



Here is a new version of "How to Read the IRS Form 990" that is based on the newly redesigned and expanded Form 990 that was 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" or the "990 proper." This guide, based on the 2010 IRS Form 990, was written by Peter Swords, former executive director of the Nonprofit Coordinating Committee of New York (NPCC). The first version of this paper covering the Form 990 before its 2008 expansion was prepared with the assistance of Victoria Bjorklund of Simpson Thacher & Bartlett and Jon Small, former executive director of NPCC. It was supported by a grant from the Ford Foundation. It can be accessed [here](#).

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 show you the places to look at to find valuable and interesting information about the organization whose Form 990 you are studying.

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. Each chapter below will open as a PDF in its own window so you don't have to print out the entire document. You can return to this page by clicking on the red icon at the beginning of each chapter. We also provide a link to the IRS Form 990 which may be useful to have while reading.

How to Read the New IRS Form 990: Introduction

Chapter 1: Basic Facts about the Filer

Chapter 2: What Kind of Programs Does the Filer Run and How Much Does It Spend on Them?

Chapter 3: Who are the Filer's Board Members and How Does

the filer Govern Itself? Did the Filer Change in Any Significant Way During the Year?

Chapter 4: How Much Income Did the Filer Receive and from What Sources?

Chapter 5: What Did the Filer Spend its Money On?

Chapter 6: How Much Do Top Earners Get Paid and Salary Information

Chapter 7: What Can You Tell from Net Assets?

Chapter 8: Did the Filer Engage in any Self-Dealing or Excess Benefit Transactions During the Year?

Chapter 9: Is the Filer a Public Charity or Private Foundation?

Chapter 10: Does the Filer Lobby and About the 501(h) Election

Expansion: Section 4958: The "Intermediate Sanctions" Rule

Expansion: Endowments

Expansion: Part VIII (Statement of Revenue)

Expansion: Related Organizations

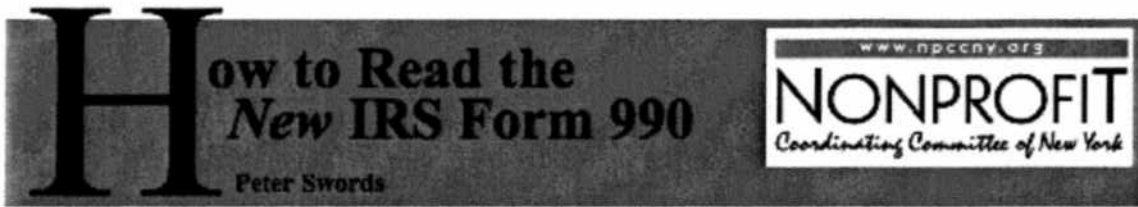
[Link to IRS Form 990](#)

Copyright © 2011 Nonprofit Coordinating Committee of New York, Inc.

All are welcome to link to this page (www.npccny.org/new990/new990.htm) or to photocopy this guide for unpaid distribution.

However, no part of this document may be reproduced either online or in print without the express permission of the Nonprofit Coordinating Committee of New York.

Nonprofit Coordinating Committee of New York
135 West 36th Street, 15th Floor, New York, NY 10018
phone: 212-502-4191 www.npccny.org



Chapter 1

Basic Facts about the Filer

At the top of page 1 of the Form 990 several basic facts about the filer are reported.

Form 990 Department of the Treasury Internal Revenue Service	Return of Organization Exempt From Income Tax Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation) ▶ The organization may have to use a copy of this return to satisfy state reporting requirements.	OMB No. 1545-0047 <div style="border: 1px solid black; padding: 5px; text-align: center;"> 2010 Open to Public Inspection </div>
A For the 2010 calendar year, or tax year beginning _____, 2010, and ending _____, 20		
B Check if applicable: <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Terminated <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	C Name of organization Doing Business As Number and street (or P.O. box if mail is not delivered to street address) Room/suite City or town, state or country, and ZIP + 4 F Name and address of principal officer:	D Employer identification number E Telephone number G Gross receipts \$
I Tax-exempt status: <input type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) () ◀ (insert no.) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527		H(a) Is this a group return for affiliates? <input type="checkbox"/> Yes <input type="checkbox"/> No H(b) Are all affiliates included? <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach a list. (see instructions) H(c) Group exemption number ▶
J Website: ▶		
K Form of organization: <input type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶		L Year of formation: _____
		M State of legal domicile: _____

At Line C you can find out its official name and address. Line E reports its telephone number and Line F the name and address of its principal officer. The Instructions state that the term 'principal officer' "means a person who, regardless of title, has ultimate responsibility for implementing the decisions of the organization's governing body [board], or for supervising the management, administration, and operation of the organization." In most cases this would be the filer's executive director. Line J provides the URL for the filer's website. Line L reports the year of the filer's formation so you can tell how many years it has been in existence. If the filer is on the calendar year, Line A indicates that fact and, if not, it indicates its tax (fiscal) year, showing the date of its beginning and ending.¹

¹ In prior years before the expansion, at the top of the first page of the Form 990 there was a line where the filer was asked to indicate what accounting method it used (e.g., cash or accrual). This information is now elicited at Part XII of the core Form 990 on page 12. Line 1 of Part XII asks whether the filer used the cash, accrual or some other method of accounting. Line 2 asks about the filer's financial statements. Line 2a asks whether the filer's financial statements were compiled or reviewed by an independent accountant and Line 2b asks whether they were audited by an independent accountant. (Compiled financial

Line K tells you whether the filer is a corporation or trust or some other type of organization. Line I indicates its tax status such as whether the filer is a 501(c)(3) – a charity – or a 501(c)(6) – trade association, etc. Line M reports on the legal domicile of the filer. For a nonprofit corporation the state in which it was incorporated would be its legal domicile. For a trust it would be the state whose laws govern its internal affairs. If the filer is part of a group return this would be reported at Line H. Line D provides the filer’s employer identification number. Line G reports the filer’s gross receipts. Gross receipts are the total amounts the filer receives from all sources during its fiscal year without subtracting any costs of expenses. This value is used for determining whether the filer can file the short-form Form 990-EZ. (Generally it can use the Form 990-EZ if it receives \$200,000 or less of gross receipts and has total assets of less than \$500,000). Tax-exempt nonprofits with gross receipts of \$25,000 or less need only submit Form 990-N, Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or 990-EZ.

Part I is a summary of information found elsewhere in the Form 990 to give the reader a snapshot of the filer.

Part I		Summary	
Activities & Governance	1	Briefly describe the organization’s mission or most significant activities:	
	2	Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets.	
	3	Number of voting members of the governing body (Part VI, line 1a)	3
	4	Number of independent voting members of the governing body (Part VI, line 1b)	4
	5	Total number of individuals employed in calendar year 2010 (Part V, line 2a)	5
	6	Total number of volunteers (estimate if necessary)	6
	7a	Total unrelated business revenue from Part VIII, column (C), line 12	7a
	b	Net unrelated business taxable income from Form 990-T, line 34	7b

On Line 1 of Part I (Summary) on page 1 the filer is instructed to describe the filer’s mission or its most significant activities, so here you can find out right away generally what the filer does. Line 3 reports the filer’s number of board members and Line 5 its number of employees (a rough proxy of size).

statements are statements that have been prepared by the management of the filer and have not been reviewed or audited by an independent accountant. Financial statements that have been reviewed by an independent accountant are statements that have been assessed to see whether they are plausible without the extensive testing and external validation procedures used in an audit by an independent accountant.) Line 2c asks in effect whether the filer had an audit committee.

How big is the filer?

Part I is divided into four sub-parts: "Activities and Governance," "Revenue," "Expenses," and "Net Assets or Fund Balances." The Revenue sub-part reports a filer's total revenue at Line 12 (Total revenue). 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. However, 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, from a non-accounting perspective, not attributable to the year. Revenue is discussed in some detail in Chapter 4. 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 18 (Total expenses) in the Expenses subpart just below the Revenue subpart.

		Prior Year	Current Year
Revenue	8	Contributions and grants (Part VIII, line 1h)	
	9	Program service revenue (Part VIII, line 2g)	
	10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	
	11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	
	12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	
Expenses	13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)	
	14	Benefits paid to or for members (Part IX, column (A), line 4)	
	15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	
	16a	Professional fundraising fees (Part IX, column (A), line 11e)	
	b	Total fundraising expenses (Part IX, column (D), line 25) ►	
	17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24f)	
	18	Total expenses. Add lines 13–17 (must equal Part IX, column (A), line 25)	
	19	Revenue less expenses. Subtract line 18 from line 12	

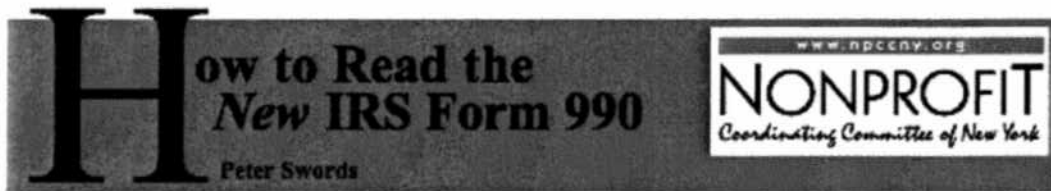
When considering size, you might also look above at Line 5 in the Activities & Governance subpart, which indicates how many employees the filer engages. (The following line (Line 6) reports on the number of people who volunteer with the filer.) Also an indication of size may be garnered from Line 2 of Part VII (page 8) which asks the filer to report the number of individuals who received more than \$100,000 in reportable compensation² from the filer.

Does the Filer Operate Abroad?

Part IV Questions 14-16 on page 3 ask whether the filer carried on any activities abroad (e.g. maintained an office outside the U.S. (Question 14a) or incurred expenses outside of the U. S. (Question 14b)). Question 15 asks

² Reportable income is the income an employee receives that is reportable on his or her W-2.

whether the filer made any grants to organizations located outside of the U.S. Question 16 asks whether the filer made any grants to individuals located outside of the U.S. If the filer answers any of these questions "Yes," it is required to complete Schedule F where it provides somewhat detailed information about these activities. If a reader is concerned about activities the filer may be carrying on in foreign countries, Schedule F is the place to look at.



Chapter 2

What Kinds of Programs Does the Filer Run and How Much Does It Spend on Them?

Part III (Statement of Program Service Accomplishments) on page 2 of the Form 990 elicits information on what a filer does. At Line 1 the filer is asked to set out its mission as articulated in its mission statement or as otherwise adopted by the board. If the filer does not have a board-adopted mission, it is directed to put "None." The lack of any adopted statement of purpose might be considered notable. Line 2 asks whether the filer undertook any significant program services during the year which were not listed on its prior Form 990. If the answer is "Yes," the filer is directed to describe these new services in Schedule O. Line 3 asks whether during the year the filer ceased conducting any program or whether it made any significant changes in how it conducts any program. If the answer is "Yes," the filer is directed to describe these changes in Schedule O. If either 2 or 3 (or both) are answered "Yes," the reader may want to learn about the new services or changes and should consult Schedule O.

Schedule O is in effect a blank page (with no line numbers) on which the filer can provide narrative information in response to specific questions on the Form 990.¹

The filer is asked to describe the achievements of its three largest (by total expenses) program service activities on Lines 4 a, b and c. A program service activity is an activity that accomplishes the filer's exempt purpose. The Instructions direct the filer to describe each program's achievements through specific measurements such as number of clients served or days of care provided. If the output of an

¹ There are a number of places in the Form 990 that call for narrative responses. Schedule O is where these are given. For example, in addition to Lines 2 and 3 of Part III referred to above, Line 15 of Section B of Part VI (Governance, Management, and Disclosure) asks whether the process followed by the filer in setting the compensation of certain key employees (e.g., the executive director) included a review and approval by independent persons of comparability data, and if so, the filer is asked to describe the process in Schedule O.

activity is intangible, the filer is instructed to describe the activity's objective for both the tax year and its longer-term goals. A good number of lines are provided on which the narrative description can be made and the filer is given the option to extend the description in Schedule O. Line 4d elicits aggregate expense, etc., information for all other program service activities and directs the filer to list such other program service activities in Schedule O. On the top of each Line 4a, b and c, at the left the filer must report the total expenses for each such program. In the middle of the top line the filer is required to break out of the total of expenses the amount spent on grants. At the right of the top line, the filer is required to report the amount of revenue the program earned, such as fees for services.² At the bottom of the page at Line 4e the total of all the totals of program service activity expenses is reported. This number must equal the number reported at Line 25, column (B) of Part IX (Statement of Functional Expenses) on page 10.

Part III **Statement of Program Service Accomplishments**
 Check if Schedule O contains a response to any question in this Part III

1 Briefly describe the organization's mission:

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? Yes No
 If "Yes," describe these new services on Schedule O.

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? Yes No
 If "Yes," describe these changes on Schedule O.

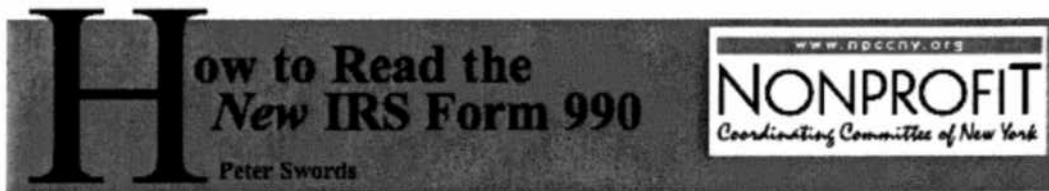
4 Describe the exempt purpose achievements for each of the organization's three largest program services by expenses. Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.

4a (Code: _____) (Expenses \$ _____ including grants of \$ _____) (Revenue \$ _____)

4b (Code: _____) (Expenses \$ _____ including grants of \$ _____) (Revenue \$ _____)

² The amount reported here includes the amount reported as program service revenue at Line 2, column (A) of Part VIII (Statement of Revenue) and (what will rarely be the case) other amounts included in Part VIII (Lines 3-11) that consist of exempt function income. Also included would be unrelated business income from a business that exploits an exempt function, such as advertising income in a journal. See Chapter 4.

A careful filer, in describing its programs' achievements, 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.



Chapter 3

Who are the Filer's Board Members and How Does the Filer Govern Itself? Did the Filer Change in Any Significant Way During the Year?

Board Members & Governance

On pages 7 and 8 of the Form 990 core, Part VII (Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees and Independent Contractors) Section A (Officers, Directors, Trustees, Key Employees and Highest Compensated Employees), there is listed, along with a lot of other information which we will consider in Chapter 6, the names of each board member.

Form 990 (2010) Page 7

Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors
 Check if Schedule D contains a response to any question in this Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

1a Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.

- List all of the organization's current officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation. Enter -0- in columns (D), (E), and (F) if no compensation was paid.
- List all of the organization's current key employees, if any. See instructions for definition of "key employee."
- List the organization's five current highest compensated employees (other than an officer, director, trustee, or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations.
- List all of the organization's former officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.
- List all of the organization's former directors or trustees that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations.

List persons in the following order: individual trustees or directors; institutional trustees; officers; key employees; highest compensated employees; and former such persons.

Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee.

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule D)	(C) Position (check all that apply)					(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee			
(1)									
(2)									
(3)									
(4)									

One can identify a board member among the many individuals listed in Section A by looking at the first sub-column (Individual trustee or director) of column C. If there is a check next to the name of the individual listed (column A) that person is a board member. (Line 9 of Part VI of the Form 990 proper on page 6 requires for board members who cannot be reached at the filer's mailing address that their addresses be provided in Schedule O.) 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.

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 VI (Governance, Management, and Disclosure) on page 6 of the Form 990 proper elicits new information about governance, much of which may be of interest.¹ We will cover what seems of most interest.

Section A (Governing Body and Management) of Part VI on page 6:

Line 1a asks for the number of voting members of the governing body (i.e., the board). Usually, all board members are voting board members so the number will be the same as the number listed at Section A Part VII. If it is different, why it is different maybe something that the reader might like to find out about.

Line 1b asks for the number of voting members who are independent. Generally, independent board members are those who

¹Whether or not a filer has an audit committee is an important item of governance information that is not elicited at Part VI but is at Line 2c of Part XII on page 12. Among other things, an audit committee selects an independent auditor (accountant) to audit the filer's financial statements and meets with the auditor to review the audited financial statements to discuss the adequacy of the filer's internal control procedures.

are not paid as employees or independent contractors or those who have not engaged in self-interested transactions with the filer. Usually nearly all board members are independent. The reader might understandably see a red flag if the number of non-independent board members (Line 1a minus Line 1b) is high.

Line 2 asks whether any board member has a family or business relationship with any other board member or key employee. If the answer is "Yes," perhaps further inquiry may be appropriate. See Chapter 8.

Line 3 asks whether the filer delegated any of its management duties (duties usually performed by the board or key employees) to a management company or other person. If the answer is "Yes," perhaps further inquiry may be appropriate.

Lines 6 and 7 ask whether the filer has members and what their function is. We believe that most nonprofits are not membership groups, but many are. Members typically elect the board and it may well be considered that membership nonprofits are accountable to a broader group of persons than non-membership nonprofits where accountability rests solely with the board.

Line 8 asks in effect whether the board makes and keeps minutes of its meetings. If the answer is "No," the reader might understandably be given pause.

Section B (Policies) of Part VI asks about policies that the filer might or might not have, such as a conflict of interest policy or a whistleblower policy. Interestingly, Line 15 of Part B asks whether the process the filer used in determining the compensation for certain employees (e.g., the executive director and top management officials) included a review of comparability data and an approval by independent persons that was contemporaneously substantiated. This relates to the rebuttable procedure employed to better position an organization faced with a potential section 4958 excess benefit transaction claim. See Expansion on section 4958. If the filer answers Line 15 "Yes," it is directed to describe the process in Schedule O, including the identity of the persons whose compensation was determined by using the process.

Section C (Disclosure) of Part VI at Line 17 asks for a list of the states which require the filer to file a copy of the Form 990. It is usually the case that states require the Form 990 when nonprofits solicit

contributions in their state. So the answer to this question may provide some idea of how extensive the filer's fundraising efforts are. The Internal Revenue Code mandates that nonprofits make their Forms 990 and Form 1023 (which they used to apply for a section 501(c)(3) tax exemption) available to the public. Line 18 asks whether the filer satisfies this requirement by posting the documents on its website, another's website or whether it supplies them on request. This is useful information for the reader who wants to find out more about the filer. Line 19 directs the filer to describe in Schedule O whether it makes its governing documents (bylaws, etc.) conflict of interest statement and financial statements (whether or not audited) available to the public and if so, how. Again learning how to access these documents may provide useful information for the reader.

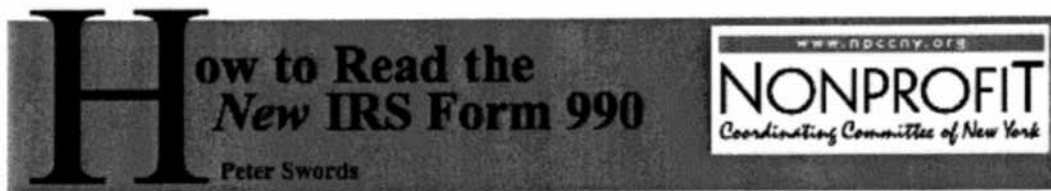
Significant Organizational Changes

Line 2, Part III on page 2 of the 990 (discussed at Chapter 2) asks whether the filer undertook any significant program services that were not listed on its previous Form 990, and Line 3 asks whether the filer ceased conducting any program services or made any significant changes in how it conducts any program services. If the answer to either of these questions is "Yes," the filer is directed to describe the changes in Schedule O. A significant change in a filer's activities will be of prime importance to most readers of the Form 990.

Line 31 of Part IV, page 4, 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. Line 32 of Part IV 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. Either of these changes (liquidation or sales) might be of interest to the reader.

Line 4 of Section A, Part VI on page 6 asks whether the filer made any significant changes to its organizational documents since its prior Form 990 was filed. This would include amending a filer's certificate of incorporation to allow it to engage in a new activity or a change in the filer's bylaws (e.g., changing the number of board members or the quorum requirements). Again, modifications in how an organization governs itself, reflected in significant changes in its organizational documents, may signal an important change in the nature of the organization or perhaps some internal conflict that the reader of the filer's Form 990 may want to find out about.

Finally, Line 5 of Section A, Part VI asks whether the filer became aware during the year of any material diversion of its assets, even if such a diversion occurred in a previous year. Such a diversion would be a significant change that the reader may want to know more about. A diversion of assets "includes any unauthorized conversion or use of the organization's assets other than for the organization's authorized purposes, including but not limited to embezzlement or theft." If checked "Yes," the filer is to complete Schedule O.



Chapter 4

How Much Income Did the Filer Receive and from What Sources

Amount and relevance of income

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 about its ability to continue its operations. Part I's Revenue subpart (on page 1 of the 990) contains overview financial information that can help you with this quest. (Keep in mind that revenue is broken down into many more types of income than are reported in the Revenue subpart of Part I. This more detailed breakdown of income is reported in Part VIII (Statement of Revenue) found on page 9. See Expansion on Part VIII.

Generally, Line 12 of Part I on page 1 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 several years and 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 each ensuing year, you might conclude its ability to generate income is growing stronger. A contrary conclusion may be reached if its total revenue decreases for each ensuing year. An advantage of the expanded Form 990 is that the Revenue subpart reports revenue for both the prior year (in the first column) and the current year (in the second column). These observations about the filer's future financial viability assume that its annual revenue exceeds its expenses. This can be roughly confirmed by looking at Line 19 (Revenue less expenses).¹ As noted in the Introduction, these possible interpretations may or may not be

¹ As explained in Chapter 7, a better way of determining whether the filer is running annual operating surpluses or deficits is to look at Line 27 (Unrestricted net assets) on Part X (Balance Sheet) on page 11. By subtracting the amount reported on Line 27 column (A) from the amount reported on Line 27 column (B), you can determine whether the filer ran a surplus or deficit for the year without the distorting effect of such things as multi-year gifts or the release of temporarily restricted assets.

appropriate to the actual situation of a particular filer. You may need to know a great deal more about the filer's circumstances to be able to draw firm conclusions.

The Revenue subpart of Part I on page 1 breaks down total revenue into four types of income: contributions (Line 8), program service revenue (Line 9), investment income (Line 10) and other revenue (Line 11). You may be able to reach some interesting conclusions about the nature of a filer from examining these sources of its income and their relative amounts. For example, some nonprofits may receive most of their funds from gifts and foundation grants. This income would be reported on Line 8 (Contributions and grants).² In contrast, some nonprofits may receive most of their funds from charging fees for services (ticket sales, tuition, etc.). This income would be reported on Line 9 (Program service revenue).³ 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.

There are several types of revenue that, depending on the circumstances, may be treated as contributions or as program service revenue. These include payments from government agencies and membership dues. Although one cannot tell, for example, whether government payments or membership dues are included on Line 8 (Contributions) or Line 9 (Program service revenue) by looking at those lines on Part I (this can be told by looking at Part VIII), we will briefly comment on the distinction here. This distinction is also elaborated upon in the Expansion on Part VIII.

Government payments may be made to the filer to help the filer carry out its mission by providing services to the public - in which case the amount of the payments are treated as grants and included on Line 8⁴ in Part I on page 1 (in many cases these grants may be referred to as contracts). Or such payments may be made to provide direct services for the benefit of a government agency - in which case the amounts of

² The amount reported at Line 8 is the same amount that is reported at Line 1h of Part VIII. Contributions and grants are elaborated on in more detail in the Expansion on Part VIII.

³ The amount reported at Line 9 is the same amount that is reported at Line 2g of Part VIII. Program Service revenue is elaborated on in more detail in the Expansion on Part VIII.

⁴ And on Line 1e of Part VIII.

the payments are treated as program service revenue and included on Line 9 in Part I.⁵ As a general point, a fair number of nonprofits get much and sometimes nearly all their support from government contracts and this fact may be important to you.

It may be significant that a filer gets much of its income from membership dues. As suggested, a distinction is made between income from membership dues for which the members receive nothing or very little back from the filer - in which case the amounts of the payments are treated as contributions and included on Line 8 on Part I.⁶ Or such dues may be payments for which the members receive benefits from the filer - in which case the amounts of the payments are treated as program service revenue and included on Line 9.⁷ This again relates to the distinction between a donative and an entrepreneurial nonprofit. Donative: where membership fees are treated as contributions; Entrepreneurial: where fees are treated as program service revenue.

Program service revenue (Line 9 on Part I) 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. See Part VIII, page 9, Line 2 (Program Service Revenue) for more details. See Expansion on Part VIII.

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 of as a favorable factor 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. The total of income from dividends, interest and from the

⁵ And on Line 2 of Part VIII.

⁶ And on Line 1f of Part VIII.

⁷ And on Line 2 of Part VIII. As will be explained in the Expansion to Part VIII, payments made to the filer in connection with a benefit, for example, may be included in Line 8 (and Line 1c of Part VIII) as contributions or on Line 11 (and Line 8 of Part VIII) as payments for goods received by the payor.

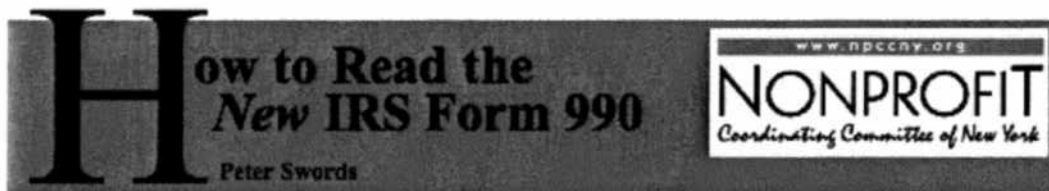
disposition of capital assets is reported at Line 10 (Investment income).⁸ A steady source of income for several years from dividends or interest may suggest considerable investment assets and a stable source of revenue. Line 11 (Other revenue) reports the total of a variety of different kinds of income, including royalty income, rents and special events.⁹ Similar to investment income, if these sources of income are recurring it may reflect positively on the filer's financial future. If the amount reported at Line 11 is substantial, we suggest access the Expansion on Part VIII which goes into more detail about the various sources of Other revenue and their implications.

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 (for example, Line 8 divided by Line 12).

In addition to drawing conclusions about a filer's nature and capacity to raise income in the future, the indication of 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.

⁸ The amount reported at Line 10 is the total of the amounts that are reported in column (A) of Lines 3, 4 and 7d of Part VIII. Investment income revenue is elaborated on in more detail in the Expansion on Part VIII.

⁹ The amount reported at Line 11 is the total of the amounts that are reported in column (A) of Lines 5, 6d, 8c, 9c, 10c and 11e of Part VIII. Other revenue is elaborated on in the Expansion on Part VIII.



Chapter 5

What Did the Filer Spend its Money On?

Lines 13-18 of Part I on page 1 constitute the Expenses section of Part I. They provide an overview of the filer's expenses which are detailed in Part IX (Statement of Functional Expenses) on page 10. (Part IX is discussed below.)

Line 18 (Total expenses) of Part I reports total expenses. We have already suggested that the total expenses reported at Line 18 is a good way to get a quick idea of how extensive a filer's activities are. The expenses reported on Lines 13-18 of Part I are not broken down into functional categories (program, management and general and fundraising expenses), although they are on Part IX. Thus, so far as determining percents of various functional categories of expenses as a percent of total expenses, with the exception of fundraising costs (Line 16b), one has to turn to Part IX to get an idea of how much the filer spent on program and management and general as compared to total cost and as compared to each other.

There are some valuable things, however, that you can find out from the Expenses section of Part I on page 1. Line 13 (Contributions and grants) gives you an idea of whether the filer made grants and if grant making is major part of the filer's activities. (Many charitable nonprofits do not make grants so this line in many cases will report 0.) Line 14 (Benefits paid to or for members) relates to such things as the filer paying for insurance benefits, death, sickness, hospitalization benefits and the like for its members. (Most charitable nonprofits do not make such payments so this line in many cases will report 0.) Line 15 (Salaries, other compensation, employee benefits) reports total compensation paid to the staff. This number provides the reader with a good idea of the size of the filer. If it is divided by the number at Line 5 (Total number of employees), one can get a rough idea about the level of salaries paid at the filer for the year being reported on. Line 16 has to do with fundraising and it is believed was inserted to satisfy state regulatory authorities that tend to be very concerned

about high fundraising expenses. Line 16a (Professional fundraising fees) reports the amounts paid for professional fundraising services which include such things as solicitation campaigns and advice or other consulting services supporting in-house fundraising campaigns. It may be of interest to a reader how much is paid for these particular services. Line 16b (Total fundraising expenses) reports all fundraising expenses (in-house, outside and everything paid for printing, mailing and the like.) If this figure is divided by total expenses at Line 18 something like a fundraising ratio will result – the amount spent on fundraising as compared total expenses. (This is addressed shortly.) Line 17 (Other expenses) includes a wide range of object expenses (legal fees, office expenses, occupancy expenses (e.g., rent), travel and much else). This total figure does not tell one much, and the reader should go to Part IX on page 10 to find out more about these other expenses.

Part IX (Statement of Functional Expenses) on page 10 elicits information on the filer's expenses. It provides some 24 lines of what accountants call object expenses (compensation, office expenses, travel, etc.) allocated by three functional expense categories: (i) program service expenses, (ii) management and general expenses, and (iii) fundraising expenses. For each line the total amount spent is reported at column (A) and then this amount is broken down between the three functional expense categories: column (B) – program expenses, column (C) - management expenses, and column (D) – fundraising expenses. In some cases an expense will be divided amongst all three categories of functional expenses, as may be the case with compensation and in some cases it may be reported for only one functional expense category or two.

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. These include such things as the costs of preparing for and holding board meetings, working on office management and personnel problems, and accounting and investment activities. The Instructions 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 (column B) and not the management and general category (column C). 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 including "... all expenses including allocable overhead costs incurred in: (a) publicizing and conducting fundraising campaigns; and (b) soliciting bequests and grants from foundations or other organizations, or government grants."

Some 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 25, column D – Fundraising expenses divided by Line 25, column A – Total expenses).¹ For example, if Line 25, column D reports \$300,000 of fundraising expenses and Line 25, column A reports \$2,000,000 in total expenses, fundraising expenses make up 15% of total expenses ($\$300,000/\$2,000,000 = 15\%$). Some refer to this as the "fundraising ratio." As suggested, the reader may have views about how low this ratio should be. 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. The Form 990 does not elicit these kinds of qualitative differences.² 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

¹ As suggested above, this ratio can also be derived by dividing Part I's Line 16b (Total fundraising expenses) by Part I's Line 18 (Total expenses) found on page 1.

² By looking at Line L (Year of formation) at the top of page 1 of the Form 990, one can determine how long the filer has been in existence.

than a group which spends very little on fundraising (and has a low "fundraising ratio") and consequently generates less income.³

As mentioned above, Part IX on page 10 breaks down all expenses into 24 object expenses. We now address this component of Part IX.

Lines 1-3 report information about grants: Line 1: grants to governments and other U.S. organizations; Line 2: grants to individuals in the U.S.; and Line 3: grants to organizations and individuals outside of the U.S. The total of these three lines is reported at Line 13, Part I on page 1. These three lines provide a somewhat more detailed picture of the filer's grant-making activity. As suggested above many filers will not show any grant making activity.

Line 4 reports on benefits paid to members. This amount is also reported at Line 14 of Part I. (Discussed at the beginning of this chapter.)

Lines 5-10 report on compensation information: Line 5 reports on top management officials and Line 7 on other salaries. As explained in Chapter 6, there is a way for approximately comparing how much top management officials get paid to how much the rest of the staff is paid. Line 6 reports on compensation paid to disqualified persons (not included in Line 5) as defined under section 4958. See the Expansion on section 4958. Line 8 reports on pension plan contributions (including 401(k) employer contributions). And Line 9 reports on other employee benefits.

Lines 11-23 report on various kinds of expenses and are pretty self-explanatory. We will comment on just a few of them. Line 11b reports on legal expenses. If the amount is large, a question may be raised. And this is particularly so if the reader has access to several of the filer's Forms 990 which do not report high legal expenses. Line 17 reports travel expenses. If the filer does not seem to be the kind of organization which would normally incur travel expenses and the number is large, a question may be raised in the reader's mind. A similar comment applies to Line 19 (Conferences, conventions and meetings). Line 20 reports on

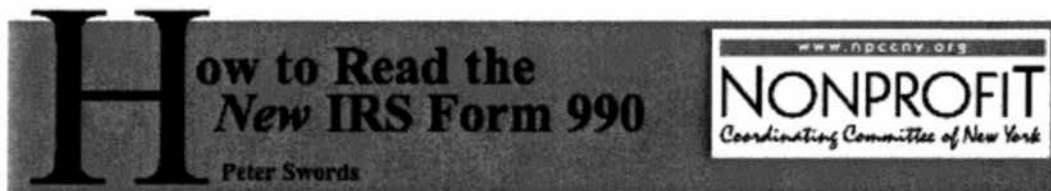
³ Similar ratios can be derived showing what percent of program expenses is made up of total expenses (Line 25, column (B) – Program service expenses divided by Line 25, column (A) – Total expenses) or what percent of management and general expenses is made up of total expenses (Line 25, column (C) – Management and general expenses divided by Line 25, column (A) – Total expenses).

interest payments, not including mortgage interest. If these are large, it may warrant some further attention. In particular one may want to look at Line 24 (Unsecured notes and loans payable) of Part X (Balance Sheet) on page 11.

Line 24 reports on the filer's other expenses that are not reported at Lines 1-23. Five sublines (a-e) are supplied for the five largest dollar amounts, and a final subline, f (All other expenses), reports the total of all other expenses. In the previous Form 990, this breakout didn't exist, and this had been a line where some filers put some expenses they would rather not have seen under the category miscellaneous. This line now makes clear that if Line 24f expenses grouped together and labeled miscellaneous exceed 10% of total expenses reported on Line 25 to list them in Schedule O.

Line 25 reports the total of all the expenses listed at Lines 1-24.

Line 26 reports joint costs. Some organizations include program related (educational) material in their fundraising solicitations. In such cases the filer would report the costs that were for such "educational," etc., material as program expenses on Line 25, column B (and in column B on some line or lines above Line 25) and on Line 26, column B. It would also report the costs of fundraising incurred in connection with such solicitations as fundraising expenses on Line 25, column D (and in column D on some line or lines above Line 25) and on Line 26, column D. As making this allocation below Line 25 suggests, the amounts reported on Line 26 are not additional expenses but are expenses that have already been reported in lines above Line 26.



Chapter 6

How Much Do Top Earners Get Paid and Salary Information

The expanded Form 990 contains much more compensation information than the old one. More employees are covered and their compensation is differentiated to a greater extent than in the past. This information is found at Part VII on pages 7 and 8 and Schedule J.

Here you find what top earners of the filer were paid. For high-paying filers the salaries of as many as seven or more staff members may be reported. These may include key employees, the five highest paid employees who earned \$100,000 or more and in some cases officers. For those filers who do not provide high salaries, the compensation of at least one key employee (the executive director) is likely to be listed.

Part VII also reports the names and titles and compensation of the filer's board members, officers and key employees. We have discussed board members at Chapter 3 and, as noted there, it is very rare that board members are paid. This chapter focuses mostly on employees.

The names of the individuals for whom data is supplied is reported at Line 1a of column A of Section A. Officers (who are staff members and are paid), key employees or the five highest compensated employees are likely to command the most interest. They are easily identified. (Officers are addressed immediately below.) If the individual is a key employee or one of the five highest paid employees, the box under column C under the subcolumn "Key employee" or the subcolumn "Highest compensated employee" will be checked.

As more fully explained in the Note on Terms at the end of this chapter there is some ambiguity about just who "officers" are. For many nonprofits the term officer is restricted to non-compensated board members (e.g., secretary). At some nonprofits the term refers to compensated staff members in top management positions. The Instructions seem to cover both situations. As you consider Part VII,

in most cases it will be fairly easy to tell whether someone who is marked as an officer¹ is a non-compensated board member or a compensated employee. A non-compensated board member will usually have the boxes under Director² and Officer checked and there will be no compensation reported under either column D or F.³ A compensated employee will usually only have the box under Officer checked and compensation will be reported under either column D or F. As this chapter focuses primarily on compensation paid to employees, it is only the latter type of officer (i.e., the compensated employee) we will be considering.

Thus, if the Form 990 has been filled out correctly, we can see a great deal of salary information about a good number of high earning employees will be reported. 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 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 her standards. Finally, a reader may discover that the compensation reported as being paid to a particular employee is not what the reader believes the filer in fact paid the employee or that the compensation of an employee about whom the reader is concerned is omitted from the Form 990. These observations may raise questions in the reader's mind.

Line 2 of Section A on page 8 may also be of interest. It asks the filer to report the total number of individuals (including those listed in Line 1a) who received more than \$100,000 in reportable compensation

¹ The names and titles of each person listed in section A are reported at column A. Column C is broken down into several subcolumns (e.g., Individual trustee or director, Officer, Key employee, etc.) creating boxes to be checked if appropriate.

² The subcolumn covering directors is in fact headed "Individual trustee or director." The Note below explains how these terms are usually used to refer to the same position.

³ Column D shows the amount of reportable compensation the person received from the filer. The term "reportable compensation" is explained below. Roughly it can be considered take-home salary. Column F shows the amount of such compensation received from the filer as deferred compensation and non-taxable benefits. This is explained in more detail below.

from the filer. As suggested in Chapter 1, this number provides the reader with some idea of the size of the filer. It may also be of intrinsic interest to know how many employees get paid over \$100,000.

If anyone listed in Part VII, Section A makes more than \$150,000, more detailed information needs to be reported on such individuals at Schedule J. Schedule J is discussed below.

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 lower salaries). The Form 990 does not provide any direct information on this subject, but a rough sense of such differences may be gathered by comparing the average salary of the filer's total staff to the average salary of the filer's officers and key employees.⁴ A three-step approach is suggested:

Step 1 - From Part VII, Section A you can determine the number of officers⁵ and key employees. (It is assumed that directors are not paid.) Line 5 of Part IX on page 10 reports the compensation of current officers and key employees. Thus, if the total number of officers and key employees is divided into the amount reported at Line 5, one can derive a rough idea of the average amount paid to officers and key employees.

Step 2 - Line 7 of Part IX reports the compensation of all other employees. Line 5 of Part I on page 1 reports the total number of employees. If the total number of officers and key employees (determined at Step 1) is subtracted from the total number of employees, you get the total number of non-officer, non-key employee employees. Thus, if this number is divided into the amount reported at Line 7, one can derive a rough idea of the average amount paid to non-officers and non-key employees.

⁴ The salary information considered in the three step approach suggested below consists of salary information reported at Part IX Lines 5-7 which shows the salaries paid to the employees in question during the filer's taxable year and not the salaries reported at Part VII which shows the salaries paid to the employees in question in the calendar year that ended during the filer's taxable year. See note 10 and accompanying text below.

⁵ For these purposes, we are assuming that officers are employees and are paid. We have explained above how these persons can be identified. (As suggested above, some filers might list their director officers as officers. They, of course, would not be considered in the computation.)

Step 3 - By comparing the amount derived in the first step to that derived in the second you can get a rough idea of comparative compensation levels.⁶

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. Line 1, Section B of Part VII (Independent Contractors) on page 8 requires the filer to list the five highest paid independent contractors (whether individuals or firms) who received over \$100,000 for the year. Line 2 reports the total number of independent contractors who received more than \$100,000 in compensation from the filer.

We turn now to the nature of the compensation received by officers, key employees and the five highest paid employees who earn over \$100,000.⁷ Part VII, Section A breaks down total compensation between reportable compensation listed at column D and other compensation listed at column F.⁸ "Reportable compensation" refers to compensation reported on an employee's W-2 and on an independent contractor's 1099-MISC.⁹ Since employees and individual independent contractors report their taxable income on a calendar year basis, the W-2s and 1099-MISCs issued on their behalf report compensation they receive during the calendar year in question. So the compensation reported at Part VII, Section A is for the calendar

⁶ We indicated above that this comparison will only provide a rough sense of the differences. For example, the filer's five highest paid employees who earn over \$100,000 will not be part of the officer or key employee class referred to in Step 1, although could well be considered top management. So their compensation may be included in Line 7 of Part IX causing the average amount paid to non-officers and non-key employees to be higher than would be the case if a more appropriate comparison was made between top management and employees working at lower salaries (which comparison might include these highest paid employees in Step 1 and not Step 2).

⁷ Compensation to directors is also listed, however, as noted above, in most cases directors do not get paid and 0 is to be entered by their names.

⁸ Column E lists reportable compensation from related organizations. See Expansion on Related Organizations for a discussion of related organizations.

⁹ As noted below in our discussion of Schedule J, reportable income, generally included on an employee's W-2, reports total wages including bonuses and noncash payments, elective deferrals to certain savings plans (e.g., 401(k) and 403(b) plans) and certain fringe benefits. 1099-MISC reports payments of \$600 or more which include fees for services performed for the filer as a non-employee. Directors are usually treated as independent contractors, so if they are paid, reportable income is what is reported on their 1099-MISC. As mentioned, most directors do not get paid so 0 is entered next to their names.

year ending with or within the filer's tax year.¹⁰ Column F "Other compensation" refers for the most part to certain kinds of deferred compensation (such as tax-deferred contributions by the filer to a retirement plan) and nontaxable fringe benefits (such as nontaxable health benefits or nontaxable housing provided by the filer).

As mentioned, if an individual listed at Part VII, Section A makes more than \$150,000, his or her compensation must also be reported at Schedule J where compensation is broken down in more detail.¹¹ The amount of reportable income reported at column D of Part VII, Section A is broken down in column B of Schedule J into three subcolumns. Subcolumn i lists the individual's base salary ("nondiscretionary payments to a person agreed upon in advance, contingent only on the payee's performance of agreed-upon services"¹²). Subcolumn ii lists bonuses and related incentive compensation. Subcolumn iii reports all other payments made to listed persons that are included in his W-2 or 1099-MISC such as elective deferrals to 401(k) or 403(b) plans or payments under a severance plan.

Schedule J Part II:

Schedule J (Form 990) 2010 Page 2
Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use duplicate copies if additional space is needed.
 For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions, on row (ii). Do not list any individuals that are not listed on Form 990, Part VII.
Note. The sum of columns (B)(i)-(iii) must equal the applicable column (D) or column (E) amounts on Form 990, Part VII, line 1a.

(A) Name	(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
	(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
i							
ii							
iii							

The amount reported at column F of Part VII, Section A on page 8 is broken down in Schedule J into columns C and D. Column C lists deferred compensation and column D nontaxable benefits. There are two basic kinds of deferred compensation plans: defined contribution plans and defined benefit plans. These plans can either be qualified or nonqualified. (These plans will be explained as we go along.) The most usual kinds of deferred contribution plans in the nonprofit world are 401(k) and 403(b) plans pursuant to which employees defer (or

¹⁰ For example, if the filer were on a taxable year that begins on July 1 and ends on June 30 (say, July 1, 2011 to June 30, 2012), Part VII, Section A would list the amounts reported on employees W-2s for the calendar year 2011.
¹¹ Line 4 of Part VII asks whether the total compensation (reportable and other compensation from the filer and related organizations) of any individual listed on Line 1a is greater than \$150,000 and instructs the filer who answers "Yes" for any such individual to complete Schedule J for him or her.
¹² The quote is from the Instructions.

contribute) some part of their salary they would otherwise receive into a retirement plan. These amounts are reported on the employee's W-2 and are included in the amount reported at column B iii. An employer might choose to also make contributions to the retirement fund.¹³ Pursuant to the plan, the employer could do so on a discretionary basis (e.g., making a contribution some years and not others) or on a mandatory basis (this alternative is becoming increasingly rare). The amounts contributed by the employer during the year are reported at column C. Defined benefit plans (as distinguished from defined contribution plans) require no employee or present employer contribution and are essentially promises to provide the employee retirement benefits upon his or her retirement. An increase in the actuarial value¹⁴ of a defined benefit plan is reported in column C.

As mentioned, these plans can either be qualified plans subject to the Employee Retirement Income Security Act of 1974 (ERISA) (meaning that all employees are in the plan and not just a few highly compensated employees) or non-qualified plans not subject to ERISA (meaning that only a few employees, usually highly compensated employees, are in the plan).

There is no way of knowing which kind of deferred plan is being reported by looking at the amount reported in column C for a listed employee, i.e., whether the amount refers to contributions by the employer pursuant to a defined contribution plan¹⁵ or an actuarial increase relating to a defined benefit plan. Or, whether the amounts reflect a qualified or unqualified plan. Perhaps if an amount is reported for only one of several listed employees, it is possible, but not certain, that it reflects an unqualified plan. Recently only a few organizations have established defined benefit plans, so if the filer is a relatively young organization, it would be a fair guess to conclude that the amount reported probably reflected contributions to a defined contribution plan. (You can find out when the filer was formed by looking at box L near the top of page 1 of the Form 990.)

¹³ The contribution might be based on some percent of the amount of the employee's base salary (e.g., 3% or 5%) or the employer might match what the employee contributed to the fund either fully or by some percent of the amount (e.g., 50%).

¹⁴ For example, if the benefit is based on the average salary for the last three years of employment and the employee received a significant raise during the year in question, the actuarial value of his future benefit would be increased.

¹⁵ And if a defined contribution plan, whether it is mandatory or discretionary.

If an amount is reported at column C it will show that the listed employee received some sort of deferred retirement benefit and this fact and the amount of the benefit reported might be of interest. Below we discuss nontaxable benefits and suggest that these benefits, while real benefits, are payments made primarily to advance the goals of the employer and only to incidentally benefit the employee. So, in assessing the level of an employee's compensation it might be best to primarily consider reportable compensation (subcolumns B i, B ii and B iii) and deferred compensation (column C).

Column D lists the value of nontaxable benefits provided to the listed person. These various benefits are excluded from taxation under specific sections of the Internal Revenue Code. Some of these "benefits" are provided to an employee by her employer with the principal purpose of benefiting the employer and to only incidentally benefit the employee. For example, if an employee lives rent free in a dorm at a college in circumstances where the employee has supervisory duties, the free rent will be a nontaxable benefit as the purpose of the arrangement was to primarily benefit the employer. Some of these "benefits" may have been made non-taxable for public policy reasons, e.g., the provision of health insurance or disability benefits. As column D only shows the amount of the nontaxable fringe benefits provided to an employee and not the nature of them, there is not much that you can infer from the amount being listed except that the employee received some incidental benefits in addition to the rest of his or her salary.

A Note on Terms

We mention above that Line 1a of Part VII at pages 7 and 8 of the Form 990 at section A requires the filer to provide compensation information on officers and key employees. Such information is also required of directors (board members). As noted since very few nonprofits pay their directors, in most cases 0 will be entered next to their names. The left-hand subcolumn of column C refers to individual trustees or directors. Frequently, these terms refer to the same function: some call such people in governance roles trustees, others call them directors. In the case of a charitable trust, the governors are almost always referred to as "trustees." Institutional trustees, the second subcolumn, typically refers to a bank or financial institution. In most cases, institutional trustees are for charitable trusts.

Section A Column C differentiates between *current* and *former* directors, officers and key employees. An individual is a former key employee, director or officer if the person was not a current key employee, director or officer, during the filer's tax year and if the filer should have reported him or her as a director, officer or key employee on one or all the filer's Forms 990 for the preceding five years, and the "individual received reportable compensation¹⁶ in the calendar year ending with or within the organization's current tax year in excess of the threshold amount (\$100,000 for former officers and key employees, \$10,000 for services in the capacity as director or trustee)." ¹⁷

The definition of the term "officer" is somewhat confusing. The Instructions begin by stating: "An 'officer' is a person elected or appointed to manage the organization's daily operations, such as a president, vice-president, secretary or treasurer." A few lines later it is said: "This definition encompasses 'officers of the board' and 'officers of the corporation.'" Since officers of the board almost never manage the daily operations of the corporations on whose board they serve, there may be an inconsistency. Note also that the terms "president, vice-president, secretary or treasurer" usually refer to non-compensated board positions. As will be noted immediately below, those top people who are appointed to manage the organization's daily operations are commonly given such titles as executive director and chief financial officer. At any rate, those top officials who manage the day-to-day operations of the filer should be listed as officers. The Instructions specifically note the term "officer" includes the top management official, that person who has "ultimate responsibility for implementing the decisions of the governing body [the board] or for supervising the management, administration, or operation of the

¹⁶ Reportable compensation refers generally to what is reported on the employee's W-2. This is explained further below. Because the information is taken off W-2s and all individuals are on the calendar year, the compensation tests are couched in terms of compensation received during the calendar year ending with or within the organization's tax year.

¹⁷ The quote is from the Instructions. In the past when the Form 990 captured only current officer, key employee and director compensation, it came to the attention of the IRS that by careful timing, compensation could be moved off the radar screen by waiting until the relevant individual retired. To help catch this abuse, the distinction between current and former employees was introduced into the expanded Form 990. We believe that the incidence of payments to former employees is very small. In what follows then the focus will be on current employees. However, if the reader spots that payments were made to former employees, further inquiry may be considered appropriate. More complicated rules apply to former employees who were among the five highest paid employees.

organization.” This description covers those who are commonly called executive directors or chief executive officers. The Instructions also specifically note the term “officer” includes the top financial officer, that person “who has ultimate responsibility for managing the organization’s finances.” This description covers those who are commonly called chief financial officers. If an individual is an officer, the box in column C marked “Officer” next to his or her name will be checked.¹⁸

In addition to directors and officers, key employees are to be listed at section A of Part VII. Generally the term “key employee” is defined as those who are not officers (or directors) who make over \$150,000 a year and have significant management responsibilities.¹⁹ If an individual is a key employee, the box in column C marked “Key employee” next to his or her name will be checked.

One may notice that there might be considerable confusion on the question of whether a particular individual who has top management responsibilities over the daily operations of the filer should be characterized as an “officer” or a “key employee.” In terms of assessing compensation information it is not clear that it matters much. If an individual is listed as an “Officer” (the “Officer” box in column C being checked) and s/he does not receive compensation

¹⁸ If a director is, for example, the president, vice-president, secretary or treasurer of the board, both the director and officer boxes of column C are likely to be checked. If an employee in a top management position is considered an officer by the filer, the officer box next to his name will be checked but not the director box. Also compensation for such person will usually be reported under column D or F or both.

¹⁹ More specifically a “key employee” is one who meets three tests. 1. *\$150,000 Test*: He or she is paid over \$150,000 a year in reportable compensation by the organization and all related organizations for the calendar year ending with or within the organization’s tax year. 2. *Responsibility Test*: He or she (a) “has responsibilities, powers or influence over the organization as a whole that is similar to those of officers, directors or trustees; (b) manages a discrete segment or activity of the organization that represents 10% or more of the activities, assets, income or expenses of the organization, as compared to the organization as a whole; or (c) has or shares authority to control or determine 10% or more of the organization’s capital expenditures, operating budget or compensation of employees.” 3. *Top 20 Test*: He or she is one of the 20 employees (that satisfy the \$150,000 Test and Responsibility Test [i.e., 1 and 2]) with the highest reportable compensation from the organization and related organizations for the calendar year ending with or within the organization’s tax year. If the organization has more than 20 individuals who meet the \$150,000 Test and Responsibility Test, [the filer is to] report as key employees only the 20 individuals that have the highest reportable compensation from the organization and related organizations.” Reportable compensation is described above at footnote 1 and accompanying text. Related organizations are discussed in the Expansion on Related Organizations.

then it may be assumed that s/he is a director (and this would be confirmed if the director box was checked also). If s/he receives compensation – as shown by looking at columns D and F - then it may be assumed that s/he is a management employee (and this would be confirmed if the director box was not checked).

In addition to directors, officers and key employees, section A of Part VII requires that there be listed the filer's five highest compensated employees (other than directors, officers, or key employees) who received reportable compensation of more than \$100,000 from the filer or related organizations.²⁰ If an individual is such an employee of the filer, the box in column C marked "Highest compensated employee" next to his or her name will be checked.

²⁰ See above footnote and accompanying text for an explanation of reportable compensation and the Expansion on Related Organizations for an explanation of related organizations. As noted above in discussing key employees, if the filer has more than 20 individuals who meet the *\$150,000 Test* and the *Responsibility Test*, the filer is to report as key employees only the 20 individuals that have the highest reportable compensation from the organization and related organizations. The Instructions note "any others, up to five, might be reportable as current highest compensated employees, with over \$100,000 in reportable compensation."