"THIS PAGE MUST PRECEDE THE ATTACHED PROPRIETARY DISCRETIONARY MARKETING MATERIAL AND BE PROVIDED TO ALL CLIENTS AND PROSPECTS"

Choosing the Right Charity

Your Philanthropic Endeavors Deserve as Much Due Diligence as Your investing

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The requests for charitable donations seem endless. They fill your mailbox and come from friends and co-workers. How do you choose among the thousands of needy causes? Whether you are considering a one-time gift or a major endowment, selecting the right charitable organization doesn't have to be a shot in the dark.

Charitable giving is an investment in the future. But it is an investment with a twist: Instead of putting your money to work for personal profit, you are assigning it to work for others. Naturally, you expect the money to be managed professionally and distributed efficiently.

Unfortunately, that trust is broken all too often. Charities that appeared to have sterling credentials are charged with squandering donors' money, through mismanagement or outright fraud. Sometimes these stories make front-page news, but the less spectacular cases may go unnoticed for years.

Ironically, people tend to donate money to charity without demanding to know how the money will be managed and how it will be distributed. They allow themselves to be swayed by emotional appeals and they write checks without asking hard questions.

There is nothing wrong with donating money to your alma mater or well-known charities — in fact, it's admirable. But if you decide to make a meaningful impact on an issue you feel strongly about, your charitable giving should not only be driven by your emotions. Your heart may be tugged by a philanthropic cause, but there are often multiple organizations whose missions overlap and it should be your head that determines which ones receive your charitable dollars.

It is important that you have confidence in the organization and people who will be putting your money to work. The best way to achieve this confidence is by approaching the process systematically. You should take into account your objectives, your personal financial situation, and you should perform some basic research on the recipients of your charity.

FIRST STEPS

Identifying your objectives should be the easy part of charitable giving. Fantasize about how you want to change the world. Do you want to help poor children receive a good education? Do you want to fund medical research? Do you believe a religious organization needs support? There is no shortage of worthy causes. Your challenge is to

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narrow the field, given that there are more than 1.2 million non-profits in the United States alone.[1]

Fortunately, a number of resources exist to help you find charities. On the Internet, Guidestar (www.guidestar.org) managed by Philanthropic Research, Inc. of Williamsburg, Va., provides information on more than one million charitable organizations, with a search engine to help you sort through them. Typing the words "autistic children," into Guidestar's search engine recently turned up 132 charities. A similar website is run by America's Charities (www.charities.org), which is a coalition of charitable organizations.

Religious or community organizations may help your search as well. The Forum of Regional Associations of Grantmakers (www.givingforum.org) provides one-stop access to 30 regional associations around the country dedicated to bringing donors and good causes together. The Jewish Funders Network (www.jfunders.org) allows members of the Jewish community to compare notes on giving and the issues surrounding philanthropy, family and community.

Once you have narrowed your search, you should determine how much you want to give, how much you can afford to give, and what form your gift should take — whether outright, in trust, through a private foundation or through a donor-advised fund. The larger your prospective donation, the greater your need to consider your personal financial and tax situation. Consult with your financial and tax advisors to determine the ramifications of major gifts. Income tax deductions can be a big incentive for charitable giving, but the alternative minimum tax can minimize the tax benefits of some charitable gifts.

Major gifts may involve estate planning considerations. For instance, charitable trusts are useful tools that can facilitate giving both to charity and family members. They can provide you with tax benefits, cash flow, and help you put your financial affairs in order. Donor-advised funds are an increasingly popular tool as well. For an annual fee, these funds function as a sort of clearinghouse for giving, allowing a donor to make a large donation in one year for tax deduction purposes, while directing the money later to designated charities. Donor-advised funds tend to work well for donors unable or unwilling to establish their own foundations.

If you have substantial wealth, you may consider establishing a private foundation, which can be one of the best — and most tax-effective — vehicles for charitable giving and for strategic wealth management. It provides major donor control, family involvement, and a framework for multigenerational continuity. Foundations allow you the greatest amount of control over your philanthropy, but they also require substantial work to establish and expert management to maintain. Be sure to consult with professional financial and legal advisors when considering trusts or foundations.

[1] Independent Sector, www.independentsector.org

When scandal hits charitable organizations, people are invariably shocked. But it's a sad truth that charities are not immune to bad management, fraud, or simple bad luck.

DUE DILIGENCE

After you have identified a charity that appeals to you, it is time to do some homework. Charities, like any human endeavor, range from the very good to the very bad. A good cause does not guarantee that a charity does an effective job. So, when researching a charity, you should consider:

- Its history and longevity
- Its news profile and reputation
- Who controls fundraising and assets
- How much it spends on its mission versus overhead and marketing
- Officer and board member compensation, including loans
- Excess or deficit beyond funds received for any given year
- Compliance with laws and regulations

Uncovering this type of information used to be a difficult, if not impossible task. Today, thanks to an Internal Revenue Service rule enacted in 1999, the bright light of disclosure shines on most IRS-recognized nonprofit organizations. To qualify as a nonprofit in the eyes of the IRS, a charity must file a Form 990, which outlines its business operations and finances (see sidebar on page 4). The IRS requires that filers must send their past three years of Form 990s, for a nominal fee, to anyone who requests them. The rule applies to charities that solicit funds from the public and collect more than $100,000 in gross revenues or have assets of more than $250,000.

Unfortunately, the Form 990 does not apply to most faith-based organizations, or organizations with annual incomes of less than $25,000, or nonprofits that have not applied to the IRS for exemption from federal income tax. In these cases, you should ask the charity for an audited financial statement.

To make your research even easier, Guidestar, one of the Internet-based services, posts the Form 990s for hundreds of thousands of charities. Form 990s are filed throughout the year, so you should make sure you have the latest filing from the charity.

Another good source of information is the BBB Wise Giving Alliance, which is a joint alliance of the National Charities Information Bureau and the Philanthropic Advisory Service (PAS) of the Council of Better Business Bureaus Foundation. This group evaluates charities based on 20 standards, publishes booklets about smart giving and hosts a website at www.give.org.

What about brand-new charitable organizations that don't have a track record yet? Proceed with caution. It's fine to give to a start-up, but longevity and history are very important. Generally speaking, it is best for donors to go with organizations that have been around a long time, at least 10 years.

BACKGROUND CHECK

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Everything You Wanted to Know About Your Charity…

The Form 990 is a window into a nonprofit's business operations. It is divided into six parts, all of which contain important information. Like most IRS forms, it can be long and intimidating at first glance, but it is worth examining if you are considering a large donation.

Part I includes a charity's revenue, expenses and changes in its net assets or fund balances. The National Charities Information Bureau (NCIB) notes that well-managed organizations generally devote 70% of their revenue to their intended purpose, with the remainder going to fundraising and administration costs.

Part II covers a charity's administrative costs. Unfortunately, no standard formula governs overhead calculations. For instance, charities can include their chief executive's salary under either "program services" or "management and general expenses."

In Part III, charities provide their statement of program service achievements. This section of the form must be specific. Homeless shelters, for example, should note how many meals they served and beds they provided. Vague descriptions should give you pause.

The balance sheet sections in Part IV of Form 990 provide details on money that was exchanged between the nonprofit and the people affiliated with it. If the nonprofit holds a mortgage for an officer's home, for example, the charity must disclose this.

Serious donors should also scrutinize Part V — which covers salaries, benefits, expense allowances, and hours worked for officers, directors, trustees and key employees. Part VI of the Form 990 is the "Other Information" section, which asks whether the charity complies with all the rules and regulations that apply to it.

Last but not least, a Form 990's Schedule A contains important information on a nonprofit's highest paid employees and independent contractors, as well as financial transactions between the organization and insiders.

Unfortunately, there is no way to guarantee a charity's future health. But you can conduct background checks through several sources. A good place to start is by looking at news databases, such as Nexis, for any hint of scandal about the charity or its principals. These are available through most public libraries, or your financial advisor may have access. If you are considering a very large donation, you might consider hiring a corporate investigation firm to conduct a thorough background check. Your financial advisor may be able to recommend one.

Again, the more money you are considering donating, the more thorough your background check should be. Major donors should insist on personal interviews with charity officials.

The bottom line is that donors should approach giving with as much preparation as they do investing.

Once inside the charity's headquarters, you should not hesitate to ask executives—eyeball to eyeball—whether their records and history are squeaky clean. Come prepared with a list of questions concerning the uses and sources of funds, investment policies, oversight and so on.

Grilling a charity's executives may seem excessive or even hard-hearted. However, if you are to maximize the effectiveness of your giving, the interview is an important component of your due diligence.

The bottom line is that donors should approach giving with as much preparation as they do investing. "Your money has great power and influence on the direction of our society," Jewish Funders Network advises members. "It can literally change the world."

FOR FURTHER REFERENCE:

- Guidestar: **www.guidestar.org**
- BBB Wise Giving Alliance: **www.give.org**
- America's Charities: **www.charities.org**

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