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10 Things Nonprofits Won't Tell You

1. “Fund-raising’s gone viral.”

FOR THE 1.9 MILLION tax-exempt nonprofits in the U.S.—including charities, private foundations and arts organizations—finding new sources of funding is more important than ever. In 2008 donations totaled \$308 billion, down from \$314 billion the year before, the first decrease since 1987. In fact, a recent survey by the Nonprofit Finance Fund, a financial consultant for nonprofits, found only 12 percent expect to “operate above break-even” this year. So it’s hardly a surprise that many nonprofits have turned to Facebook-style “social marketing,” since “the only thing it costs is sweat,” says Curtis Hougland, founder of social-media marketer Attention.

According to a recent University of Massachusetts Dartmouth study, 89 percent of the top 200 charities are now using at least one form of social media to raise money or their profile. Among them is City Harvest, a New York City–based food-donation nonprofit. When the charity realized it needed to reach new donors, it set up a Facebook fan page, announcing that for every new fan who signed up, there were donors willing to contribute \$5. “It was the easiest \$40,000 we ever made,” says Heather Wallace, director of marketing at City Harvest.

2. “Just because we’re nonprofit doesn’t mean we’re saints.”

A COMMON misconception about nonprofits is that they can do no wrong, says Daniel Borochoff, president of the American Institute of Philanthropy, a charity watchdog. For example, nonprofit hospitals—which make up 80 percent of all hospitals—have come under fire from Congress for not providing enough care to the needy. “They have to make an effort to do something useful to expect taxpayers to support them,” says Maggie Mahar, the author of *Money-Driven Medicine*. (A spokesperson for the American Hospital Association, which represents some 4,200 hospitals, mostly nonprofit, says its nonprofit members will continue to do what they can to serve the uninsured.)

Another issue: compensation of top execs. Borochoff cites the Asia Foundation, which promotes U.S.–Asian relations. In 2004 it offered President Douglas Bereuter a \$250,000 housing-assistance loan, to be paid back with interest between 2007 and 2010 but waiving payment as long as Bereuter’s still president (he was as of press time)—essentially giving him a fat bonus. (A foundation spokesperson says the loan structure complies with the law.)

3. “Even we are cutting back on donations.”

THE \$4.6 BILLION endowment of the David and Lucile Packard Foundation has not been immune to the recession. Faced with losses, the foundation, set up by a cofounder of Hewlett-Packard in 1964, announced it would scale back the grant money it awards by 20 percent, to \$276 million, this year. Bad news for the roughly 500 community and environmental organizations it offers grants to each

year. In fact, foundations—tax-exempt trust funds typically set up by a single person or family with philanthropic designs—are tightening their belts across the board. Though the amount of donations given as grants by foundations has risen 53 percent since 2003, to \$41 billion or 13 percent of all charitable donations, 62 percent of nonprofits are anticipating a decrease in foundation grants this year, according to the Nonprofit Finance Fund.

“Foundation grant-making usually mirrors the economy,” says Catherine England, communications officer for the Packard Foundation.

As endowments grow and shrink, so do contributions, though part of foundations’ tax-exempt status requires providing grants equaling at least 5 percent of its endowment a year.

4. “Transparency, shmansparency.”

WHEN KJERSTIN Erickson, founder and executive director of Forge, a nonprofit that works with African refugees, saw her company’s 2008 fund-raising campaign was going to come up \$100,000 short, she went online and blogged about how Forge was in crisis, even admitting what it could have done differently. “We kind of wondered if we were shooting ourselves in the foot,” she says. But Erickson’s openness appealed to donors, and Forge was able to raise almost \$150,000 as a result.

That kind of transparency isn’t the norm, says Sean Stannard-Stockton, founder of Tactical Philanthropy Advisors, a nonprofit consultant. Often the only way to glimpse a nonprofit’s inner workings is via its IRS Form 990, filed annually,

detailing the amount of contributions and what it did with them. The problem: “It tells you virtually nothing,” says Phil Buchanan, president of the Center for Effective Philanthropy. Trying to get nonprofits to disclose more info (travel perks, insider transactions, executive pay), the IRS is introducing a new tax form. But Borochoff, who says he’s seen enough 990s with serious omissions, questions “how many nonprofits [will] take it seriously.”

5. “Our best stat might not tell you a whole lot.”

WHEN CONSUMERS want to do their homework before donating money to a charity, there are three nonprofit watchdogs they can turn to for help. The Better Business Bureau’s Wise Giving Alliance, Charity Navigator and the American Institute of Philanthropy all offer an independent evaluation of charities’ effectiveness. One of the statistics they base their ratings on is the popular “portion of donations that go toward the cause,” which is a statistic calculated by dividing the amount of program costs by the total donations. “It’s what the public wants,” says Borochoff.

But this popular stat, while useful, has come under fire from critics. “Just because you know how much was spent on the cause doesn’t mean it was spent wisely,” says Dan Pallotta, author of *Uncharitable*, a book about assessing nonprofits. For example, the effectiveness of an after-school mentoring program might not be apparent for years. But for now the standard calculation will have to do—because of the sheer variety of charities, Buchanan says, there may never be “a universal measuring stick” for nonprofits.

6. “You’re not the only one who made some bad investment decisions last year.”

NONPROFITS THAT are able to enjoy a surplus of donations and/or revenue typically invest those excess dollars. But when the market goes bad, as it did last year, things can get pretty rocky for those that aren’t savvy investors. “The future of an organization could be at stake,” says John Griswold, executive director of the Commonfund Institute, a financial adviser for nonprofits. It’s estimated that nonprofits lost roughly a quarter of their assets in the downturn, not a good sign for the 84 percent that don’t anticipate being able to cover operating expenses next year, according to a Nonprofit Finance Fund survey.

Nearly all nonprofits use alternative investments, such as private equity and hedge fund shares, which are harder to cash out when times get tough, says Douglas Kilcommons, nonprofit-sector analyst at Fitch Ratings. During the downturn, that left many nonprofits in a pinch. Bottom line: It’s worth doing homework on your favorite nonprofit’s investments; if it’s heavily weighted in one thing, that may be a red flag, says Griswold.

7. “We’ll raise money any way we can.”

THE ONGOING fight against Alzheimer’s disease is an issue that’s very important to Robert Evans, the managing director of EHL Consulting Group, a nonprofit consultancy. When he made donations to some Alzheimer’s charities not that long ago, he says that his home phone started ringing off the hook with solicitations for other charities and his mailbox filled up with even more. That’s likely because some nonprofits earn extra revenue by selling their donor lists

through list managers, says Evans. “They’re using it as an extra income stream,” he says. According to NextMark, a direct-marketing consulting firm, there are approximately 5,000 donor lists on the market today. It’s simply not true that nonprofits exist mainly off donations, says Stannard-Stockton.

In fact, about 80 percent of nonprofits’ revenue comes from sources other than donations, like the gift shop at a museum, for example. The concern though, says Stannard-Stockton, is that the focus on earning extra income could distract a nonprofit from its core mission. Even so, these extra revenue streams are critically important to organizations that may not receive enough in donations to keep themselves going.

8. “Giving globally can sting locally.”

IN THE WAKE of Hurricane Katrina, more than \$5 billion was donated toward relief for the city of New Orleans and its citizens, according to Giving USA Foundation. A worthy cause if ever there was one. And yet, as often happens when donors respond to a major disaster, other kinds of charities felt the pinch as giving dropped, says Margaret Linnane, executive director of the Rollins College Philanthropy & Nonprofit Leadership Center. “Individuals simply have a finite amount they can donate. A disaster somewhere in the world will have an impact on local communities,” she says. How to decide where to send your money when there are so many good charities to choose from?

When deciding where to give, donors should consider whether they’re okay with their dollars leaving the local community. “That’s something donors don’t always think about,” says Evans. If you do choose to donate toward disaster relief, stick

with reputable organizations like the Red Cross or the Salvation Army, says Del Martin, chairperson of Giving USA.

9. “You don’t have to be a financial genius to start a nonprofit.”

AFTER WATCHING her father train with the canine unit at the Chesapeake Police Department in Virginia, 6-year-old Kayleigh Crimmins wanted to know why the dogs didn’t have bulletproof vests. After she found out that the police department couldn’t afford to buy them, she set out to raise the money herself. The first step was selling her favorite kitchen play set for \$90 on eBay. After seeing her daughter’s devotion to the cause, Kayleigh’s mother, Lee Crimmins, set up Kids for K9s, dedicated to increasing the safety of police dogs, and the organization is currently in the process of applying for tax-exempt status with the IRS. So far, through fund-raisers at their local church, the group has been able to raise \$3,300, or enough for four ballistic vests for dogs, along with a temperature monitor that protects the dogs when they’re locked in hot police cars, says Lee Crimmins.

Thinking of starting your own nonprofit? The first step is filling out the Application for Employer Identification Number, or Form SS-4, which you can find on www.irs.gov. Then comes Form 1023, the Application for Recognition of Exemption Under Section 501(c)(3), which has to be filed within one year of the creation of the nonprofit.

For extra assistance, would-be nonprofit executives can check out www.stayexempt.org, where the IRS has posted Web-based training exercises for nonprofits.

10. “Good luck taking away our tax-exempt status.”

SINCE 1995, the number of tax-exempt organizations has grown by almost 50 percent. But despite experts' opinions that not all of them keep up their end of the bargain by providing real community service, only a handful of nonprofits a year lose their tax-exempt status, says Sarah Hall Ingram, head of the tax-exempt arm of the IRS. That's because “the country needs these organizations out there doing good work,” she says. That means the IRS is more likely to work with a nonprofit to get it back on track than it is to take away its tax-exempt status. Still, there are some abusers in the system, says Borochoff. Part of the problem is that the IRS and state charity officials, who are supposed to keep an eye on nonprofits, simply don't have the manpower to vet every one. For its part, the IRS says it does thousands of examinations each year and follows them up closely with nonprofits whose applications were deemed risky.