

Choosing a Charity

Often, there are two primary reasons for becoming significantly involved with a charity:

- You or someone you care about has benefited from the programs of a charity (perhaps it's your alma mater; or a friend or family member received care from a certain health-based organization)
- Something a charitable organization does connects to your values or worldview.

Your reasons for choosing a charity probably involve more issues than these, but financial involvement usually starts with a personal commitment. Once identified, you'll want to investigate the organization to be sure that your support will bring about optimal results.

When considering giving support to a charity, you first need to distinguish between effectiveness and efficiency. Effectiveness is the impact that the charity has on the cause itself as a result of the business the organization conducts. Efficiency gauges how well the charity conducts its business; it's the balance between how much of your money goes to the cause itself versus how much goes toward running the organization. Ideally, you will want a high level of both effectiveness and efficiency in the charity you support.

EFFECTIVENESS

An effective charity does the right tasks to solve the problem by choosing successful strategies. Some organizations appear to follow supportive strategies, like a school running additional educational programs, a hospital delivering in-home health care services, or a homeless shelter providing housing. But these simple solutions may not achieve the organization's goals with the greatest impact. Is there a specific area of education that needs special attention? Are the people who need in-home care aware of the service? Is the shelter only temporarily resolving the housing problem?

To evaluate effectiveness, you need to understand enough about the issues to assess the techniques chosen to accomplish the mission. The people in charge of the charity should already be experts in the field and should be able to explain their plan to you. You should request an outline of the studies they conducted to select their strategy and compare it to solutions adopted by similar organizations. You should agree with the leadership's ideas of effective strategy, and you should understand how successful efforts are measured.

EFFICIENCY

Evaluating an organization's efficiency is a much simpler task. An efficient charity processes tasks very well, turning every dollar into program results. You'll want to know the percentage of funds spent on operations versus those spent getting results, or specifically how much money the organization receives and what their expenses are. Your goal is to find out how the organization will spend your funds and whether you think that there is a reasonable allocation in place. Like any other investment, you are looking for a significant return on your contribution.

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There is one simple way to be sure that the efficiency rating is accurate. Every US charity is required to file IRS Form 990. This is the financial disclosure statement of the charity's operation. These forms are available on the web or you have the right to review the document at the organization's principle place of business.

The first numbers to evaluate are the fund raising and management costs—that is, the cost of operations. The general rule is that no more than 20% of all funds raised should be used for operational functions. Most charities are ready to give you this number. Otherwise, you should check it out yourself, using the 990 form. On the page that lists support, revenue, and expenses, divide the sum of the total costs for fund raising and management by the figure for total expenses. Here's a tip: Some organizations reduce fund raising costs by shifting expenditures to education. If the education costs look high, ask some hard questions about the value and beneficiaries of those education programs.

Next, find out how successful they are in their fund raising efforts. A four-to-one return on fund raising expenditures is appropriate. To check out this ratio, divide the total fund raising costs by the income from general donations, realized bequests, foundation and government grants, and proceeds, if there are any. If the costs exceed 25%, again, ask some tough questions.

Finally, look to see how much the charity actually spent on the area that interests you most. Under the section on functional expenses, evaluate how much was spent on various program categories. If your primary interest is in research and they show only 5% of their functional expenditures on research, you'll want to ask about the ultimate goals of the organization. It's possible that there is a good reason for the difference in their apparent priorities and yours—just make sure they have the same mission as you do before making a significant gift.

The satisfaction you'll get from your charitable giving is your responsibility. By testing an organization's effectiveness and efficiency, you will feel informed about your giving experience. You'll go forward with a good feeling that your contributions are doing the right work the right way, and that you are making an important difference in the lives of others.