



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.