

Digging into Nonprofits: IRS Form 990

Ronald Campbell
The Orange County Register
714-796-5030
rcampbell@ocregister.com

I love IRS Form 990. I confess this reluctantly. Accountants will tell you that the 990 is poorly designed, incomplete, even misleading. All true. I love it anyway. The 990, like democracy, is very bad but much better than the alternatives. Here is an abridged reader's guide to the nonprofit form that everyone but me loves to hate.

First some basics:

1. Every IRS-recognized nonprofit making more than \$200,000 a year is supposed to file a 990. (Charities making between \$50,000 and \$200,000 are supposed to file the 990-EZ, and even the ones making less than \$50k are supposed to send the IRS an annual postcard saying, in essence, "We still exist.") But note the weasel words "*IRS-recognized*." Churches aren't required to seek IRS recognition or file a 990.
2. Nonprofits are supposed to file 4-1/2 months after the close of the fiscal year (May 15 for charities using the calendar year), but they can get an automatic 90-day extension (to Aug. 15 for the calendar year crowd) and, by filing a simple form, an additional 90-day extension (to Nov. 15 for calendar year filers). Many do just that. As a result, the information on the 990 may be nearly a year old by the time you get it.
3. Nonprofits must give you their last three years' 990s. Repeat: must. You'll find all the details on page 58 of that torrid bestseller, "Instructions for Form 990 Return of Organization Exempt from Income Tax," available at the IRS website.
4. 990s aren't always accurate. I've heard estimates that 80 percent of all 990s have some flaws — usually minor flaws like failing to check all the boxes, but sometimes major holes, particularly on the schedules listing top officers' salaries. My beloved 990 has flaws because its daddy, the IRS, just doesn't care; the IRS audits less than 1 percent of all 990s.
5. The second best website on the entire World Wide Web is www.guidestar.org. If you don't know why, register for free and start downloading 990s to your heart's content. (Sorry, GuideStar. I love you, but I love www.census.gov more. I can't help it; call me superficial, but Census has bigger numbers.)
6. There are charities, and then there are private foundations. Foundations get their money from, and are the personal playthings of, the wealthy. Think Bill and Melinda Gates. You don't have to be super-rich to start a foundation; some families who can barely scrape together \$5 million have a foundation.

Foundations report their finances on the 990-PF. Though the two forms are quite different, if you know how to read a 990 you'll do just fine when you encounter a 990-PF.

As a general rule, you should review the last three to five years' 990s before you write about a charity. The IRS heavily revised the 2008 990, which most charities filed in 2009. The description that follows lists items in the order they appear on the 2008 990 followed, in italics, by their location on older forms.

Page 1: Who are these guys?

Line A: The fiscal year, if different from the calendar year.

Line B: Watch for check marks indicating if this is an initial return, amended return or termination (going out of business) return.

Line I (was Line J): This tells you what type of nonprofit the group is. Most nonprofits are 501(c)3's; donations to them are tax-deductible. But occasionally you'll find a 501(c)4 accepting donations — raising a question whether donors know their contribution is nondeductible. See Page 5, Line 6.

Lines 1 thru 7: The newly added organizational summary lists the mission, information about the board and number of employees and volunteers. Useful background for a story.

Page 1: Where the money is

Lines 8 thru 12 (was 1 thru 12): These lines tell where most nonprofits make most of their money — donations and grants (Line 8), program service revenue like hospital bills or college tuition (Line 9) and investments (Line 10). There is more detail in Part VIII, the revenue statement, on page 9. The "prior year" and "current year" columns make big year-to-year changes obvious.

Lines 13 thru 18 (was 13 thru 17): How they spent it. For more detail, see page 10.

Lines 19 thru 22 (was 18 thru 21): It's a misconception that charities aren't supposed to make money. If they don't make money, they die. These lines tell you whether the charity made money last year (Line 19) and whether its assets and liabilities are growing or shrinking.

Page 2: Where the money goes

The statement of program service accomplishments has been promoted from Page 3 and lengthened. Maybe, just maybe, nonprofits will take advantage of the extra space to better explain what they're doing with the public's money. One potentially useful change is the addition of activity codes; while not yet required, those codes eventually could make it much easier for reporters and academic researchers to compare nonprofits' spending on common activities such as scholarships.

Pages 3 and 4: The kitchen sink

Look for "Yes" answers on these pages; in virtually every case, a "Yes" means the nonprofit must file an extra schedule. If the topic is even marginally

interesting, make sure you get that schedule. My personal favorite is Line 25, which deals with “excess benefit transactions to disqualified individuals” – translation: unconscionably large payments to insiders.

Pages 5 and 6: Catchall

Over the past two decades, all manner of nonprofits have been caught behaving badly. On these two pages the IRS asks, in effect, did you do anything that would raise the hackles of a reporter or congressional committee?

Page 5 deals with tax compliance issues. You will probably never see a “Yes” answer to Line 5a, “Was the organization a party to a prohibited tax shelter transaction?”, but it’s fun to imagine. Line 6 (formerly Line 84 on Page 7) spotlights groups that receive non-deductible contributions and asks if the group warned donors they couldn’t deduct donations from their taxes.

Page 6 (formerly portions of pages 6 and 7) asks about the group’s management and policies. This page is a response to several insider scandals. Line 2 asks about family and business relationships among insiders. Line 5 asks about embezzlements. Line 15 asks about the process for determining the top muckety-mucks’ pay. Line 17, state filings (formerly Line 90): Most states require charities soliciting money inside their borders to file a copy of the 990 there. This line tells you how widespread a charity’s activities are.

Pages 7 and 8: Who gets the big bucks

Ah, the good part!

Before wallowing in money, let me just point out that many nonprofits are large, complex organizations with hundreds, even thousands of employees and volunteers. (See Lines 5 and 6 on Page 1.) Large nonprofits won’t find good executives in the unemployment line or (usually) among their volunteers. So here are two good questions to ask: How well does a particular organization pay compared with similar organizations? And how well does a particular executive’s compensation match his or her performance or (if new on the job) the challenges he or she must overcome?

This section is also a great source of information about the people who really run your community: the movers and shakers that high-profile charities such as universities and art museums routinely recruit for their boards. The nonprofits want to lure people with money and prestige inside; for their part, potential board members want the chance to rub elbows (and make deals) with other prominent people. This section is thus one of the best ways to document high-powered networking.

Part VII, Section A (formerly Part V-A on Page 5 and Part V-B on Page 6, and Schedule A, Part I) summarizes compensation to all of a nonprofit’s officers, directors and trustees, plus the five best-paid employees who made more than \$100,000 in the past year. If someone was paid to leave, it will show up here.

Part VII, Section B (formerly Schedule A, Part II) lists the top five independent contractors, a description of their service and their total compensation.

Depending on the nonprofit, this list may include attorneys, investment managers or football coaches.

Page 9: Where the money comes from

Lines 1 thru 12 (formerly Page 1, Lines 1 thru 12) detail how the group raises money. Lines 1 and 2 (contributions and program service revenues) are particularly helpful for understanding a group's finances; you can see at a glance whether a nonprofit raises more money from dues (Line 1b) or from donations (Line 1f). Line 8 is devoted to fundraising events, the sort of stuff that used to dominate newspaper society pages back in the day when newspapers still had society pages and we still had newspapers. Many fundraising events make little or no money; I've heard them justified as "friendraising" events, designed to build long-term relationships with potential donors.

Page 10: Where the money goes

Part IX Functional Expenses (formerly Page 2): First the bad news. This section is easily manipulated. And we journalists are partly to blame by insisting that fundraising is bad and programs are good. So the accountants have devised rules to let nonprofits shift costs from the bad side of the ledger (fundraising) to the good side (programs).

The "Lake Wobegon effect" also plays a part here. Nonprofits pay attention to their peers and want to make sure that their program service ratio (programs divided by total expenditures) is above average.

Now for the good news. This wildly deceptive section used to be on Page 2, where editors and other innocents could see it. Now you actually have to leaf through several pages for the chance to be misled.

Many nonprofits pretend they have no fundraising costs. Several years ago, I crunched some numbers from GuideStar and concluded that in 2003 94,000 charities had somehow raised \$21 billion without spending a penny on fundraising. Imagine waves of envelopes flying into a nonprofit's office, opening themselves, plucking out checks, endorsing and depositing them and sending thank-you letters to the donors, all without any effort on the charity's part. If only writing stories were that easy.

Lines 1 thru 3, grants and gifts (formerly Lines 22 and 23): This is a traditional benchmark for charities —gifts to needy individuals and groups. It's always useful to check these numbers against a charity's public promises. Line 3 is a new entry, detailing gifts outside the U.S.

Lines 5 thru 7, officers' and employees' pay (formerly Lines 25 and 26): Source of a thousand stories. See Pages 7 and 8 for the gory details.

Line 11e, professional fundraising fees (formerly Line 30): Another hot button.

Line 24, other expenses (formerly Line 43): Many charities add up a bunch of items and stick them here. Watch for the words "See Statement x." It means you have to thumb to the back of the 990, find Statement x, and see where the money really went.

Joint costs: This is where charities are supposed to tell you how much money they spent on fundraising but listed as program expenses. Note the words "supposed to."

Page 11: Balance sheet

This section is the detail behind Lines 20 and 21 on page 1 — assets and liabilities at the beginning and end of the fiscal year. A big swing in any of these numbers is potentially a story.

The balance sheet isn't as sexy as income and spending, but any accountant will tell you it's vital. The first great charity expose — the Sun Newspapers of Omaha's 1972 takedown of Boy's Town — revolved around the reporters' discovery that Boy's Town was sitting on a mountain of money while crying poverty. The reporters got help reading the 990s from the Sun Newspapers' owner, a then-obscure investor named Warren Buffett.

Line 3, pledges receivable (formerly Line 48): Always worth checking. This tells you how much money they've been promised.

Lines 5 and 6, receivables from the bosses (formerly Line 50): If a charity is loaning money to its key people, you'll find the loan here.

Line 11 thru 13, investments (formerly Line 54): Small charities often live a hand-to-mouth existence. But bigger charities and virtually all private foundations have extensive investments. It's always a good idea to ask how and where charities are investing their money. Charities are under a lot of pressure to make "socially responsible" investments. At the same time, if they lose money on their investments, the public ultimately loses too.

Lines 27 thru 29 (formerly Lines 67 thru 69): Nonprofits typically get three kinds of donations — unrestricted money that they can use for any purpose (Line 27); restricted donations earmarked for a particular purpose, which remain "temporarily restricted" until they're spent for that purpose (Line 28); and endowments, known in accounting-speak as permanently restricted funds because only the interest can be spent (Line 29). A charity might have a bunch of money that it can't spend.

Schedule A: A shell of its former self

Schedule A used to be my favorite part of the 990, since it listed compensation for officers, directors, key employees and consultants. Over the last five years the IRS has been gradually stuffing all those juicy numbers into the main form. That leaves Schedule A with, two purposes. First, it establishes whether a group really is a "public charity" or if it must operate under the more restrictive rules governing a private foundation, which must spend a small percentage of its assets every year. Second, it contains a five-year analysis of public support; this is actually a pretty valuable snapshot of a charity's financial history.

Schedule B: I'm a giver, not a taker

This schedule is public but rarely filed and scarcely worth trying to get. It lists everyone who gave the charity \$5,000 or 2 percent of total donations (Line 1), whichever is greater. Now for the "but." The IRS lets nonprofits withhold donors' names. So all you're left with is the amount of each big donation and whether it was a personal (cash) or non-cash donation. But even that threadbare disclosure can be useful. It will tell you at a glance just how big the organization's top tier donations are.

Some of the secrecy is just silly. Major nonprofits like hospitals, universities and museums routinely honor big donors by placing their names on walls, paving stones and above the main entrance. Many nonprofits also have donor recognition programs. If you're interested in a particular "platinum donor," the nonprofit probably won't tell you how much he gave, but they'll be happy to tell you what the minimum donation is to become a platinum donor.

Other useful schedules:

First, remember way back on page 3, the checklist of required schedules? Here are some keepers:

- *D: Supplemental financial statements.* Includes an accounting of endowment funds and unusual assets such as art, plus a reconciliation of the 990 to the nonprofit's audited financial statements. The endowment detail is particularly useful for large nonprofits.
- *G: Supplemental information regarding fundraising or gaming activities.* How much they raised and spent on their biggest fundraising events.
- *I: Grants and other assistance to organizations, governments and individuals in the U.S.* What they actually did to fulfill a major purpose for many nonprofits.
- *J: Compensation information.* Not just who made how much, but the form the compensation took – base pay, bonus, deferred compensation, nontaxable benefits, all neatly laid out in a table. They even add it up for you.
- *K: Supplemental information on tax-exempt bonds.* This might be my favorite schedule, because it opens the door to a whole new world of information – the world of municipal bonds. During the 1990s and the noughts, many large nonprofits took advantage of historically low interest rates and cooperative state governments to borrow money from Wall Street. To get the money, the nonprofits had to publish official statements – sales documents filled with authoritative financial details. Thanks to Schedule K, you can confirm that a nonprofit has bonds outstanding and even get the CUSIP number, sort of a bond market license plate. Next stop is EMMA, the online database of the Municipal Securities Rulemaking Board (emma.msrb.org). Click on "Advanced Search", type in the CUSIP and, if the bond was issued within the past few years, you'll see a link to a downloadable copy of the official statement. It gets better: Beginning July 1, 2009, EMMA began posting "continuing disclosure documents." As a result, some nonprofits are now disclosing their audited financial statements publicly through EMMA – and doing so months before they file their 990s.
- *L: Transactions with interested persons.* "Interested" as in the opposite of "disinterested." Could be retitled, "Hey, reporter! Come look at me!"