

SPRING/SUMMER  
2007

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## IN PURSUIT OF EFFECTIVE GIVING

### The Challenge

Charitable giving can be one of the greatest rewards of financial success. It can also be daunting. We all want to make a difference in the causes we care about, but how can we ensure that the organizations we support are using the money most effectively? Research indicates that 58% of donors from high net-worth households would give more to charity if they could determine the impact of their gift, and 36% would give more if they had greater access to reliable information about charities.<sup>1</sup>

Of course, much of our giving would likely not be influenced by more knowledge and information about the organization. We do not elect to support our house of worship or our alma mater based on research, but rather do so based on personal experience. "Many people have experiences with their own, their kids' or their grandchildren's schools, or with some illness or health-related cause that really reaches their hearts in a way that motivates them to give," says Dianna Smiley, Vice President of the National Center for Family Philanthropy. "However, once a donor begins to branch out beyond this giving motivated by personal experience, there's a learning curve."

Assuming that most giving—religion, education, health and human services—is based on personal experience, it is for the roughly 20–45% remaining (see chart below) that the need for information and analysis is the greatest.

The worst outcome when giving to a charity you do not know well would be to find that your generosity was aiding a charity engaged in illegal activities. Occasionally, even well-intentioned charities unknowingly engage in activities that result in the revocation of their tax-exempt status, which can create serious tax problems for donors.

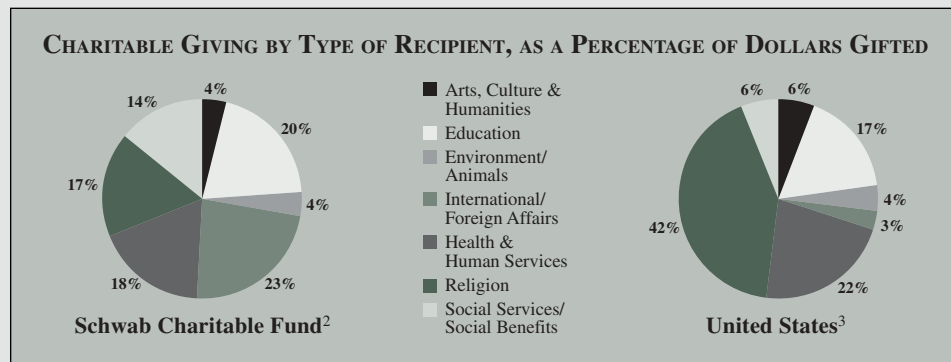
Fortunately, with some due diligence on your part, you can easily avoid such scenarios. And, if you have an account at a donor-advised fund such as Schwab Charitable Fund, it is likely that extensive due diligence is already being conducted on your behalf (see page 3).

### Charity Rating Services

Strategic philanthropists often see their donations as investments in the issues they care about. They take the same approach to their giving as they do other commitments of their resources. They want to do more than simply avoid fraudulent organizations; they want results.

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CHARITABLE GIVING BY TYPE OF RECIPIENT, AS A PERCENTAGE OF DOLLARS GIFTED



101 Montgomery Street  
San Francisco, CA 94104

www.schwabcharitable.org  
800.746.6216

<sup>1</sup>The Bank of America High Net-Worth Philanthropy Study, conducted and written by The Center for Philanthropy at Indiana University, 2006 <sup>2</sup>Schwab Charitable Fund granting, 2006 <sup>3</sup>Giving USA 2006, Giving USA Foundation™



*While the 2006 giving season may seem long ago, we at Schwab Charitable are just catching our breath. 2006 was another incredible year for Schwab Charitable Fund. In both 2005 and 2006, contributions to the Fund grew by more than 70%. As a result, not only is Schwab Charitable Fund one of the largest donor-advised funds in the country, with \$1.5 billion in assets available for granting, but also the fastest growing of the leading national funds. We're proud to have issued more than \$670 million in grants to 32,000 charitable organizations around the country.*

*Of course, without your generosity and charitable intent, none of this would be possible. We recognize that not all aspects of charitable giving are pleasant or easy, and that can get in the way of one's generosity. We work hard to address these impediments—by minimizing the time you need to spend on the logistics of giving, by taking on the responsibility of the “red tape” and record keeping, and by providing tools and information to assist you in selecting and evaluating charities you would like to recommend for grants.*

*Donors tell us that our recently redesigned website makes their giving easy and efficient. We also recently redesigned our statements for easier interpretation and greater transparency. And in the next few weeks we'll be introducing GuideStar® Analyst Reports within our online Donor Center which will provide more detailed and qualitative information about charities. These are just a few examples of our efforts to constantly improve, and to seek out creative ways of making your philanthropy easier, more rewarding and more effective.*

*It has been our primary focus to remove as many of the logistical barriers to giving as possible. Yet we also recognize that charity evaluation can be a significant challenge for some of our donors. The internet brings a wealth of information about charities and yet no easy way to sort through it, to identify what is credible and what is important. Our feature article in this edition of the Giving newsletter aims to provide you with some guidance in this area. Charity evaluation may be the most challenging area of philanthropy, but we will continue to look for new ways to assist our donors with this, as we have with the more logistical aspects of giving.*

*Again, thank you for your confidence in our service as expressed through our tremendous growth. We are honored to be a part of your philanthropy.*

**Kimberly Wright-Violich**  
President  
Schwab Charitable

## INCREASING YOUR FAVORITE CHARITIES' VISIBILITY

GuideStar® is the leading resource for donors and media outlets seeking information on charitable organizations. Encourage the charities you support to make sure their information in GuideStar's database is current and accurate by visiting [www.guidestar.org/npa](http://www.guidestar.org/npa). (Please note that GuideStar does not list organizations that do not file an IRS Form 990, such as religious organizations.) Charities can also access an extensive archive of helpful articles and links to other resources through GuideStar's website.

## COMING IN MAY: GUIDESTAR ANALYST REPORTS

We are pleased to announce that we are adding GuideStar Analyst Reports to our Donor Center in May to assist you in evaluating charitable organizations. GuideStar's Analyst Reports are available for over 200,000 charities, providing comprehensive multi-year data, graphic analyses of the organization's financials, peer comparisons and more. To see for yourself, please log in to your Charitable Gift Account and go to the “Grant to Charity” tab.



Michael Hall, President of Giving Partners, observes that many would-be donors hesitate to give due to lack of time and a lack of confidence that their donation will be used in a productive, valuable way. “Most of the families we work with say, ‘We’re wrapped around the axles—still running our businesses, leading active lives. We want to give, but our expertise is not in finding and evaluating nonprofits. Point us to the best, and make sure we’re giving effectively to those organizations.’”

A number of free or fee-based charity rating services exist to assist donors in identifying well-run charities. Charity Navigator ([www.charitynavigator.org](http://www.charitynavigator.org)), the American Institute of Philanthropy ([www.charity-watch.org](http://www.charity-watch.org)), and the Better Business Bureau’s Wise Giving Alliance ([www.give.org](http://www.give.org)) each provide some form of simple rating (stars, letter-grades, and pass/fail, respectively) based on the information made available in the charity’s tax return, the IRS Form 990.

These services can be very useful when vetting charitable organizations, but they do have limitations. For example, the Wise Giving Alliance and the American Institute of Philanthropy both rate only 500 charities, and Charity Navigator rates only 3,700—a

tiny fraction of all charitable organizations (estimated at more than 1.3 million in the United States alone). And while these numbers presumably will grow over time, expanded coverage will not address some of the flaws inherent in how the ratings are produced. In evaluating charity rating services, a *Stanford Social Innovations Review* article summarizes the issue: “They rely too heavily on simple analysis and ratios derived from poor-quality financial data, they overemphasize financial efficiency while ignoring the question of program effectiveness, and they generally do a poor job of conducting analysis in important qualitative areas such as management strength, governance quality, or organizational transparency.”<sup>4</sup>

#### Going Beyond the Ratings

GuideStar,<sup>®</sup> another web-based resource for evaluating nonprofits, differs from other charity rating services in key respects. Rather than providing a system of ratings, GuideStar offers donors unbiased financial information and has over 1 million charities in its database. GuideStar also publishes detailed “Analyst Reports,” which provide multi-year analyses and peer group comparisons on over 200,000 charities.

## HOW SCHWAB CHARITABLE PROTECTS YOUR “INVESTMENT”

If you have an account with Schwab Charitable Fund, you are already aware of our commitment to reducing the barriers to tax-smart charitable giving. But you may not be aware of the extensive due diligence we conduct to protect your donated assets.

For each grant nomination we receive to support an organization for which we have not previously issued a grant, our Grants Staff:

- Reviews each organization’s information on GuideStar ([www.guidestar.org](http://www.guidestar.org))
- Confirms that their tax-exempt status is still valid
- Contacts each charity directly to request a completed Grant Eligibility Application, which certifies in writing that grants from Schwab Charitable Fund will be used for charitable purposes only, and that no personal benefit will result
- Verifies that the charity is not listed with the US Department of the Treasury’s Office of Foreign Assets Control (“OFAC”), which enforces economic and trade sanctions
- Conducts additional web-based research for large grants and grants to charities that do not file Form 990s, such as religious organizations

Our process is thorough, but we typically approve grants to new grantees in fewer than 10 days, depending on how quickly they complete the Grant Eligibility Application. Grants to charities that have previously cleared our due diligence process may be approved in as few as three business days.

Our Grants Staff is available to donors and charities to answer questions and explain how the process works. “We try to make this as easy and informative as possible,” says Tammy Brandt, Grants Manager at Schwab Charitable Fund.

<sup>4</sup> “The Ratings Game,” Stephanie Lowell, Brian Trelstad, and Bill Meehan, *SSIR*, Summer 2005



## RESOURCES FOR EFFECTIVE GIVING

### Community Giving Resource

[www.communitygivingresource.org](http://www.communitygivingresource.org)

Community Giving Resource offers tools for donors investing in neighborhoods and communities, including an online knowledge base, a national network of expert mentors, and a peer-learning component to connect donors.

### Giving Partners

[www.givingpartners.com](http://www.givingpartners.com)

Giving Partners is a full-service philanthropic advisory firm, based in Atlanta, with clients across the U.S. Giving Partners guides donors through the philanthropic process, from developing a giving strategy and gift structuring to implementing the plan and tracking results.

### National Center for Family Philanthropy

[www.ncfp.org](http://www.ncfp.org)

Through research and publications such as *Splendid Legacy* ([www.ncfp.org/publications-splendid\\_legacy.html](http://www.ncfp.org/publications-splendid_legacy.html)), the National Center for Family Philanthropy helps families work effectively together to ensure that their philanthropy creates the legacy they desire.

For additional resources, please visit the “News & Information” tab at [www.schwabcharitable.org](http://www.schwabcharitable.org).

To contact us, write to  
Schwab Charitable  
101 Montgomery Street  
San Francisco, California 94104.  
Call us at 800.746.6216  
or send an e-mail to  
[ask@schwabcharitable.org](mailto:ask@schwabcharitable.org).

Schwab Charitable is the name used for the combined programs and services of the Schwab Charitable Fund and Charitable Trust Services. Schwab Charitable Fund is the operating name of the Schwab Fund for Charitable Giving, an independent nonprofit organization. Schwab Charitable Trust Services is a limited liability company owned by the Schwab Fund for Charitable Giving that provides charitable trust management services.

You can supplement what you gain from these services by conducting some additional research on your own. You may want to:

- visit the charity’s website and learn about their mission, programs and their leadership
- conduct a web search to find any articles about the organization—the independent press may provide some valuable, objective information
- prepare some questions and contact the charity
- if possible, schedule a site visit or attend an event

There are numerous articles and books which provide useful guidance on effective philanthropy. Jim Collins, faculty member at Stanford Business School and author of *Good to Great* and *Built to Last*, has written a very useful monograph which extends the concepts of *Good to Great* to the social sector. In this study, Collins makes the point that management strength is particularly important in the social sector.<sup>5</sup> If you have time for no other research, learn about the leadership of the non-profit under consideration.

For large gifts, and depending on your circumstances, you may also wish to work with a fee-based philanthropic advisory service that can tailor a plan to meet your particular goals and objectives (see “Resources” sidebar to the left).

### “Investing” in Charitable Organizations

Much like investing in for-profit companies, “investing” in charities is, ideally, part of a long-term strategy. Consider giving to the same organizations over a period of years and ask for updates on their progress. Unlike the for-profit world however, measuring impact in the nonprofit sector is often exceptionally difficult, and their progress can be slow.

Charities work to alleviate some of society’s most intractable problems, so donors do well to select charities they believe in, and take the long view on progress. This does not mean that the charities you support should be excused from providing progress reports, but that those reports may rely upon anecdotal evidence and the measurement of proxies.

Strategic donors will also recognize that *how* they give can be as important as to whom. Interestingly, 78% of donors from high net-worth households say they would prefer that their gifts not go to administrative costs.<sup>6</sup> Yet these same donors would never invest in the stock of a for-profit company that failed to invest in its systems or people. While many donors complain about a lack of discipline in the nonprofit world—a charge not without merit—many nonprofits struggle to attract and retain the very people who could bring about that discipline. It may be easier to assess the effectiveness of a charity’s individual programs, but an unrestricted gift allows a trusted organization to allocate assets where they are needed most.

In the world of investing, it is wise to diversify your portfolio to lessen the impact of any one company’s performance on your portfolio. In the philanthropic world, diversification lessens the impact of your gifts. Effective giving requires a thoughtful assessment of the organizations most likely to achieve your goals, followed by a sustained commitment to a select number of them. By focusing your philanthropic passions on a few charities, you can make a big difference in those organizations.

### Connecting Head and Heart

“Donors make the best use of their dollars when their passions are engaged along with their best thinking, and when they have credible, reliable information upon which to make decisions,” says Elizabeth Myrick, Project Director of Community Giving Resource. “When donors’ heads and hearts come together, it’s not only going to achieve better results, it’s also going to feel good. They can say: ‘I’m confident doing this—I’m not second-guessing my charitable decisions.’”

With head and heart engaged, charitable giving becomes strategic giving, and you can enjoy the confidence of knowing that your generosity is making a real difference in the world.

<sup>5</sup> *Good to Great and the Social Sector*, Jim Collins © 2005

<sup>6</sup> *The Bank of America High Net-Worth Philanthropy Study*, The Center for Philanthropy at Indiana University, 10/06