

Form 990: What Donors Do With It and What You Can Do About It

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990 Items Donors Look At

- What are the organization's identity and tax status?
- How much income is received and from what sources? **Parts I and VIII**
- What is the breakdown of total expenses among program, management, and fundraising expenses? **Parts I and IX**
- What are the organization's net assets and what implications may be drawn from that? **Parts I and X**
- What programs/services are delivered and what is the cost associated with them? **Parts III and IX**
- Who are Board members and staff; how much are they paid? **Parts I, VI and VII**
- Have there been new activities, changes in processes or governance, or any excess benefits transactions? **Parts III and VI**
- What policies and procedures are in place to protect the organization and its assets in the future? **Part VI**

Questions Donors Ask

- **Is this organization “stable,” financially “secure,” financially “viable,” “in the black?”**
- **Is the organization’s governance/leadership sound?**
 - Does it have necessary and useful policies in place to assure success and fiduciary soundness?
- **Is the organization successfully accomplishing its stated mission? How?**
- **Is the organization appropriately aligned financially with its mission and programs?**
- **Is the organization “efficient?”**
- **Is the organization administratively “lean?” Is it “top heavy.” Is it operating “as a charity should?”**

How Donors Use 990 Ratios to Assess Nonprofits

- Tools often used by observers to evaluate the financial/fiscal strength or health of nonprofits by comparing various expenses item/totals to total expenses, revenues, or both.
- Ratios may be very misleading unless understood in the context of the type of organization being assessed, its mission, its geographic location, age, size, etc.

Typical Ratios

- **Program Ratio:**

$$\text{Program Service Expenses} \div \text{Total Expenses}$$

Younger organizations have lower program ratios than more mature organizations as they build infrastructure. Some types of services require more overhead than others. Over time, successful programs should achieve ever-higher program ratios.

- **Fundraising Ratio:**

$$\text{Fundraising Expenses} \div \text{Total Expenses}$$

(Part I, Line 15) Least useful ratio for several reasons: generally, not reported reliably (60% of 990 filers report no fundraising expenses at all); unique circumstances impact these expenses dramatically – nonprofits that can rely on foundation funding will have much lower expenses than those that have to depend on many small contributions.

- **Contributions and Grants Ratio:**

$$(\text{Contributions} + \text{Grants}) \div \text{Total Revenue}$$

Indicates extent of organization's dependence on voluntary support by determining percentage of revenue made up of such gifts. Not an effective ratio when comparing programs that offer services for fees or admissions and those that can't/don't.

Typical Ratios

- **Debt Ratio:**

$$\text{Total Liabilities} \div \text{Total Assets}$$

Indicates financial solvency. Higher ratios could indicate future financial difficulties unless there is a strategy in place to adjust this ratio downward over time. Inquire. May be distorted if organization carries high proportion of “grants payable” (liability) or “grants receivable” (asset) on its balance sheet.

- **Liquid Funds Indicator:**

$$\frac{([\text{Fund Balances} - \text{Permanently Restricted} - \text{Land, Bldgs, Equip}] \times 12) \div \text{Total Expenses}}$$

Measures operating liquidity by dividing fund balances minus inaccessible assets by an average month's expenses/ These are the resources an organization can legally and reasonably draw down. High indicator points to points to low funding urgency and possible excessive savings.

- **Savings Ratio:**

$$(\text{Total Revenue} - \text{Total Expenses}) \div \text{Total Expenses}$$

Reveals rate of nonprofit's savings by measuring the relationship between total annual savings and total expenses. Reveals an important component of longevity, but high ratios may indicate excessive savings. If there is a low liquid funds indicator, a higher savings ratio might be desirable and indicate sound self-knowledge and strategic planning by leadership.

Ratio Problems -- Example

- **“Program Ratio” – percentage of expenditures devoted to programs or services**
 - Client: “We want to fund programs that are ‘truly charitable’.”
 - An art museum spends 72% of each dollar on programs; a food bank spends 95% of each dollar on services: the food bank is more “efficient/effective” than the art museum so is a better recipient of my gift. Right?
 - Median program ratio for art museums is 71%; for food banks, 94%. Both are performing better than most organizations in their field, or are “efficient.”
 - Art museums generally have much higher costs associated with “overhead” – insurance, building maintenance, acquisition and curatorial costs, security, fundraising expenses.

When Are Ratios Helpful?

- **When comparing organizations that have similar missions or programs, are of similar size and age, that are located in same or similar area or locales.**
 - **CAUTION:** Accounting practices vary among organizations widely. Use caution when comparing.

- **When tracking one organization's progress over time (trends).**
 - **CAUTION:** Know the organization's history and special circumstances. If there has been a new endowment building program, for example, its fundraising ratio will rise and its program ratio will fall during the period of endowment building. The long term impact of the endowment, however, will drive down fundraising costs and raise program spending.

Resources

- ***GuideStar Analysts Reports and GuideStar Nonprofit Compensation Report*** (by subscription) at www.guidestar.org.
- **Council on Foundations *Annual Salary Studies*** and other resources for understanding your standing relative to other nonprofits, at www.cof.org.

What Can You Do?

- **Make sure you understand your organization's history and fiscal condition fully.**
- **Make sure you have engaged in effective long-term strategic planning and have a real strategic plan you can share with funders.**
- **Make sure you have a fully-developed, accurate, compelling statement of mission.**
- **Make sure your 990 filings are complete, accurate, defensible.**
 - Understand your sector, the local/regional/national competition for funding, and your comparative standing relative to the sector and the competition.
 - Be able to defend and articulate the basis for all key salaries and staff expenses. Have comparable salary information as well as evidence of active searches and negotiations for key positions.
- **Give donors what they want *outside* the parameters of the 990 search and analysis.**
 - Show donors what they need to know; don't leave it to them to figure it out for themselves.
 - Provide additional documents and communication tools on public sites (GuideStar) and on organization's website (have one). Create and make a "funder package" easily available.

Gates Foundation Funders Kit



Adobe Acrobat
Document

