

Doing Well at Doing Good

There's more to giving than writing a check. How to pick your charities wisely.

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Mike Kendrick needed a plan. Each holiday season, he gets at least a half-dozen calls or letters a week from someone he knows, asking him to support a favorite nonprofit, attend a benefit dinner or buy something at a charity auction.

But the Atlanta investment banker wanted to know that his donation would actually have an impact before he wrote the check. "How do you determine, out of all the organizations who ask, which ones have a very high return on investment from an effectiveness standpoint?" says the 45-year-old.

THE JOURNAL REPORT



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So Mr. Kendrick developed a score sheet to evaluate charities, on a scale of minus five to plus 10. He looks at categories ranging from "purpose and strategy" to "fund development" to "marketing and Web site," but he sums up his criteria simply: transparency in operations and measurable results. "Give me the facts, not glossy brochures with starving babies," he says.

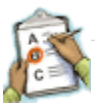
It's an attitude shared by more donors these days, as the number of charities booms -- along with requests for cash. Donors complain that the groups talk in vague terms about their work, often providing lots of proof that the problems they address are important -- but few details about their strategy for solving it. Many donors say that even after making a charitable gift, they have no idea where their money went and whether it made a difference.

"You're taking the luck of the draw if you just throw your money in the pot," says Eric Thurman, chief executive of Geneva Global, a philanthropy consulting firm in suburban Philadelphia. "You really don't know if something good will happen."

On top of that, donors are feeling tapped out. Americans have already given billions of dollars to relief organizations in the wake of the past year's natural disasters. And charities, some of which raise as much as 50% of their budget between Labor Day and New Year's Day, are growing concerned.

"They are worried because people gave so much during the year," says Trent Stamp, president of Charity Navigator, a donor-advocacy group in Mahwah, N.J. "People who gave to Katrina didn't take it out of their college funds, they took it out of the money they give to their homeless shelter."

The number of charities increased by 4.8% last year, to 1,010,395, according to the annual report published by the Giving USA Foundation, written and researched by the Center on Philanthropy at Indiana University. Just since late August, when Hurricane Katrina hit the Gulf Coast, the Internal Revenue Service has approved 185 applications for new charities related to hurricanes Katrina, Rita and Wilma.




³ WSJ.COM/HARRIS POLL

Most Americans gave⁴ to charities last year, a personal-finance poll finds.

That's a lot of groups for donors to sort through. But overload is just one reason people are becoming more cautious about giving. Since the mid-1990s, the charity world has been rocked by a number of much-publicized scandals involving excessive personal spending by executives and a lack of accountability. There have also been prominent

cases where donors claimed their money wasn't used for the intended purpose: After Sept. 11, for example, many donors to the Red Cross thought their money was going to the victims' families. But it had been earmarked for a variety of things, including preparation for possible future crises.

Moreover, thanks to the dot-com and Wall Street booms of the 1990s, many more young people have become major donors, and they're generally much more hands-on than previous generations about tracking where their money goes.

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So, what's a cautious donor to do? First and foremost, homework. Just a few hours of research can really pay off. "One can exponentially increase the good of their donation with even a little effort," says Daniel Borochoff, president of the American Institute of Philanthropy, a charity watchdog in Chicago.

Philanthropy advisers say that for small donations -- anything under \$250 -- it's not necessary to do a lot of digging because you won't be able to direct where the money goes. It will get pooled with other small gifts for the charity's general use. At this level, most experts advise searching out a well-established local or national charity. They also say it's best to move up to a higher level of donations, even if it means giving every other year. This will help you to be able to designate how your money is spent -- and potentially save you from some hassles.

"It's much better to consolidate your giving," says Charity Navigator's Mr. Stamp. He says charities often sell their lists of small donors to other charities -- resulting in more solicitations for the donors -- because they feel they won't get larger donations from them and can make money this way.

Most nonprofits and philanthropy consultants consider a major gift to start around \$5,000 to \$10,000. At this level, donors can start to designate their donations to support specific projects -- something that may not have gotten funding without their support -- and ask for specific information on how their funds were used. This can be the most gratifying form of philanthropy. And this is where having a strategy to analyze the nonprofit becomes essential.

Take the approach adopted by Mr. Kendrick, who says he will give away about \$750,000 this year. To assess a charity, he interviews the people who run the nonprofit, visits its headquarters and looks over its financial documents.

Here's a guide to evaluating a charity -- and making sure your donation actually does some good.

DECIDE WHAT YOU WANT

Consultants who advise large-scale donors say that philanthropy should be approached like investing. Donors should pick a sector -- such as health care, education or the environment -- and comparison-shop within it. They should also consider their tolerance for risk. Some will want to stick with well-established organizations, while others will want to fund new or cutting-edge groups.

While you're looking, be sure to narrow down what you want to accomplish -- and be realistic about what your money can do. For instance, your \$5,000 gift won't do much to alleviate global pollution, but it could go a long way toward cleaning up a river in your hometown. So, in this case, it might be worth your while to give to a local group devoted to that effort instead of an organization with world-wide reach.

One way to find these local organizations is to ask local experts in the field. If your cause of choice is health care, for instance, talk to doctors. Local organizations that support nonprofits, such as a community foundation or United Way branch, also may be able to help. Churches and synagogues often can be good sources of information, too.

'CONTRARIAN' GIVING



PODCAST:⁵ One strategy for making the most of your charitable donations is to give to so-called contrarian programs -- causes that most donors dismiss or don't even know about. WSJ's Elizabeth Bernstein interviews Calvin Edwards, a philanthropy adviser in Atlanta, who discusses why some charities are overlooked, how to go about finding them and what donors to such programs should be wary of.

After you figure out how you want your money spent, and you have your eye on potential charities, it's vital to make sure exactly what these groups do -- an obvious, but not always easy, step. "Organizations come up with mission statements that are confusing and hard to understand," says Calvin Edwards, a philanthropy adviser in Atlanta. "Think about this question: What does the American Cancer Society do? Does it help prevent cancer, help people who have cancer or do cancer research? The mission and exact purpose is not necessarily obvious."

Mr. Edwards suggests asking a nonprofit two questions: What do you do, and who do you do it to? "Make sure you have an answer to that at a very exact and precise level," he says.

Donors looking to have the most impact with their gift should consider "contrarian" approaches -- causes that are missed by others and have a hard time raising money. These may be unpopular causes, such as programs that work with marginalized populations or criminals, or unpopular niche programs within a larger charity.

"Take cancer," says Geneva Global's Mr. Thurman. "I don't think my private donation will change cancer research, but I do think I can make a difference if I fund [an overlooked niche such as] cancer-screening programs for people who may not be able to afford them."

Just about the last place to look for information about charities, consultants warn, is the mail. Giving to a group because you received a solicitation is reactive and may lead you to make impulsive decisions. It's far better to be proactive, experts say, searching out solid funding opportunities.

CHECK OUT THE FINANCES

There are a number of ways to look into the financial health of a nonprofit. Guidestar.org⁶ lists more than one million charities recognized by the IRS, including descriptions of their mission statements and programs, as well as scanned copies of the 990 forms they are required to file with the IRS. These forms show the organization's assets and liabilities, what it pays its top staff, how much money it gives away and how much it spends on overhead.

Charitynavigator.org⁷ analyzes key measures of financial strength, such as administrative and fund-raising expenses, for 5,000 charities.

You can also contact your state attorney's office to make sure there are no fraud claims against the charity. And check out the group's audit, which spells out its assets and liabilities, how much money it took in, where it got the funds and what they were spent on. This can be more helpful than reading the 990, which will show how much a charity has spent but won't always break it down by program. A charity must provide a financial statement to anyone who asks, and some charities include it on their Web site.

Not all states require charities to be audited, though, and those that do have different cutoffs. Wisconsin requires all charities with combined contributions of more than \$100,000 a year to have an audit, and \$175,000 if the charity has one contribution totaling \$75,000 or more; in California, it's revenue of more than \$2 million, and the charity must form an audit committee. Many experts agree that a responsible charity will perform an audit voluntarily, especially if its budget is bigger than \$250,000.

Many new donors become obsessed with the idea of a charity's overhead. But this figure isn't always an accurate measure of how effective a charity is. For one, some nonprofits -- such as relief groups that need to mobilize a lot of supplies and staff at short notice -- may have high overhead. "Do you know what the management overhead is for Lexus or Cadillac?" asks Mr. Thurman. "You don't care, because it's not why you buy the car. It's for maintenance or prestige or safety, and it's the same with charity."

In general, experts say that a reasonable range for all operating costs ideally would be about 20% to 30% of a charity's annual budget. But be careful of claims that a group is spending 100% of its money on the services it provides. Charities sometimes shift overhead expenses into services provided to make it look like they are spending less on administrative costs.

There are other measures to look for: How much money does a charity spend to raise money? How diverse are its fund-raising sources? How much does it have in the bank? How much does its chief get paid relative to heads of similar nonprofits? In these areas, "you're looking for your comfort level as a donor," says Mr. Stamp.

LOOK FOR TRANSPARENCY

A charity should be responsive and cooperative and provide clear answers to your questions. "If someone is not willing to be transparent or accountable, that's a red flag," says Bob Ottenhoff, president of Guidestar, the charity database.

Naomi Eisenberger runs the Ziv Tzedakah Fund, a nonprofit based in Millburn, N.J., that gives away about \$750,000 a year to small charities. After Hurricane Katrina, she became interested in a charity that was collecting cellphones for elderly victims of the hurricane.

Ms. Eisenberger emailed the president of the charity, asking for proof of the group's nonprofit status, which she

received. But when she asked about the charity's fund raising and expenses, she was told it spent \$180,000 this year and raised just \$5,000. Ms. Eisenberger says that over the course of one week she exchanged seven emails and four to five phone calls with three separate staff members, trying to get answers about the group's funding and other issues. She requested a copy of the group's budget and was promised it would be faxed to her either that day or the next morning. But it never arrived.

"It was uncomfortable," says Ms. Eisenberger, 60 years old. "If you are doing what you say you are doing, then that should be a prominent part of your organization. You need to show you are putting phones in people's hands." She never wrote the check.

VISIT WITH THE STAFF

Once you've found a charity that checks out financially, it's time to sit down with the executive director, the program director or other staffers. For the biggest charities, of course, this may not be practical unless you're a large-scale donor.

When investigating nonprofits for his clients, Mr. Edwards asks what the charity's mission is and how the group plans to achieve it. Then come follow-up questions: How do their programs work, why did they choose this approach, what research backs it up, what other approaches did they reject and why?

He also encourages donors to talk to current trustees of the charity and to look up past board members by reading previous years' 990s. Donors should also expect most directors to support the organization financially -- if they won't put their own money into it, why should you? Most charities consider this information confidential unless the donor allows it to be disclosed, however.

Donors should also pay attention to the composition of the board as a whole. An ideal board will have members from the business world, law, marketing, public relations, accounting and finance, as well as the field the charity specializes in.

It's a good idea to visit the charity, too. "I tell people to go down, get involved, ask some questions, walk around and see what's going on," says Gene Tempel, executive director of the Center on Philanthropy at Indiana University.

On a site visit, donors can meet lower-level staff members as well as people who receive services from the charity, and they can take a peek around. Mr. Edwards says to pay attention to little things -- employee notice boards, internal newsletters, newspaper articles posted about the charity -- to get a sense of the place. "You basically sniff out anything you can find," he says.

GET INVOLVED

Volunteering can be a great way to get to know a charity before you make a gift -- and to leverage your money once you do. "Having some up-close contact on a weekly or monthly level can give most donors the confidence that they know enough about the organization to give a meaningful gift," says Dianna Smiley, program director at the National Center for Family Philanthropy in Washington, D.C.

In addition, if charities know you are in it for the long haul, they may be more likely to honor your requests. Richard and Lezlie Atlas, of Los Angeles, have a family foundation that gives annual grants of between \$50,000 and \$100,000 to agencies that focus on low-income pregnant women, infants and toddlers.

The couple spend almost a year getting to know a nonprofit before making a donation. The Atlases first meet with the group's executive director and two or three top staff members. "We see whether there is a congruence of values, philosophy and approach," says Mr. Atlas, a 62-year-old former partner at Goldman Sachs. If this goes well, a second meeting is scheduled about three to four weeks later to talk about the nonprofit's programs, plans and finances in detail.

The Atlases give one-year grants, which they renew if they feel their money is being used effectively. And once they begin funding a group, they try to help out in other ways. They give advice on board development and introduce the staff to wealthy friends or family foundations that may want to get involved. They will also pay for staff training and

conferences.

"Change in life takes a long-term commitment," says Mr. Atlas.

--Ms. Bernstein is a staff reporter in The Wall Street Journal's New York bureau.

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