

# How is your donation being spent?

## *Five tips for checking charity finances*



**By Colette Kamps, CPA**

Many nonprofit organizations rely on donations to continue operations and program activities in support of their missions. But with so many great causes out there, how do you decide who to give to? Here are some tips if you are interested in doing some financial analysis of the potential recipient of your donation.

Donations are tax deductible if they are given to a public charity, which is a nonprofit organization that has received tax exempt status from the IRS under Section 501(c)(3). Every public charity is required to file one of the versions of the Form 990. Very small organizations (with annual gross revenues of \$50,000 or less) are only required to “file” the very simple and short Form 990-N which does not include any financial information. Organizations with annual gross revenues between \$50,000 and \$200,000 file the Form 990-EZ and organizations larger than that file the “full” Form 990. References here are made to the Form 990. The Forms 990 can be found publicly available at [guidestar.org](http://guidestar.org).

**Tip #1:** If you are comparing two or more organizations to try to decide which one you would like to contribute to, you may want to start just by comparing page 1 of each of their Forms 990 side by side. Page 1 is a great high level synopsis of the organization to give you an overall look. On this page, you can see the summarized mission, summarized financial information for the last two years, the number of board members and the number of volunteers. This “at-a-glance” info may be all you are looking for when making your decision.

**Tip #2:** Think of page 2 of the Form 990 as an advertisement for the organization. This page is supposed to be used to describe the accomplishments of the organization for that particular fiscal year. It should include what was accomplished with each of the main programs as well as certain statistical information, such as how many beneficiaries were reached with the program. These descriptions may give you a better understanding of exactly what the organization does and accomplishes with its mission. Knowing this may help you make your donation decision as it may be a cause you are more passionate about.

**Tip #3:** If you would like to dig in a little deeper to the financial numbers, refer to pages 9, 10 and 11. Page 9 will show you the different types and sources of revenues the organization generates. You may want to use this information to gain knowledge on the diversification of their revenue streams, which may be something that is important to you as far as financial stability. Or, you may find from this information that the organization relies heavily on donations. You may feel that they will value your donation more in this case. Neither situation is necessarily right or wrong, but it gives you more information to consider.

Page 10 will show you the details of the types and amounts of expenses for the year, as well as the amounts spent in programs versus supporting services. You may be able to make an assessment about whether funds are being spent wisely from this information. But this information shouldn't be the only consideration. For example, organizations that rely 100% on contributions will most likely need to spend more funds on fundraising efforts compared to an organization that is totally funded by earned revenue. Also, keep in mind that the value of nonprofessional volunteer services is not included on the Form 990 in either revenue or expenses.

Page 11 includes the balance sheets for the last two years. Types and amounts of assets and liabilities can also help you assess the financial stability of the organization.

**Tip #4:** Page 6 of the Form 990 requires “yes” or “no” answers to various questions about policies and procedures that may or may not be in place relating to board governance. This can be a good indicator as to the importance of “best practices” for board governance and oversight for the organization you are looking at. However, it is not uncommon for early stage organizations or very small organizations to not yet have these policies in place. Some of these policies and procedures are required to be explained in more detail on Schedule O, so be sure to look at that schedule in conjunction with page 6.

**Tip #5:** Pages 1 through 12 of the Form 990 are the “core” form. After page 12, you most likely will find several schedules attached. These can also contain useful information.

- If there is a Schedule L attached, this may be cause for concern as this schedule discloses certain “insider” transactions.
- Schedule D includes a reconciliation between the audited financial statements (if they had an audit) and the Form 990.
- Schedule G includes details on fundraising events.
- Schedule I lists out any grants or donations given by the organization.
- Schedule J shows details of any compensation paid that is higher than \$150,000.

These tips can be used to zero in on the information that is important to you. A donor should think of their donation like an investment... an investment in the community.

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