

## BUSINESS

# Charitable organizations: How to check them out

2017 tax laws should make you more vigilant



How do we judge the quality of well-known charities? (iStockphoto)

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Charities are now losing more than \$20 billion annually in individual contributions because of the 2017 Tax Cuts and Jobs Act, according to most estimates. Due to the tax law change, more than 90% of taxpayers take the standard deduction and no longer claim a charitable deduction. With the overall reduction in giving, where we give is more important than ever.

We understand the basic cautions about giving, such as not providing credit card numbers over the phone and disregarding possible fake solicitations by mail, but how do we judge the quality of well-known charities?

For example, a retired nurse volunteered more than 30 hours a week as a disaster-site manager for a popular charity. She was upset the organization charged first-responders for coffee and snacks, so she paid for refreshments and other supplies herself.

Then she learned from a news program that funds raised for fire disaster victims were used for officer compensation, office upgrades and vehicles for officers. She may have been forewarned had she reviewed public financial information about the organization before committing her time.

## **Form 990**

Except for religious institutions, most charitable organizations must file a form 990 annually with the IRS. Copies of 990 forms for most charities are free on the internet.

Several sites, including Guidestar, Charity Navigator, and Charity Watch offer searchable databases and provide analyses and ratings of thousands of charitable organizations. IRS.gov and propublica.org also have searchable databases of 990 forms, but some sites require a free login.

Once you find a site with the form you seek, download it, and let's start our investigation. You won't need an accounting degree to understand much of the information, and some of it is fascinating.

## **Officer and director compensation**

First, jump to page seven, where compensation of the organization's officers, directors, key employees, and major independent contractors are listed. Don't be shocked by CEO/CFO salaries in low-to-mid six figures. Charities compete for talent with for-profit organizations. Most will disclose whether they used a salary survey and other procedures to make sure they are not overpaying their top managers.

Generally, most directors who report for work four hours a week or less are not paid.

## **Conflicts of interest**

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Of more concern on page seven is if directors have profitable ties with listed outside contractors. An example is a public garden with a significant landscaping contract owned by a director. Some charities state if directors must disclose conflicts of interest.

## **Sources of Funds**

Page nine will tell you whether government grants or charges for program services make up the most significant portion of its support. I was surprised to find the theater we support receives only a third of its revenue from ticket sales. Most of the funding comes from individual and corporate donors we can thank for our tickets.

## **Spending**

Page 10 breaks down the organization's expenses in two ways. First, it lists amounts spent on several types of costs, including advertising, salaries, office expenses and travel. Then it divides each expense according to whether it was a program-service, general, or fundraising expense. Your charity should spend most of its funds on program services.

It's interesting how many organizations lose money on fundraising activities.

## **Growth**

Looking at the balance sheet on page 11, you'll learn if the organization's assets grew during the past year (line 16). Most with significant publicly traded investments (line 11) increased their total assets over the past few years due to stock market gains. One local university increased its assets by over 20% in 2017 from portfolio gains.

## **Significant diversion of assets**

Page 6, Line 5 includes the IRS requirement to report any significant diversion of assets. A diversion of assets includes theft, embezzlement, or any unauthorized use of the organization's assets.

## **Foreign activities and grants**

Schedule F will tell you if the charity has activities outside the U.S. Schedule I lists grants the organization paid out to other organizations and individuals. You can learn who their charitable "friends" are.

## **Other useful information**

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Schedule O contains supplemental information. For example, one local homeless charity listed the number of beds, showers, meals, and changes of clothing it provided during the year. This supplemental information, combined with low administrative and officer compensation costs, compelled me to donate money and clothing.

Even without the tax deduction, Americans are routinely ranked as the most generous people in the world. We can use this free information to generate the most impact with our time and charitable dollars.

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**Michelle Herting**

Herting is a certified public accountant.

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