If the filer answers "Yes," it is to attach a statement explaining each transaction. Where a filer answers Line 89b "Yes," a reader of its Form 990 may wish to find out as much as she can about the transaction.

Sometimes a top management official will receive some of her salary from an organization other than the filer, which other organization is related to the filer. Knowing about such arrangements may be important for someone focusing on compensation. Line 75 at the bottom of Part V provides such information. It asks whether any officer, director, trustee or key employee received aggregate compensation of more than \$100,000 from the filer and any organization related to the filer of which more than \$10,000 was provided by a related organization. If the filer checks the "Yes" box, it must attach a schedule explaining the payment arrangements.

Some may be interested in learning of the comparative compensation levels paid to various staff members (e.g., top management salaries as compared to those employees working at the lowest salaries). The Form 990 does not provide any direct information on this subject, but some very rough sense of such differences may be gathered by comparing the average salary of the filer's total staff to the salary levels reported at Part V and Part I of Schedule A. A roughly approximate idea of the average compensation of the whole staff can be derived by dividing the sum of Lines 25(A), 26(A), 27(A) and 28(A), which report total compensation paid to staff, by the total number of employees reported on Line 90b. Some insight on this question may also be drawn from the bottom of Part I of Schedule A which asks for the total number of employees paid over \$50,000.

Finally, a reader of the Form 990 may be interested in knowing about any relatively large payments made to those who serve as independent contractors to the filer, such as professional fundraisers or lawyers. Part II of Schedule A (Compensation of the Five Highest paid Independent Contractors for Professional Services) on page 1 of Schedule A requires the filer to list the five highest paid independent contractors (whether individuals or firms) who received over \$50,000 for the year. The Instructions state: "Examples of such

contractors include attorneys, accountants, doctors and professional fundraisers.” A reader of the Form 990 may be interested if some of the payments listed in this part seem high. She may find it significant that attorney fees seemed unusually high. Or she may be influenced by large fees paid to fundraisers.

#7

DID THE FILER INITIATE SOME NEW ACTIVITY, CHANGE ITS PROCESSES FOR GOVERNING OR ENGAGE IN ANY EXCESS BENEFIT TRANSACTIONS?

Line 76 asks in effect whether the filer made any significant changes in the kind of activities it conducts to further its exempt purposes. If the filer answers “Yes” to this question, it must file an attachment with the Form 990 describing any such new activity. A significant change in a filer’s activities will be of prime importance to most readers of the Form 990. There are certain transactions that an organization may engage in with its staff or board members which involve improper payments. They are called excess benefit transactions. As noted in Items #6 and #8, Line 89, among other things, asks whether the filer engaged in any excess benefit transactions during the year being reported on. If the filer answers this question “Yes,” it must attach a statement explaining each such transaction. Information about any improper transactions that the filer may have engaged in should be of interest to any reader of its Form 990.

Finally, Line 90a asks the filer to list all the states in which it files the Form 990. About 35 states now require organizations that solicit contributions within such states to annually file their Form 990 with them. Thus, if a reader of the filer’s Form 990 is interested in the filer’s solicitation activity, the answer to this question will be of interest. As noted above, Line 90b elicits information about the size of the filer’s staff. Line 91 elicits information about who the filer’s books are in care of and how such person may be reached. This will be important to those who may want to find out information about the filer that is not contained in its Form 990.

#8

DID THE FILER ENGAGE IN ANY SELF-DEALING TRANSACTIONS DURING THE YEAR?

The IRS and state charity bureaus are the government agencies that provide general regulatory oversight over the nonprofit and tax-exempt sector. A primary concern of these agencies is to assure that nonprofit organizations are not used by those who control them to improperly transfer their assets to private interests in circumstances in which these assets should have been used to further the exempt purposes of the organizations. An example of such a transaction might be the sale by a board member of property he owns to the nonprofit organization on whose board he sits at a price in excess of its fair market value. Another example might be the furnishing of services to a board member without charge or at a price below their market value.

These transactions may be generally described as self-dealing. (Thus, a board member in effect deals with himself when his board buys from him.) Line 2 of Part III (Statement About Activities) on page 2 of Schedule A elicits information about these transactions. Such transgressions should be of interest not only to government regulators but also to anyone who is concerned about these groups’ well-being or is interested in helping them. Such persons will want to know whether any corrupt practices have occurred. Many of these transactions will be excess benefit transactions under section 4958 of the Code.

In cases where the transaction involves simply the improper transfer of a filer’s assets to individuals for no apparent reason (e.g., looting or quasi-looting), such as the sheer siphoning off of a filer’s funds to an executive director without anyone knowing about it, the

transaction may not be strictly considered an instance of self-dealing. It is, of course, nevertheless improper and such transactions are also picked up by the Line 2 questions. Line 2 asks a series of questions about transactions between the filer and directors, key employees and others who might control the filer, which transactions might be instances of self-dealing or similar transactions. For example, Line 2a asks in effect whether any sale, exchange or leasing of property occurred between the filer and a board member, key employee, etc. There are five such questions (Lines 2a-e). They are to be answered "Yes" or "No." If the answer to any question is "Yes," the filer is required to attach a detailed statement explaining the transactions. Line 2 is set out below:

Part III Statements About Activities		Yes	No
2	During the year, has the organization, either directly or indirectly, engaged in any of the following acts with any of its trustees, directors, officers, creators, key employees, or members of their families, or with any taxable organization with which any such person is affiliated as an officer, director, trustee, majority owner, or principal beneficiary:		
a	Sale, exchange, or leasing of property?		
b	Lending of money or other extension of credit?		
c	Furnishing of goods, services, or facilities?		
d	Payment of compensation (or payment or reimbursement of expenses if more than \$1,000)?		
e	Transfer of any part of its income or assets?		
If the answer to any question is "Yes," attach a detailed statement explaining the transactions.			

Of course, in many instances a self-dealing transaction between a board member, etc., will be for the benefit of the filer. For example, a board member of the filer may sell property to the filer at a price below its fair market value. Thus, just because a Line 2 question is answered "Yes," it does not mean that the filer engaged in an improper act. Before reaching any conclusions about the filer's behavior, a careful reader will review the filer's attachment that relates to the question. It is likely that the transaction will be explained there to the satisfaction of the reader.

If no explanation is provided or if the explanation appears evasive, a red flag may be raised in the reader's mind and she might wish to find out more about the transaction from the filer. If the filer engaged in a self-dealing transaction knowing it was improper, it is unlikely that it would answer the relevant Line 2 question "Yes" for to do so would be tantamount to admitting it had done something improper. In some cases, a reader of the filer's Form 990 may know of a self-dealing transaction from sources outside of the Form 990. If such a reader observes that the filer answered the relevant Line 2 question "No," she will be alerted to a problem and may wish to explore the matter further with the filer.

#9
IS THE FILER A PRIVATE FOUNDATION?

All section 501(c)(3) nonprofits are either private foundations or non-private foundations. The term "private foundation" is a technical term and relates to the kind of nonprofit an organization is and the nature of its support and not to the fact it is a philanthropy. (We will refer to a non-private foundation as a "public charity.") This distinction between private foundation and public charity is important since from a nonprofit's standpoint it is undesirable to be a private foundation. For example, there are some significant limits on making contributions to private foundations, and private foundations are prohibited from doing any lobbying and must pay a small excise tax.

The distinction can also be significant for those who wish to find out about nonprofits. For most section 501(c)(3) nonprofits, the fact that they have qualified as public charities

means that they receive support (mostly financial) from a wide, or at least fairly wide, range of sources and government agencies. And, as suggested earlier, groups that receive financial support from many sources are usually thought well of by many people and this is surely something important to know about a nonprofit that one is evaluating. Furthermore, the fact that many support a group usually means that a good number are to some degree monitoring its activities and this may provide comfort to those considering supporting the organization.

Thus, a reader of the Form 990 may want to know whether the filer is a private foundation or public charity. This information can be found in Schedule A at Part IV on page 2 and Part IV-A on page 3. Part IV asks whether the filer is *not* a private foundation. It provides a number of lines (Lines 5 –13) with brief descriptions of entities, each of which is not a private foundation. The filer is instructed to check the box that applies to it. By reviewing Part IV then one can determine whether the filer is a public charity, and, if so, what kind of public charity it is.

Part IV Reason for Non-Private Foundation Status (See pages 2 through 5 of the instructions.)

The organization is not a private foundation because it is: (Please check only **ONE** applicable box.)

- 5 A church, convention of churches, or association of churches. Section 170(b)(1)(A)(i).
- 6 A school. Section 170(b)(1)(A)(ii). (Also complete Part V, page 5.)
- 7 A hospital or a cooperative hospital service organization. Section 170(b)(1)(A)(iii).
- 8 A Federal, state, or local government or governmental unit. Section 170(b)(1)(A)(v).
- 9 A medical research organization operated in conjunction with a hospital. Section 170(b)(1)(A)(ii). Enter the hospital's name, city, and state ▶
- 10 An organization operated for the benefit of a college or university owned or operated by a governmental unit. Section 170(b)(1)(A)(iv). (Also complete the **Support Schedule** in Part IV-A.)
- 11a An organization that normally receives a substantial part of its support from a governmental unit or from the general public. Section 170(b)(1)(A)(vi). (Also complete the **Support Schedule** in Part IV-A.)
- 11b A community trust. Section 170(b)(1)(A)(vi). (Also complete the **Support Schedule** in Part IV-A.)
- 12 An organization that normally receives: (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its charitable, etc., functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975. See section 509(a)(2). (Also complete the **Support Schedule** in Part IV-A.)
- 13 An organization that is not controlled by any disqualified persons (other than foundation managers) and supports organizations described in: (1) lines 5 through 12 above; or (2) section 501(c)(4), (5), or (6), if they meet the test of section 509(a)(2). (See section 509(a)(3).)

Provide the following information about the supported organizations. (See page 5 of the instructions.)

(a) Name(s) of supported organization(s)	(b) Line number from above

- 14 An organization organized and operated to test for public safety. Section 509(a)(4). (See page 5 of the instructions.)

Generally, there are three types of public charities (i.e., non-private foundations). First, there are those entities which are public charities because of their very nature and which do not have to show a wide base of public support such as churches (Line 5), schools (Line 6) and hospitals (Line 7). Second, there are those groups that are not *per se* public charities but are public charities because they *do* receive broad public support (Lines 11a and 12). Finally, there are those groups that may not receive wide public support but are supporting organizations to groups that are included in the first two categories of public charities (Line 13). (Part IV also lists (Lines 8, 9, 10 and 11b) several other kinds of groups (e.g., a government unit, community trust, etc.) that are not private foundations. Because they are fairly uncommon, to save time we will not cover them. Information can be found about these groups in the Instructions to Part IV.)

Most filers will fall under the second type of public charity, namely, those that receive broad public support. For a group to qualify as a public charity, a fair amount of its support must be "public support." The question of what constitutes public support is quite complicated in its details. For our purposes we need only provide a general idea of what the term means. There are two kinds of public charities that qualify under this category. For one kind (which is described under section 509(a)(2) of the Code), public support includes contributions from individuals, grants for government agencies and exempt function income. (Exempt function income includes such items as tuition or ticket sales). For the other kind (which is described under section 509(a)(1) of the Code), public support includes contributions from individuals and grants from government agencies but not exempt function income. In both cases, for contributions to qualify as public support, they cannot be too large. These rules are elaborated upon in the Expansion.

Part IV-A of Schedule A is where a filer shows the nature and amount of its support. It does so for the past four years. The key line to look at is Line 26f that shows the public support fraction for the past four years. The public support fraction is the percentage of a filer's total support made up by public support. Generally, the public support fraction must be more than a third for a group to qualify as a public charity (although in some cases it can be lower). Obviously, the higher the public support fraction or percentage, the broader the support the filer has received and, consistent with what was said above about the depth of an organization's support, this fraction may be of real interest to the reader of the Form 990. (For those who want to derive more from Part IV-A, the Instructions provide a good guide.)

#10 DOES THE FILER LOBBY?

A number of nonprofit groups advocate for changes in public policy and as part of their advocacy efforts engage in lobbying. The term "lobbying" refers to attempts to influence legislators (or those who work with them) to support or oppose the enactment of some legislation. It may be done by directly contacting legislators (direct lobbying) or by asking others to contact them (grass roots lobbying). Organizations exempt under section 501(c)(3) are permitted to engage in some lobbying, but if they do too much they may jeopardize their tax-exemption. Line 1 of Schedule A's Part III (Statement of Activities) asks whether the filer attempted to influence national, state or local legislation (i.e., did it attempt to lobby). If the filer answers "Yes," it must report the total of expenses incurred in connection with its lobbying activities and complete the relevant section of Part VI of Schedule A.

Thus, if a reader of a filer's Form 990 wanted to know whether the filer engaged in any lobbying, she could find this out by reviewing these parts of Schedule A. There are several reasons why a reader may be interested in learning whether a filer has engaged in lobbying activity. The reader may think, for example, that groups like the filer ought not only to help people but in addition should advocate for changes that will address the problems that caused its clients to need help. Or a reader might have different ideas and believe that groups like the filer ought to stay completely clear of the political process and thus not engage in lobbying activity. In some cases a filer may be a group that advocates for a position or positions with which the reader disagrees. She may then want to know the extent of its lobbying activity.

As suggested, Line 1 to Schedule A's Part III will indicate whether the filer engaged in any lobbying and if so how much it spent on such activities. More can be learned by examining Part VI on page 5 of Schedule A. Organizations complete Part VI-A (Lobbying Expenditures by Electing Public Charities) if they have chosen under section 501(h) to have the question of whether they have engaged in a permissible amount of lobbying decided by how much

they spend on lobbying. Groups who have not so chosen, complete Part VI-B (Lobbying Expenditures by Nonelecting Public Charities). For those filers who have completed Part VI-A, a reader, by examining this part, can learn the total amount the filer spent on lobbying (Line 38) and of this total amount, how much was spent on grassroots lobbying (Line 36) and how much on direct lobbying (Line 37).

As noted, organizations that have not chosen to have the question of whether they have engaged in a permissible amount of lobbying decided by how much they spend on lobbying must complete Part VI-B. By examining this part a reader can learn a fair amount about the filer's lobbying activities including detailed descriptions of such activities. This kind of descriptive information is not required by those who complete Part VI-A. Those who complete Part VI-B also must report a fair amount about their lobbying expenditures. If, as sometimes happens, Part VI is left blank or incomplete or is incorrectly completed, a reader may infer from this that the filer may be trying to hide something or that the filer does not know how to complete Part VI or did not make the effort required to complete it accurately. She may make whatever inferences and draw whatever conclusions she thinks appropriate from any of these findings.

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