



## Introduction

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Here is a new version of “How to Read the IRS Form 990” that is based on the newly redesigned and expanded Form 990 first required for 2008 filings. We will refer to this (relatively) new and expanded Form 990 as “the expanded Form 990” or the “core 990.” This guide is based on the 2010 IRS Form 990. However, it is not uncommon for the IRS to make changes to the 990 as time goes by. We will try, in the future, to amend this document to reflect any such changes.

As you address the expanded Form 990 and its many schedules you are confronted with a lot of paper and a mass of data. You should not get discouraged. There are relatively easy ways of finding much out about the group whose Form 990 you are looking at. You don’t have to be a wizard at analyzing quantitative data. This paper is designed to help you by showing the places you should look to find valuable and interesting information about the organization whose Form 990 you are considering.

We have selected 10 key areas of interest, referred to as Chapter 1, Chapter 2, etc. If you are interested in just one or two specific things, you might wish to go directly to the chapter that covers your topic of interest. Going through all of the chapters, however, will let you gain a pretty comprehensive understanding of the filer whose Form 990 you are considering. There also are four detailed explanations referred to

as “Expansions” offering more explanation on certain aspects of the Form 990.

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.<sup>1</sup>

When thinking about the Form 990, information in it can be divided into three categories, with some overlap.

First, there is factual-type information about such things as basic facts about the filer (Chapter 1), what the filer does (Chapter 2), who its board members are (Chapter 3), whether it is a public charity or private foundation (Chapter 9), and whether it engages in lobbying (Chapter 10). This kind of information is easy to understand and straightforward. All you need to know is where to look for it.

Second, there is a lot of financial information (Chapter 4, 5<sup>2</sup>, 6, and 7). This requires some interpretative skills (how to read financial statements) and this we help you with. This category includes a lot of compensation information about those who work at the filer (Chapter 6) and this is usually of interest to everyone.

Third, there is information about possible abuses (of especial interest to the IRS and state regulators), such as did anyone get paid too much (Chapter 6)<sup>3</sup> or were there any self-dealing transactions

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<sup>1</sup> In this connection, Line 10 of Part VI (Governance, Management, and Disclosure) asks whether a copy of the Form 990 was provided to the board of directors before it was filed. And it directs the filer to describe in Schedule O the process used, if any, by the filer to review the Form 990. See Chapter 3.

<sup>2</sup> While Chapter 5 addresses what the filer spends its money on, and so is of obvious financial interest, this information also tells a lot about the filer generally and so may be thought to be part of the first category.

<sup>3</sup> Much of what Chapter 6 – How Much Do Top Earners Get Paid – refers to has nothing to do with abuses and so is included in the first category. Most salary awards are not unreasonable or excessive and this information is of general interest, so it may be thought to fall under the first category. But, as salary information is

(Chapter 8). Much of the new information elicited by the expanded Form 990 involves matters of interest to regulators. For example, there are questions about former employees and many questions about related organizations. Payments to former employees (see footnote 4 at Chapter 6) and transactions with related organizations can be a way of gaming the system. See Expansion on Related Organization.<sup>4</sup> Some of this information is complicated and may not hold as much interest for the regular reader as it does for regulators. From a regular reader's standpoint, however, there may be indications that something is not quite right and that may be enough. People considering donating to a nonprofit whose Form 990 indicates that there may be a regulatory problem may have second thoughts. Those involved with nonprofits, as say board members, should be aware that these parts of the Form 990 are of great interest to hard-nosed reporters looking for abuse stories.

A little background information on the Form 990. 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 if they have either annual gross receipts of \$200,000 or more or if their total assets at the end of the year are \$500,000 or more.<sup>5</sup> It is an information return and not an income tax return since the organizations that file it do not pay income taxes (except, as explained below, in certain cases an organization may have to pay an "unrelated business income tax"). Filers with gross receipts of less than \$200,000 and assets less than \$500,000 at the end of the year can file either a Form 990-EZ or the Form 990.<sup>6</sup> The Form-EZ is much shorter (only 4 pages) than the Form 990 and is truly easier to compete.<sup>7</sup>

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also of obvious financial interest, it may also be thought to fall under the second category.

<sup>4</sup> We have put this material in an Expansion since we believe that most filers do not have related organizations and so the readers of the Forms 990 of such groups do not need to know about this topic.

<sup>5</sup> For the calendar year 2009 or for filers whose fiscal year begins in 2009, the limits for filing the Form 990 are gross receipts of \$500,000 and total assets of less than \$1,250,000.

<sup>6</sup> For the calendar year 2009 or for filers whose fiscal year begins in 2009, filers may file the Form 990-EZ if their gross receipts are less than \$500,000 and total assets are less than \$1,250,000.

<sup>7</sup> Filers with annual gross receipts of \$50,000 or less must electronically submit a Form 990-N (Electronic Notice (e-postcard) for Tax-Exempt Organizations Not Required to File Form 990 or 990-EZ), if they choose not to file Form 990 or Form 990-EZ.

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 income taxation under section 501(c)(3) of the Code. Generally, organizations are exempt under section 501(c)(3) if they pursue charitable, educational or religious purposes.

Section 501(c)(3) 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.

As suggested, 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.<sup>8</sup>

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. Furthermore, most Forms 990 beginning with the year 1997 are posted on the internet by the National Center for Charitable Statistics at [www.nccs.urban.org](http://www.nccs.urban.org) and by Guidestar at [www.guidestar.org](http://www.guidestar.org). 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.

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<sup>8</sup> In addition, as suggested, the Form 990 provides a great deal of basic factual information (e.g., when the filer was formed, how big its board is, etc.)

We conclude this part of the 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 viewing one Form 990. (As noted above, an organization's Forms 990 for the past three years must be made available 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 the instructions for the Schedules. 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 its Schedules at [www.irs.gov](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 and on facts not reported for that year (e.g., fundraising costs incurred in one year to raise funds in the year in question). 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.

**A**n overview of the structure of the new Form 990.

The expanded Form 990 consists of the core Form 990 (12 pages) which is divided into Parts I through XII, and 18 Schedules of varying lengths. All filers complete the core Form 990 and various schedules depending on their activities. While most small groups will need to complete only one or two schedules, larger groups will have to complete several schedules.

Except for Parts I, IV and VI, the core Form 990 is similar to the old Form 990. Part I (Summary) on page 1 is a summary that contains

some basic information about the filer: a description of what it does (Line 1), the size of the board (Line 3), number of employees (Line 5), total revenue (Line 12) and expenses (Line 19). See Chapter 1 for a fuller description. Part IV (Checklist of Required Schedules), on pages 3 and 4, asks 38 questions about the filer's activities, e.g., did the organization engage in lobbying? (Line 4); did the organization hold an endowment? (Line 10); did the organization maintain an office outside of the U.S.? (Line 14a). If the answers to any of these questions are "Yes," the filer is directed to complete the appropriate schedule which elicits more information on the topic. We will discuss Part IV and the schedules further in the following paragraph. Part VI (Governance, Management, and Disclosure) on page 6, which is largely new, elicits a great deal of information about the filer's governance policies, e.g., does the organization have members? (Line 6); did the organization keep board minutes? (Line 8); does the organization have a written conflict of interest policy? (Line 12a). See Chapter 3.

An organizing theory of the expanded Form 990 is that different organizations conduct different activities (e.g., some maintain collections of works of art (and most don't), some maintain donor advised funds (and most don't), some organizations spend more than \$5,000 on professional fundraising services (and many don't). Part IV asks whether the filer conducted any of a number of activities and if it did, as suggested, it is directed to complete a schedule. Since most groups do not engage in any of these various activities, they are required to fill out only a few schedules (perhaps as few as one). If a quick perusal of Part IV shows that the filer answered "Yes" to only a very few questions, one may conclude that it conducts a pretty simple and straightforward operation.

We will now highlight some of the more significant Part IV questions and corresponding schedules that the reader might be interested in. After a brief description of what each line asks, we put a number in bold that indicates which of the three categories of information described above (**1** for factual, **2** for financial, and **3** for regulatory) the question aims at. In some cases a question will involve two categories of information. After this material we indicate in which of the ten chapters set out below the topic raised by the question is addressed.

Part IV, Line 1 asks in effect whether the filer is a public charity and if so directs the filer to complete Schedule A. **1 & 3**. See Chapter 9.

Line 4 asks whether the filer engaged in lobbying and if so directs the filer to complete Schedule C, Part II. **1 & 3.** See Chapter 10.

Line 10 asks about the filer's endowments and if it holds endowments directs the filer to complete Schedule D, Part V. **2.** See Chapter 7 and Expansion on Endowments.

Line 11 asks whether the filer held certain kinds of assets (land, building and equipment, investments other than securities and other assets) and if so directs the filer to complete parts of Schedule D. **2.** See Chapter 7.

Line 12 asks whether the filer received an audited financial statement for the year in question and if so directs the filer to complete parts of Schedule D. **2.** See Chapter 3 (footnote 1).

Lines 14 - 16 asks whether filer had involvements abroad and if so directs the filer to complete various parts of Schedule F. **1 & 3.** See Chapter 1.

Line 23 asks whether certain individuals connected with the filer were paid more than \$150,000 and if so directs the filer to complete parts of Schedule J.<sup>9</sup> **2 & 3.** See Chapter 6.

Lines 25 - 28 asks whether any self-dealing or other questionable transactions occurred between the filer and various people close to the filer and if so directs the filer to complete various parts of Schedule L. **3.** See Chapter 8.

Line 31 asks whether the filer liquidated, terminated, dissolved or ceased any of its operations and if so directs the filer to complete Schedule N, Part I. **1.** See Chapter 3.

Line 32 asks whether the filer sold, exchanged, disposed of or transferred more than 25% of its assets and if so directs the filer to complete Schedule N, Part II. **2.** See Chapter 3.

Line 33 - 37 asks about the filer's involvements with related organizations, and if it had any, directs the filer to complete various parts of Schedule R. **3.** Related organizations are referred

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<sup>9</sup> This question also elicits information about payments to former officers, directors and key employees (see Chapter 6) and whether certain persons received compensation from unrelated organizations for services rendered to the filer.

to time and again in the expanded Form 990. This reflects a regulatory concern of the IRS, namely, that related organizations may be used in improper ways. See Expansion on Related Organizations.

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The **Nonprofit Coordinating Committee of New York, Inc.**, (NPCC) is the voice and information source for New York nonprofits. Established in 1984, NPCC informs and connects nonprofit leaders, saves nonprofits money, and strengthens the nonprofit sector's relations with government. NPCC publishes a monthly newsletter, *New York Nonprofits*, offers workshops and roundtables on management issues, provides cost-saving vendor services, manages a Government Relations Committee that works on sector-wide government and legislative issues, and maintains a website loaded with information on operating a nonprofit. NPCC has more than 1,700 dues-paying members in the New York City area.