

## HOW TO VET A CHARITY

Ensure your charitable donations are going to a legitimate organization that will use your money well.



By: Maryalene LaPonsie - September 23, 2020

Making a donation to charity can have multiple benefits. It can further a favorite cause, provide a possible tax deduction and leave you feeling good about making a positive contribution to the world.

However, you want to be sure your donations are going to organizations that will make the most of your money. While a single, small donation may not necessitate a significant amount of research, donors should approach larger gifts with more diligence.

"We're doing a lot with donor-advised funds these days," says Tim Harrison, a wealth management advisor with Northwestern Mutual and CEO of Harrison Financial Services in Omaha, Nebraska. People deposit a significant amount of money into these funds in a single year so they are able to itemize their tax deductions. Then, contributions from the fund can be distributed to nonprofits over a longer period of time.

Whether you plan to open a donor-advised fund, make a large one-time donation or leave part of your estate to a nonprofit, keep reading for everything you need to know about how to vet the charities you have in mind.

### 5 Steps to Vet a Charity

Selecting the right charity involves two phases, says Patrick Fruzzetti, managing director at The Rosenau Group at Hightower, an advisory firm in New York City. First is the discovery phase in which people find organizations that align with their goals and priorities. The second is a diligence phase, in which donors want to be sure the charity will be a good steward of their money.

Both phases are encompassed in the following five steps.

- Identify the organization's mission.
- Review Form 990.
- Read the annual report and audit.
- Evaluate results.
- Speak to a representative or volunteer for the charity.

### Identify the Organization's Mission

"It's important for everyone to know why they are giving to a charity," says Neel Shah, owner of Beacon Wealth Solutions, a financial services firm in Jamesburg, New Jersey. Do you hope to further a specific cause, such as nature conservation, racial equality or child welfare? Do you want to support an organization that provides direct assistance in your community? Or do you have another goal?

Depending on your answer, you may be able to search online for an appropriate organization or ask family and friends for recommendations. Once you have narrowed your list to a few

promising charities, it is time to ensure they can deliver results.

### Review Form 990

Nonprofits file Form 990 annually with the IRS to provide an overview of their mission, finances and governance. Pay particular attention to the board of directors listed in the summary section, says Elizabeth Wagner, senior vice president and director of institutional wealth management for the Bryn Mawr Trust, a financial firm.

Line 3 lists the number of voting members of the governing body, and Line 4 states how many of those are independent. "If there are members of the board who are not independent, that's a cause for concern," Wagner explains.

She also suggests scrolling down the end of Form 990 to Schedule O. This schedule includes any explanations needed for other sections of the form. Wagner notes this information can provide additional information and insight into how an organization is run.

### Read the Annual Report and Audit

In addition to Form 990, review an organization's annual report and audit. Depending on their size and state, not every nonprofit is required to conduct an independent audit. However, if one is available, don't assume you need an accounting background to read it.

"The great thing about the audit is that the notes are longer than the numbers," Wagner says. Those notes can often provide interesting details about how a charity manages its money.

Some organizations issue annual reports as well. These usually pull key data from Form 990 and highlight initiatives and results. For those who are overwhelmed by the numbers in the other forms, these reports can be an accessible way to read about a charity's activities.

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### Signs That the Organization Is a Scam

Charity scams are common, so you need to be wary about responding to unsolicited requests for money. Asking for a donation to be sent via a wire transfer is usually a clear sign of a scam, Fruzzetti says.

Before sending a donation to a new charity, be sure to double-check that it is actually registered as a nonprofit and has filed Form 990 with the IRS. "If you're looking ... and don't find these documents, that's clearly a red flag," Fruzzetti adds.

It can be tempting to look at the compensation of a charity's executive to decide whether it is a legitimate organization or a good steward of money. However, this doesn't necessarily indicate a scam. A large salary may be needed to attract the type of person who can manage operations successfully.

"There's a significant amount of complexity for some of these larger organizations," Shah says. While donors shouldn't judge a charity on the basis of its executive salaries alone, it can be a

factor in deciding where to donate. "It's your money," Shah says. "You get to decide what seems reasonable."

If a large proportion of donations are spent on salaries, then that should give you reason to pause. As you look at an organization's financials, Harrison says people should ask, "Of each dollar, where did the money go?" If a large percentage is spent on fundraising or administrative expenses, the organization may not be effective.

To find the documents listed above or other information about charities, use these resources:

- IRS tax exempt organization search.
- Guidestar.
- Charity Navigator.
- Give.org.
- Google News.

### IRS Tax Exempt Organization Search

Formerly known as Select Check, this free IRS tool makes it easy to search for nonprofits by name, tax identification number or location. If an organization isn't listed here, your donation might not be eligible for a tax deduction. However, be aware that churches, which can receive tax deductible donations, may not show up in search results.

### Guidestar

Users must sign up for a free account to get access to charity profiles on Guidestar. These include details about a group's mission, service area and affiliations. Form 990s can be downloaded for free, but you'll need to subscribe to a monthly plan to see a financial analysis of the data and how it compares to other nonprofits.

### Charity Navigator

Charity Navigator uses a four-star scale to rate nonprofits on their finances as well as on accountability and transparency. The website offers detailed information for free, including how money is collected, the percentage of funds that are spent on program expenses and the organization's reported impact. Smaller nonprofits may not be rated on Charity Navigator.

### Give.org

Overseen by the Better Business Bureau Wise Giving Alliance, Give.org publishes reports on nationally soliciting organizations. The website provides details about expenses and revenues and notes any going concerns or areas in which the charity fails to meet alliance standards.

### Google News

Searching news stories can be a quick way to get a pulse on a charity's operations. "Do a little digging to see if they've been in the news for the right or wrong reasons," Shah says.

Use these steps and tools to find a charity that aligns with your goals and makes effective use of donor money. Then, give confidently, knowing you are helping to make the world a better place.

Read the whole article at <https://bit.ly/3iYvY0>

Neel Shah, managing attorney of the law firm of Shah & Associates is an attorney, financial advisor and author who provides insightful analysis and actionable strategies for Business Owners, Entrepreneurs, and Investors.



To contact Neel, call 609-277-3887 or visit [www.beaconwealth.us](http://www.beaconwealth.us)