

Form 990 Review Guide

Use this guide to simplify your review of
your organization's Form 990



Reviewing the lengthy Form 990 is daunting.

We're here to help

Got questions? We're happy to answer any questions you have.

Contact Us

A Guide to Simplifying Your Form 990 Review

Reviewing the lengthy Form 990 is daunting. In addition, many nonprofit executives are short of time and/or expertise to do a full review. Missionwell has prepared this tool to assist **Board Treasurers, Finance or Audit Committee members and Executive Director/CEOs** in reviewing the annual Form 990 with a focus on governance and financial performance indicators. You can benefit from this guide because it will focus your review and because it can spotlight gaps that can spur improvements at your nonprofit.

For this review, we use the Charity Navigator methodology: Charity Navigator extracts two types of information from Form 990 and uses this extracted information for calculating both an **Accountability score** and a **Financial score**. These scores are averaged to obtain a rating for the Finance & Accountability beacon. This beacon is one of four beacons that can make up the score which translates into a published star rating (from 1 star to 4 stars) for a charity. If no other information is provided other than for this Finance & Accountability beacon, a charity's stars can be based solely on this one beacon.

Accountability Score

The **Accountability score** evaluates the answers to questions related to governance, covering topics such as board composition, conflict of interest policies, and other governance practices. By reviewing fewer than 20 items on Form 990, board members can confirm that the organization adheres to best practices in governance and get credit for that in Charity Navigator star ratings.

Below is a list of questions from Form 990 for review, in order of appearance, which affect the Accountability score:

Type of Information	Location on Form 990
Identifying Information: Ensures transparency and accessibility for stakeholders	Line J for website URL (top of Page 1)
Part 1 Summary: Confirms the board’s structure and independence, crucial for unbiased governance	Q3 & Q4 on board composition and independence
Part 4 Checklist of Required Schedules: Highlights potential conflicts of interest and financial integrity**	Line 26: Loans to/from related parties
Part 6 Governance, Management, and Disclosure:	
Identifies any misuse of funds, ensuring accountability	Q5: Diversion of assets
Verifies proper record-keeping and governance practices	Q8a: Board documentation process
Ensures board members are informed and engaged**	Q11: Distribution of Form 990 to board
Confirms policies to prevent conflicts of interest	Q12a: Conflict of interest policy
Protects those who report unethical behavior	Q13: Whistleblower policy
Ensures compliance with legal and regulatory requirements	Q14: Records retention and destruction policy
Assesses the fairness and transparency of executive compensation*	Q15a: CEO compensation process
Promotes transparency by making financial information publicly available	Q18: Form 990 disclosed on own website

Type of Information	Location on Form 990
Part 7 Compensation of Various Constituents:	
Provides transparency on executive pay	CEO's name and compensation listed
Ensures board independence and volunteerism	Board members listed and not compensated for board responsibilities
Part 12 – Financial Statements & Reporting: Confirms the organization follows rigorous financial auditing standards	Q2a, Q2b, Q2c on audit practices

Financial Score

The **Financial score** evaluates the financial health of a non-profit organization. Here, Charity Navigator extracts information from Form 990 “financial statement” sections and calculates either two or four ratios, depending on size of the organization, to calculate a Financial score. These key ratios (listed below) are analyzed and compared as needed to a normative group to determine how effectively the organization uses its funds and whether it is financially sustainable. These are all very basic financial health measures. You or staff can calculate these metrics as part of your Form 990 review. Through ratio review, board members can ensure that the organization is making prudent financial decisions and maintaining a stable financial position.

Two of the calculated ratios indicate if you are making efficient use of funds:

1. **Average Fundraising Efficiency**** measures the cost effectiveness of fundraising efforts and is derived from Part 8 Statement of Revenue and Part 9 Statement of Functional Expenses as follows:

Average Fundraising Expenses ÷ Average Total Contributions =

Average of Part 9, line 25D ÷ Average of Part 8, line 1H

2. **Program Expense Ratio** measures the proportion of funds spent on programs (vs. overhead and fundraising) and is viewed as a key efficiency indicator. This is derived from Part 9 Statement of Functional Expenses:

Average Program Expenses ÷ Average Total Expenses =

Average of Part 9, line 25B ÷ Average of Part 9, line 25A

Two additional ratios speak to financial sustainability of the organization.

3. **Liabilities to Assets Ratio** measures long term health and financial sustainability:

Total Liabilities ÷ Total Assets =

Part 10, line 26 ÷ Part 10, line 16

4. **Working Capital Ratio**** assesses short term liquidity which indicates the ability to pay your bills:

Working Capital ÷ Total Expenses =

(Part 10, line 27 + Part 10, line 28) ÷ Average of Part 9, line 25A

This ratio analysis allows the board and leaders of the organization to take a broader look at financial status. Accurate information is necessary to allow public charity raters to assess the organization's financial responsibility and efficiency, which in turn enhances donor confidence and support.

Missionwell can help improve the quality of your financial information. Get a quote today.

We hope this Missionwell Form 990 Review Guide helps make your review of Form 990 more meaningful and leads to great conversations on Accountability and Finance with your board.

Life would be easier if you had a business office with all the right professionals for your diverse needs. At Missionwell, we understand your challenges and have a long history of helping nonprofit leaders streamline and modernize their practices and systems. We bring you an expert team of accounting, HR, and financial professionals to run the business side of your operations. Getting started is easy: we can quickly tailor a proposal for your needs after an initial consultation. Once accepted, our team will walk by your side to set up and then operate your business office. Request a quote today, so you can stop worrying about administering your organization and focus on making the world a better place.

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Footnotes:

* Charity Navigator adds this to scoring if the nonprofit is over \$50 million annual revenue

** Charity Navigator adds this to scoring if the nonprofit is over \$2 million annual revenue