

# Form 990 Quick Reference Guide

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## PFL Academy - Chapter 14.2: Checking Out Charitable Groups

### Introduction to Form 990

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Form 990 is a tax document that nonprofit organizations must file annually with the Internal Revenue Service (IRS). It provides valuable information about an organization's mission, programs, finances, governance, and operations. Learning how to read Form 990 is an essential skill for evaluating charitable organizations.

#### Finding Form 990s:

You can access Form 990s through:

- GuideStar ([guidestar.org](https://www.guidestar.org))
- ProPublica's Nonprofit Explorer ([projects.propublica.org/nonprofits](https://projects.propublica.org/nonprofits))
- IRS Tax Exempt Organization Search ([apps.irs.gov/app/eos](https://apps.irs.gov/app/eos))
- The organization's website (many transparent organizations post their forms)

### Form 990 Overview

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There are different versions of Form 990:

- **Form 990:** Standard form for larger organizations (annual gross receipts  $\geq$  \$200,000 or total assets  $\geq$  \$500,000)
- **Form 990-EZ:** Shorter version for mid-sized organizations
- **Form 990-N:** Electronic postcard for small organizations
- **Form 990-PF:** For private foundations

This guide focuses primarily on the standard Form 990, which contains the most detailed information.

## Key Sections to Review

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### Header Information

The top of the first page contains basic identification information:

- **Legal Name:** Official name registered with the IRS
- **EIN (Employer Identification Number):** Unique 9-digit tax ID
- **Address:** Official business address
- **Website:** Organization's official website
- **Year Founded:** When the organization was established
- **Tax Year:** Period covered by the form

#### Verification Tip:

Use the EIN to verify the organization's tax-exempt status through the IRS website. The EIN should match across all official documents.

### Part I: Summary

This section provides a high-level overview of the organization:

- **Mission Statement (Line 1):** Brief description of organizational purpose
- **Significant Activities (Line 2):** Major programs or services
- **Governance (Lines 3-6):** Number of voting board members, independent board members
- **Financial Snapshot (Lines 8-22):** Key financial figures for current and previous year

#### What to Watch For:

Compare current year to previous year figures. Significant unexplained changes might warrant further investigation. A healthy organization typically shows stable or growing revenue and sensible expense patterns.

## Part III: Statement of Program Service Accomplishments

This section details the organization's mission and major achievements:

- **Mission Statement (Line 1):** Comprehensive description of organizational purpose
- **New Programs (Line 2):** Changes to how the organization fulfills its mission
- **Program Service Accomplishments (Lines 4a-4d):** Description of major programs, expenses, and outcomes

### Evaluation Focus:

This section reveals what the organization actually does. Look for:

- Specific accomplishments with measurable outcomes
- Clear connection between mission and activities
- Detailed information about who benefited from services

## Part VII: Compensation of Officers, Directors, and Key Employees

This section lists organization leadership and their compensation:

- **Board of Directors:** Names, positions, and any compensation
- **Key Employees:** Highly compensated staff
- **Hours:** Time devoted to the organization
- **Compensation:** Broken down by different types of payment

### Compensation Context:

Compensation should be evaluated in context of:

- Organization size and budget
- Geographic location (cost of living varies)
- Industry standards for similar roles

- Complexity of the organization's operations

What might be reasonable for a large international organization could be excessive for a small local charity.

## Part VIII: Statement of Revenue

This section details all sources of revenue:

- **Contributions and Grants (Line 1):** Donations, grants, and gifts
- **Program Service Revenue (Line 2):** Income from mission-related activities
- **Investment Income (Lines 3-7):** Interest, dividends, rents, etc.
- **Other Revenue (Lines 8-11):** Miscellaneous income sources

### Diversification Analysis:

A healthy organization typically has diverse revenue sources. Heavy dependence on a single source (e.g., one major donor or government grants) can create vulnerability if that source disappears.

## Part IX: Statement of Functional Expenses

This critical section shows how the organization spends its money:

- **Program Services (Column B):** Expenses directly related to mission fulfillment
- **Management and General (Column C):** Administrative overhead
- **Fundraising (Column D):** Costs of raising money

### Key Expense Categories:

- **Salaries and Benefits (Lines 5-10):** Staff compensation
- **Professional Fundraising (Line 11e):** Paid fundraisers
- **Grants (Lines 1-3):** Money given to other organizations or individuals
- **Travel (Line 17):** Transportation, conferences, etc.
- **Occupancy (Line 16):** Rent, utilities, facilities costs

### Expense Ratio Calculation:

- **Program Expense Ratio:** Program Services (Column B) ÷ Total Expenses (Column A)
- **Administrative Ratio:** Management and General (Column C) ÷ Total Expenses (Column A)
- **Fundraising Ratio:** Fundraising (Column D) ÷ Total Expenses (Column A)

Generally, higher program expense ratios (70%+) are preferred, but context matters.

## Part X: Balance Sheet

This section shows the organization's financial position:

- **Assets (Lines 1-15):** What the organization owns (cash, investments, buildings, etc.)
- **Liabilities (Lines 17-25):** What the organization owes (loans, accounts payable, etc.)
- **Net Assets (Lines 27-33):** Assets minus liabilities

### Financial Health Indicators:

- **Working Capital:**  $\text{Current Assets (cash, receivables)} \div \text{Average Monthly Expenses}$
- **Debt Ratio:**  $\text{Total Liabilities} \div \text{Total Assets}$
- **Financial Growth:** Compare Net Assets to previous year

## Schedule A: Public Charity Status and Public Support

This schedule confirms the organization's tax-exempt status and public support:

- **Reason for Public Charity Status (Part I):** Type of tax-exempt organization
- **Public Support Test (Parts II-III):** Demonstrates broad public support rather than reliance on a few donors

### Public Support Test:

Most public charities must receive at least 33.3% of support from general public contributions, government grants, or program service revenue to maintain their status.

## Schedule O: Supplemental Information

This schedule provides additional explanatory information for responses throughout the form:

- Detailed descriptions of programs
- Explanations for unusual financial situations
- Changes in organizational structure or activities
- Clarifications on governance practices

### Transparency Indicator:

Detailed, thorough Schedule O responses often indicate a commitment to transparency. Organizations that provide minimal information may be less forthcoming about their operations.

## Red Flags vs. Positive Indicators

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Form 990 Section	Potential Red Flags	Positive Indicators
Overall	<ul style="list-style-type: none"><li>- Late or missing filings</li><li>- Significant unexplained changes year-to-year</li><li>- Frequent amendments to previous forms</li></ul>	<ul style="list-style-type: none"><li>- Consistent, timely filings</li><li>- Detailed explanations for any unusual items</li><li>- Transparent reporting</li></ul>
Part I: Summary	<ul style="list-style-type: none"><li>- Dramatic decline in revenue or assets</li><li>- Few independent board members</li><li>- Significantly lower program expenses than previous year</li></ul>	<ul style="list-style-type: none"><li>- Stable or growing revenue and program expenses</li><li>- Majority of board members are independent</li><li>- Consistent mission focus</li></ul>
Part III: Program Accomplishments	<ul style="list-style-type: none"><li>- Vague descriptions of activities</li><li>- No measurable outcomes</li><li>- Minimal information about beneficiaries</li></ul>	<ul style="list-style-type: none"><li>- Specific program descriptions</li><li>- Measurable results and achievements</li><li>- Clear connection between mission and activities</li></ul>
Part VII: Compensation	<ul style="list-style-type: none"><li>- Excessive compensation relative to organization size</li><li>- Multiple family members in leadership roles</li><li>- Significant loans to/from officers</li></ul>	<ul style="list-style-type: none"><li>- Reasonable compensation for organization size and location</li><li>- Independent compensation review process</li><li>- Appropriate board oversight</li></ul>

Part IX: Functional Expenses	<ul style="list-style-type: none"><li>- Program services less than 65% of total expenses</li><li>- Fundraising costs over 35% of contributions</li><li>- Zero or unrealistically low fundraising expenses</li></ul>	<ul style="list-style-type: none"><li>- Program services 75%+ of total expenses</li><li>- Reasonable fundraising efficiency</li><li>- Appropriate administrative infrastructure</li></ul>
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## Sample Form 990 Analysis

Below is a simplified analysis of key sections from a fictional charity's Form 990:

### Example: Community Health Partners (EIN: 12-3456789)

#### Key Findings:

- **Mission:** Provides healthcare services to underserved communities through free clinics, health education, and preventive care programs.
- **Financial Overview:**
  - Total Revenue: \$2,750,000
  - Total Expenses: \$2,600,000
  - Net Assets: \$3,200,000 (increase of \$150,000 from previous year)
- **Program Achievements:**
  - Operated 3 free community clinics serving 12,000 patients
  - Conducted 150 health education workshops reaching 5,000 community members
  - Provided preventive screenings to 8,500 individuals
- **Expense Breakdown:**
  - Program Services: \$2,080,000 (80% of total)
  - Management/General: \$338,000 (13% of total)
  - Fundraising: \$182,000 (7% of total)
- **Governance:** 11 board members, 9 independent

- **Executive Compensation:** Executive Director: \$120,000  
(reasonable for healthcare nonprofit of this size)

**Analysis:**

Community Health Partners demonstrates several positive characteristics:

- Strong program expense ratio (80%)
- Clearly defined programs with measurable outcomes
- Diverse revenue sources (government grants, individual contributions, program fees)
- Appropriate board independence (82% independent members)
- Reasonable executive compensation for size and sector
- Healthy financial position with modest growth in net assets

Based on Form 990 analysis, this organization appears to be financially sound, transparent, and effectively advancing its mission.

## Form 990 Research Checklist

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Use this checklist when reviewing a Form 990:

Question	Where to Find It
What is the organization's mission?	Part I, Line 1 and Part III, Line 1
How much revenue did the organization receive?	Part I, Line 12 and Part VIII
What percentage of expenses went to programs?	Calculate: Part IX, Column B ÷ Part IX, Column A
What are the organization's main programs?	Part III, Lines 4a-4d
Who leads the organization and what are they paid?	Part VII, Section A
What are the organization's assets and liabilities?	Part X
How diverse are the organization's funding sources?	Part VIII and Schedule A
How many independent board members govern the organization?	Part I, Lines 3-4

### Remember:

Form 990 is just one tool for evaluating charitable organizations. For a comprehensive assessment, combine Form 990 analysis with other research methods, including reviewing the organization's website, annual reports, independent ratings, and news coverage.

This resource is designed for educational purposes. Content should be reviewed and updated periodically.