

How to Read a 990

The IRS Form 990 is a rich and readily-available source of information on any nonprofit organization. Though it may appear technical and intimidating at first glance, a 990 isn't hard to navigate once you know what to look for. In conjunction with an audited financial statement or annual report, a 990 can give a telling financial portrait of an organization, highlighting strengths, weaknesses, and warning signs.

In this document, we'll highlight a few key sections of the 990 that are most relevant to you as a donor conducting your due diligence. A nonprofit with gross receipts over \$50,000 must file a 990 every year, which in turn are readily available for free on Candid* and ProPublica.

Of course, a 990 is only one aspect of a nonprofit organization—an organization can do a wonderful job of delivering services despite not having the strongest financials. Such an organization might be a great candidate for support that specifically boosts its financial management capacity. By the same token, an organization might manage its finances efficiently but fail to achieve significant real-world impact. Those funds might be carefully stewarded, but they are not money well spent.

So be sure to supplement your financial evaluation with program research, site visits, conversations with program and development staff, and other forms of analysis to round out your investigation of an organization.

Header

- This covers the basics—the name of the organization and the year the 990 was filed.

Part 1: Summary

- **Mission Statement (Line 1):** A clearly defined mission lies at the core of any successful organization. This should be the yardstick by which you judge all other information in the 990—how well do these financial decisions serve the organization's core mission?

- **Total Number of Individuals Employed (Line 5) and Volunteers (Line 6):** This tells you the size of the organization in terms of staffing. Be aware that organizations may carry out some part of their work using independent contractors (covered below). Consider whether the size is a good fit for the amount of work—too small a staff can result in overwork, burnout, and insufficient resources to do any given job well; too large a staff could be inefficient. Some organizations are also able to leverage volunteers, which can be a cost-efficient way of delivering their programs and services.

* Note: As a paying subscriber to Candid, California Community Foundation can provide donors with financial trend analysis for an organization of up to five years based on analysis of 990 information. This is an excellent way to look for broader patterns in financial management and identify whether year-to-year shifts are temporary blips or reflect more consistent practices. **Contact your Relationship Manager or the Donor Relations Team at donorrelations@calfund.org for a financial trend analysis or other resources to help analyze an organization that interests you.**

- **Total Revenue (Line 12), Total Expenses (Line 18), and Revenue Less Expenses (Line 19):** Each of these categories will give figures both for the most recent year and for the prior year, allowing you to note any significant changes, which may give a clue as to the organization's level of financial stability. Ideally an organization should run an even-to-slightly-positive balance, though extreme circumstances may merit a departure from this. Budget details can be found further down in the 990.
- **Net Assets (Line 22):** The net amount of the total assets minus total liabilities is the net assets. This represents what the organization has, what is invested, what is deposited, and what is owed. For a company, this would be viewed as stockholder's equity.

Part III: Mission and Programs

- **Mission Statement (Line 1):** Same as above.
- **Three Largest Program Services (Line 4):** This is where the rubber meets the road. Do the largest programs match the stated mission? Are the program descriptions precise and knowledgeable, or vague? This is also a good guide to where you should conduct further research, such as site visits or program evaluations.

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- **Five Most Highly Paid Employees over \$100,000:** This will likely encompass the top executive or executives on staff. Is the compensation reasonable, given the size and scope of the organization? How does it compare to that given to lower-level staffers? Do any of the highly-compensated staffers appear to be family members of one another or of officers or board members? This is not necessarily improper, but it may raise a red flag about nepotism and a lack of transparent, competitive hiring practices.
- **Five Highest Paid Independent Contractors:** Is the organization paying independent contractors to perform tasks that should be carried out within the organization by staff? Do the monies paid to independent contractors constitute a disproportionate share of expenses, particularly as compared to core programs and services?

Part VIII: Revenue

- **Revenue from Gifts and Contributions (Line 1), Program Services (Line 2), and Other Sources (Line 3):** It is important for an organization, particularly a mature one, to have diverse sources of revenue so that it can withstand a downturn or setback from one source while still maintaining its mission and services. A brand-new organization, or one that has just undergone a major shift, may not be in this position, but it is something a well-run organization should at least work toward.

Part IX: Expenses

- **Various Expenses:** View these expenses as a concrete statement of organizational priorities, values manifested in budgetary terms. Beware of any expenses that stand out as being particularly high—legal fees, travel expenses, fundraising outlays. Follow up to make sure that these outlays are justified.

Part X: Balance Sheet

- **Assets:** Assets can be a key sign of organizational strength, but they may be less accessible for financial purposes if the assets are in illiquid form or focused on one particular part of the operations.
- **Liabilities:** Liabilities are not necessarily a problem if they are offset by assets, but beware of short-term liabilities, such as an auto loan, that have been incurred against assets that are harder to access, such as if an organization owns the real estate of its headquarters. Also take note of the ratio of current assets to current liabilities—this should be positive at the least, and ideally not less than 2-to-1.

Other Things to Look For

- **Public Support Test (Schedule A):** The Public Support Test is a measure of how diverse and broad an organization's sources of support are. A high PST (80 or above) indicates a broad support base, while a low PST (below 50) suggests that the organization may be dependent on a small number of major donors, which could indicate both a lack of resiliency and a narrow base of influence. A PST below 33.33 for two or more consecutive years triggers additional IRS reporting requirements.

- **Supplemental Information to Form 990 (Schedule O):**
Here you can find narrative explanations and descriptions in response to other questions in the 990. For example, under Part VI, Governance, Management, and Disclosure, there are questions about business relationships with board members and staff, which would be further explained in Schedule O.
- Is the Form 990 filled with a large number of notes and caveats? This may be a sign that the organization is not being forthright about their complete financial picture.
- Is it difficult to obtain a recent Form 990? Unavailability of a recent 990 may indicate either that the organization does not fulfill its legal obligations in a timely way or that its annual gross receipts are less than \$50,000.

Please feel free to contact your Relationship Manager or the Donor Relations Team at donorrelations@calfund.org if you have any questions. We are here to help.

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