

Analyzing Vendor Financial Data Part 2: The Form 990

Transcript

Hello, this is Katharine Macy and we are back for part two on a video that is showing you how you can analyze a nonprofit vendors financial information. Part one covered looking at the annual report and that is what you can see on the screen. And part two, we're going to dig into the Form 990. What you're going to find in the Form 990 is that there is going to be some variation from what you see in the annual report. And the main reason for this is because these metrics are defined quite differently. The Form 990 is all about reporting and proving that you're a nonprofit to the IRS. Whereas the annual report is about talking to members and talking to people who might want to get involved as well as donate to their nonprofit. So they're different audiences and how each metric is defined around revenue and expenses is defined slightly differently. So they're not exactly an apples to apples comparison when you're comparing them. However, you can take both pieces of information together and find useful information. So we're going to start digging into the 2021 990 that you see published by the American Chemical Society. So I'm going to go and scroll down just to show you what type of information we're looking for in this. Basically what we're looking for is we're wanting to find the number of individuals employed, the number of volunteers, how they define program service revenue, total revenue, information around salaries and compensation, total expenses, revenue less expenses. And then trying to isolate specifically information services revenue. And then lastly, locating information around whether or not there's any grant money received by the institution. But we're going to take you through how you can read this 990 in this video. Okay, I've rearranged the screen so we can both look at the Form 990 that I've downloaded from the American Chemical Society from 2021, as well as the spreadsheet. So when you open up this file, the first thing you're going to see is the Form 8453 E. This is basically a declaration form with a signature about the filing itself and the preparation, and that's always the first page. To get to the 990, you actually go to page two. When you get to the second page of the download for the Form 990, you actually finally get there. This is the beginning of the 990 and it has all the high level numbers that you want to gather. Every page after that just allows you to dig further in and understand those numbers. We're going to come in here and right away I can start spotting some numbers that I want. But first I want to show you how to read this form. Something to note is that they list their numbers prior year and current year, which is the opposite of what you see in many of the annual reports. And it's important to take note of because we've set up the spreadsheet to be current year and prior year. So if you aren't careful, you can very easily accidentally put the wrong numbers in different fields. So we're going to first focus on filling out the current year, and then make sure we put in the prior year. So we want to pay attention to the furthest column to the right first, and then go to the column to the left. All right, we want to identify the number of individuals employed. You're going to find this on line 5, right here of the 990, so I see 22,076 You'll notice it only has the current year's worth of data. You might want to go back and look at several 990s going back several years to see if there's any trends around the number of people they're employing. Whether or not it's going up or down. And that could be helpful information to understand if you're trying to understand the health of the vendor or if they're increasing

their workforce considerably while we're cutting ours. I don't know that that is true or not true with this vendor. I'm just saying that that's stuff that you can look at when you're analyzing. In line 6, you're going to see the number of volunteers, which is 120,799 That's an important thing to note because they're getting a lot of free labor. If you think about the fact that they're an academic publisher. They're getting free editorial work, they're getting free peer reviews. Yes, it's probably their members that are doing this. It may or may not be. It is people who work in the field. But when you think about how many people in academia are helping support this organization run, it's something we want to consider, especially as we are looking to create a more sustainable relationship moving forward. Now we can go into program service revenue. Program service revenue includes operating revenue. But it's not the exact same thing. I see in here that the current year they're doing looks like 645 million. In their prior year, 602 million. Notice that these numbers aren't in thousands. It is the number. They're not trying to shorten it for the reporting sake, they are actually putting the full dollar amount in there. I'm going to put down 645,577,733 for the current year, and 602,076,021 for the prior year. We're going to want to put in the total revenue that they generate, which includes not just program service revenue, but their investment income, as well as other types of revenue that is brought in, such as contributions and grants. If we do that, that's Line 12 right here and I see for 2021, it's 851,256,692 and then I see that it's 750,217,209, for 2020. Next, I just want to note what's going on with their salaries and compensation. I think that's important for us to keep track of both, to see if they're operating and moving in a healthy way. That's always important. It's a great metric to look at to understand how an organization is operating. Is their wages growing higher than their sales? Are they not? Are they increasing their wage numbers and compensation to a point while maintaining growth while we are actually having to reduce ours? All of these things are questions you can ask now. I don't know that that's true with this. We'd have to do all the analysis going back a few years. But it's numbers you can dig into and try to understand. 286,428,626 and 271,806,580. If we look at that, it looks like their wages are growing at 5.4% which is less than what their revenues are growing. It's going up, but not dramatically. It provides additional context. I can look at their total expenses, which includes of course, salaries, and we can see how it's relating to their total expenses. What's going on there? I see their total expenses for their current year is about \$607 million I'm going to put that in 607,067,757. Their [prior] year happens to be 571,146,777. Actually, their total expenses are growing more than their salaries and their compensation. It's not moving significantly higher or less. I'd say they're fairly close. Now we're going to pull the revenue less expenses number, which is basically taking the total revenue minus total expenses and just giving us an idea as to the financial health of this organization. I see that for 2021 it's 244,188,935. After these expenses that they've outlined here, they're bringing in 244 million and then 179,070,432. Looking at that, this has grown significantly. That is really indicative of the fact that they their total revenue has gone up significantly as well. If I compare these numbers to what I saw in the annual report, if I look at their change in net assets, that goes down quite a bit because there are other pieces of information and other types of expenses that aren't being allocated in here. And this is where I'm showing that these numbers can be a little bit different. This is the 990 is using very specific metrics and definitions that do vary from the annual report overall. I personally like looking at the annual report more. However, I think there's pieces of information you can find on the 990 that can be quite useful. I really like having that context of individuals employees and number of volunteers. And then being able to compare other pieces of info. And sometimes you can't get an annual report, but it's just good to know and see how these compare. And as you can see, revenue less expenses in the 990 is higher than what you would see as a change in net assets without donor restrictions from operations. And that's because this number does not include

all the expenses that you would see that are in the calculation above in the annual report. So we can also go into this report and understand specifically what revenue they see coming from information services. This you're going to find, I believe around page nine. So we're going to go ahead and just flip forward to get to part eight of the report. It is actually on page 11. If you look below, it actually says page ten. Actually, page nine right here on the form. It's very interesting. You're going to find so many different page numbers when you're reading a 990. Here's the official form page of page nine. Here is another page number of the report. And then of course you have the PDF pages. So that is one thing to note. If you're ever reading something and referring to a page in this to your colleague, understand that there are different ways that it might be notated because of how they consolidate all the forms into this download of financial information. So we're looking at Page 11 of this report where we see the Statement of Revenue, which is Part VIII. And you can see a breakdown of information services right here. And I can put this information in there. So total revenue I see on this is 626. \$626,100,009 And then if I look at the related exempt function revenue, I see 616,777,229 which happens to be the closest number to what you're going to see to the operating revenues for the division. So this is probably the approximate, but it's still slightly different metric. And it's good to know this because you can then compare this information to what you see program service revenue. And go, what percentage of that does it happen to be? You could do further analysis if you wanted to on that information. This cell should not be highlighted. I'm going to unmake that yellow in this template. We have this information right here. It just--again--is another way to find information. And I wanted to show how you could dig into the statement of revenue to find specifically the, the business segment or the nonprofit segment that is contributing to publishing. So you can dig into that information, look for that in schedule and Part VIII, the Statement of Revenue. And I'm going to update that actually to say Part VIII on the template. Then lastly, something you dig into is looking at their Schedule I, which is I think on page 40 of this PDF. So we're going to take a look. Schedule I is really interesting because if you dig into it, you're going to see what grants that they've given to what institutions. You can dig through this and see if your institution has received any grants and notate it into this template. Last but not least, I want to point out that you can go to Schedule O, which is on page 79 of this PDF. What this page does is it can go into detail around the program services and the divisions. When we were looking at Part VIII, the Statement of Revenue, we were seeing how it was broken down into different nonprofit segments, business segments, so to speak, within the organization. Coming in here, we are now able to get more details on what those programs are. You also might get some context and color around the numbers and the operations itself. And so it's worth exploring. This basically is how you go about pulling all these numbers together. Well, we just did one annual report in part one and then the form 990 for 2021 in part two. What you would ideally do is, do this for several years so you could see numerical trends. What is happening? I often tend to look at three to five years just to see how things are shifting. I do not do this with every single vendor I'm negotiating. This is the type of analysis that I think about doing when we're doing something that's very strategic or really trying to change the nature of the relationship. I hope you found this helpful and have fun. As you do more and more of this type of analysis, you're going to get better at it and you're going to start spotting things. Try not to let it intimidate you. Instead, just take it one number at a time and go-- what looks interesting here?