



What you can learn about a non-profit from an IRS form 990

By Ken Breivik, President Nehemiah Communications

As a business owner who donates to non-profits, a former employee in a leadership role in two non-profits, and as a former board member of multiple non-profits, I have had to look at the Internal Revenue Service (IRS) form 990 for a number of organizations from a variety of perspectives. You can get a surprising amount of information about most non-profits from their 990 if you know what you are looking for. While I think this document will be helpful to staff and donors, I am going to go through these points as if I am either a current or prospective board member. Here is what I look for in certain parts of the 990.

IRS Part 1:

- How big is this organization? I believe that there are good and bad organizations at every level of the non-profit world but in terms of what to expect from the organization, knowing what they bring in (Revenue – Line 12) and what they are spending (Expenses – Line 18) is important.
- Over the last two years does the organization appear to be getting stronger or weaker overall? To figure this out requires looking at a couple of numbers. First, a healthy organization should generally (unless they have a large amount of assets) have more revenue than expenses (Line 19). So if Line 19 is negative in either of the years it is worth asking about, but if it is negative in both years then the board is probably not spending the necessary time in either fundraising or in their fiscal management of the organization. Second, how does the revenue and expense numbers compare from the previous year? It is not uncommon to see a 25% change in revenue and expenses within a non-profit from year to year but once either changes 40%, in either direction, more information must be ascertained. Even a sudden burst on the revenue side could represent one large gift that if not used correctly could put the organization under financial stress in following years if the board and staff create new expense streams and if the revenue jump cannot be maintained.
- How much of a reserve does it appear that the organization has? While assets can include physical property, even physical property can be sold, so the total assets in line 22 does give some indication of what kind of reserve the organization has. In general, smaller organizations, even as a percentage will have less of a reserve than larger organizations, but the net assets speak significantly to the financial stability of the organization. While difficult, I love to see organizations that have assets equal to or above the current expenses of the organization. This is especially true if the assets are investments or in some other liquid account (more on this later).
- While it is o.k. under line 1 to repeat the mission statement, I recommend that organizations list their top accomplishments of the year here instead.

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Nehemiah Communications is a company that specializes in growing nonprofit organizations and small businesses by providing customized communications and operational services.

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IRS Part 3

- What is the mission of the organization? If not done under part one here is the mission of the organization. One thing I love to do is to compare this to what the organization has on its website. I am often shocked how frequently they are not the same.
- Is the organization changing what it does? What should be noted in lines 2 and 3 of this section are any boxes checked “yes”. This would indicate that the organization is changing its direction and wants to disclose this. If they do under schedule O they are supposed to tell the reader what the change is.
- What is the organization proud of? In lines 4 (a, b & c) the organization can tell its three greatest program service accomplishments and how much of its budget it used towards these activities. Good organizations will take the time to spell these out. I can usually tell if these are generated from an accountant as it will rehash the mission statement and drop all of the program revenue into the expense line.

IRS Part 4

- Are unusual things going on with the organization? Part 4 has a checklist of what additional forms will be required. These forms represent some departure from the normal operations of a non-profit. Now, this does not mean something is wrong, it just means something is different. With that in mind pay close attention to any item under Part 4 that has a “yes” box checked. Some that I pay particular note of:
 - Political activity or lobbying – Lines 3 and 4.
 - Are they using outside professional fundraisers – Line 17
 - Are people like board members or other disqualified persons personally profiting or being given benefits paid by the organization. Any “yes” checked boxes would need to be reviewed and do represent a potential red flag. – Lines 25-28

IRS Part 6

- This is the one section that tells you a great deal about the organizational infrastructure and governance and each line is important in giving you an understanding of the organization:
 - This includes the number of board members (Line 1a) and if they can all vote (Line 1b).
 - Are there family or business relationships intermingled with the board (Line 2)?
 - Does the board keep minutes (Line 8a)?
 - Does the board distribute its 990 before they file (Line 11a)?
 - Does the board have a conflict of interest policy (Line 12a)?
 - 990's are public record and the public should be able to get a copy, Line 18 tells the method for someone to get a copy.

IRS Part 7

- In Part 7, I look for items related to the pay of the board and staff. Are the board members volunteers or paid and what is the pay of the highest paid staff members? Do these salaries seem appropriate given the size of the organization?

Remaining Parts – Financial Statements

- The remaining parts are the various financial statements (also see Nehemiah’s document, “[Four Financial Reports](#)”)
 - [Part 8 – Statement of Revenue](#)
 - [Part 9 – Statement of Functional Expenses](#)
 - [Part 10 – Balance Sheet](#)

Can we help?

We hope this document has been helpful. For over 15 years Nehemiah Communications has helped to grow various non-profit organizations. Even though the non-profit sector is now a significant part of the United State’s economy, there are a very small number of businesses that focus on the operational and marketing side of non-profit development. I have worked in the non-profit field and focused our company on a select group of services in which I saw firsthand that help was needed. I enjoy growing non-profits because I believe that non-profit organizations are fulfilling key missions. We would love to learn about your mission and see how Nehemiah Communications can help you grow.