

MAKING CENTS

DO RESEARCH BEFORE GIVING TO CHARITY

-John P. Napolitano, CFP®, CPA, PFS, MST, RLP®



I receive the same sorts of phone calls you get: an organization wants you to tape a check to the door or put out a bag of canned goods for some needy group. The callers are well-trained at pulling at your heartstrings to get you to open your wallet.

Sometimes the charities or callers are organizations or people that you recognize. Other times they are organizations you've never heard of. One reader told me about receiving a suspicious fundraising call and deciding to forward the number to the local police department. The police later informed him that the call came from a disposable cell phone - likely one being used by a scam artist.

I am not writing this to thwart your future generosity, but rather to give you guidance on checking out an organization before you donate your money.

The first issue of major concern is whether the charity is a legitimate nonprofit. If it is not, under IRS audit, your charitable deduction would be disallowed. To check this, you can inquire about the organization's registration at the attorney general's office. But that by itself is not nearly enough.

You can ask the charity to supply you with access to its annual report, audited financial statements and IRS Form 990. These should tell you every-

thing you need to know. One place to check this information is www.charitynavigator.org.

Some people prefer to donate to well-established charities with huge endowments. Others may prefer to donate to smaller or local charities without large reserves, based on the assumption that they more desperately need the contributions. If you can, you might want to actually witness the charity in action. Visit its site, see its programs in action, and talk to the employees and volunteers. You may learn that your time can be almost as valuable as your money.

Another issue is the percentage of the charity's total expenses actually put to charitable purposes. Naturally, the bigger the percentage of spending that goes toward the entity's charitable purposes, the better. Some groups are more efficient and better-run than others.

The next issue is the charity's cost to raise funds. It should come as no surprise that organizations that use outside fundraising companies are frequently on the higher end of these cost percentages.

Giving is good, but it's even better when you know your donation is being used as you would have hoped.

Come visit our blog: www.MakingCentsBlog.com

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