

How To

FIVE CLUES: Reading a Charity's Tax Return—the 990

By Renata J. Rafferty

Charities are required to make part of their tax return, Form 990, available to the public, and anyone can view them at www.GuideStar.org (registration required). But what can a 990 tell you? It won't give you a complete understanding of an organization, and it certainly can't tell you how effective it is. But Form 990 can help you answer some specific questions, and it might point you towards some bigger issues. If you decide to look at an organization's 990, here are five simple questions it can help you answer:

HOW BIG IS THE ORGANIZATION? For a basic snapshot of a charity's scale, check out **Lines 12** and **17 (Total Revenue and Total Expenses, respectively)**. Line 12 reports all the funding the charity received in the previous year, but it isn't broken down into sources; likewise, Line 17 tells you how much money went out, but not where it went. More key pieces of the puzzle—the size of its endowment or its investments—can be found on **Lines 54** and **56**.

HOW INDEPENDENT IS IT? On **Line 80a**, the charity is asked to reveal its

relationship to other organizations (tax exempt or not), such as shared staff and board members, or mutual ownership of assets. If nothing is listed, the charity is claiming to be relatively independent. If the charity is closely tied to another organization, you should see it.

WHAT DOES IT DO WITH ITS MONEY?

This is the hardest thing to divine from a 990. Don't pay much attention to **Lines 22-44 (Statement of Functional Expenses)**, where charities are asked to break down their spending into three main categories (program services, management and general, and fundraising). Organizations routinely take great liberties in allocating expenditures across the three categories, minimizing fundraising costs and maximizing program services expenditures to hit the acceptable ratios defined by watchdog groups.

But try comparing the program accomplishments listed in **Part III** (which are generally pretty reliable) with the staff salaries and information listed in **Part V**, and the list in **Part I** of the top five paid employees. Does the size and composition of the charity's staff match the scope

of its mission and its financial structure? Are board members compensated?

Also, look at the payments to outside contractors listed in **Schedule A, Part II**. If the charity is forking over tens of thousands for legal bills or consultants, it should show up here. Furthermore, on the balance sheets, **Line 50 (Assets)** shows whether the charity is lending money to its own officers, staff or trustees; **Line 63 (Liabilities)** shows whether it's borrowing from the same people.

HOW MUCH DID IT REALLY SPEND ON THAT FUNDRAISER? Take a look at **Line 101 (Analysis of Income-Producing Activities)**. This line reports the special events that the charity runs, including the annual fundraising gala. Furthermore, you should be able to see how much the charity makes or loses on each event.

ANY FOXES IN THE HENHOUSE? If the charity paid more than fair market value for a product or service to someone closely tied to the organization, it would be reported on **Line 89b (Excess benefit transaction)**. This line is also where a charity would report embezzlement. ☺

Form 990	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)	OMB No. 1545-0047 2004 Open to Public Inspection
Department of the Treasury Internal Revenue Service	▶ The organization may have to use a copy of this return to satisfy state reporting requirements.	
A For the 2004 calendar year, or tax year beginning , 2004, 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"/> Final return <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	C Name of organization 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	D Employer identification number : : E Telephone number () F Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual <input type="checkbox"/> Other (specify) ▶
G Website: ▶	• Section 501(c)(3) organizations and 4947(a)(1) nonexempt charitable trusts must attach a completed Schedule A (Form 990 or 990-EZ).	H and I are not applicable to section 527 organizations. H(a) Is this a group return for affiliates? <input type="checkbox"/> Yes <input type="checkbox"/> No H(b) If "Yes," enter number of affiliates ▶ H(c) Are all affiliates included? <input type="checkbox"/> Yes <input type="checkbox"/> No (If "No," attach a list. See instructions.) H(d) Is this a separate return filed by an organization covered by a group ruling? <input type="checkbox"/> Yes <input type="checkbox"/> No
J Organization type (check only one) ▶ <input type="checkbox"/> 501(c) () ◀ (insert no.) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527	K Check here ▶ <input type="checkbox"/> if the organization's gross receipts are normally not more than \$25,000. The organization need not file a return with the IRS; but if the organization received a Form 990 Package in the mail, it should file a return without financial data. Some states require a complete return.	I Group Exemption Number ▶
L Gross receipts: Add lines 6b, 8b, 9b, and 10b to line 12 ▶	M Check ▶ <input type="checkbox"/> if the organization is not required to attach Sch. B (Form 990, 990-EZ, or 990-PF).	
Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances (See page 18 of the instructions.)		
1 Contributions, gifts, grants, and similar amounts received:	1a	
a Direct public support	1b	
b Indirect public support		