



Charities- Sorting through the Good the Bad and the Ugly- July 2014

Charitable giving pulls at the heartstrings- and generally makes one feel good supporting worthy causes. Often charitable giving can yield substantial tax benefits considering the manner and method of giving. However, just as with investing in stocks and bonds, research is needed in the charities you may chose to support funds to insure the funds will be used efficiently and your families' resources are not squandered.

It is important to remember that charities are in fact not-for-profit businesses. Like businesses they have corporate goals and obligations to both their shareholders (donors) and their constituents (customers). Just as investing in stocks, there are certain key characteristics to examine while considering a worthy charity. Key among these characteristics is the focus of the charity's largess, quality of leadership and how a charity protects its contributor information (Donor Privacy). In addition, there are financial metrics common to stock investing to be examined such as balance sheets, expense ratios, and how well the leadership is compensated in comparison to the rest of the industry.

The web is a wonderful source for information on charities. We have found three web sites which provide good beginning resources for an easy primary screen for information on charities. Those include Charity Navigator (<http://www.charitynavigator.org/>), Charity Watch (<http://www.charitywatch.org/>) and GuideStar (<http://www.guidestar.org/>). (see below).

Characteristics of a Good Charity

The first characteristic of a good charity is transparency. A good charity should have tax forms and some financial statements available for public review either available on their web pages or upon request. If the organization will not make these forms available, then be cautious about contributing. In order for the organization to maintain Tax Exempt Status, most charitable organizations must file an IRS Form 990. Most legitimate charities make this form available to the public either upon request or on the charity's web site.. If the form is not available, the organization may not be tax exempt and donations to that organization may not be tax deductible.

Charity Management Compensation

An important characteristic which is difficult to measure is the quality of management. Is the management team focused on their beneficiaries and team members? Do they compensate themselves in a reasonable manner, i.e. is compensation roughly in line with peers? Is compensation based on the long term goals? How much time does leadership devote to the charity? If they are involved in too many other activities, the beneficiaries may suffer and your donations may be going to other un-related activities.

One of the indications of quality of leadership and an early indicator of inside dealings is an independent review process for the CEO's compensation. Sustainable, well thought out charities generally have a well thought out CEO compensation process that includes benchmarks against other similar charitable organizations. These policies are often spelled out in the IRS Form 990

Examining a Charity's Financial Metrics

Another important characteristic of a good charity is a relatively low Expense Ratio. The Expense Ratio is related to how much the charity spends on beneficiaries versus how much the charity spends on the business of being in business and operating the charity organization. Typical operating expenses include salaries,

office expense and fundraising. Fundraising should be a key item for due diligence. That is, if the charity spends more donor resources on fundraising rather than on helping the intended beneficiaries, then further investigation is required. As the financial statements are reviewed, it is important to note whether expenses are growing faster than donations. We want to emphasize that not all charities with high operating expenses are un-worthy, but a good charity would have a similar expense ratio to its peers.

Donor Privacy

Just as some companies sell their marketing lists, Charities can look at their donor list as a source of income. Donors should have some assurance that their information will remain private and confidential and not used as a source of revenue for other charities or marketing organizations without donor's approval. There is nothing worse than donating to one cause and then receiving additional solicitations from other similar charities as your contact information is sold throughout a charitable (sometimes fraudulent) network of telephone and direct mailing solicitors.

Contribution Process

We would highly recommend making individual payments to the charity and do not set up an automatic payment plan linked to either a credit card or a bank account. Each contribution should be handled as a one-time event.

We have recently encountered an issue with a major money center bank whereby the client was contributing to a fraudulent charity. We went to the bank with the client to stop the automatic payment plan through the client's debit card. The local bank branch suggested that we contact the charity directly and have the contributions stopped. We did contact the charity and requested contributions be stopped, however the contributions continued. The local money center bank branch informed us that even though our client had closed out the debit card and requested a new debit card with a new account number on the card, the charity would automatically be linked to the new account number and the contributions would continue until the charity stopped putting in the monthly automatic bills. We called the bank's credit card fraud unit and complained. The client then closed the bank account altogether. Automatic payment plans can be very difficult to terminate particularly with an uncooperative vendor as this charity was.

The Local Charity Fundraising Trap

Unfortunately we have found that some local charities will align themselves to tele-marketing organizations in exchange for a percentage of the funds raised after marketing expenses are met. For example the local fire department in town may link up with marketing organization for a very small percentage of funds actually raised. On the surface that local organization may look at those funds raised as free extra cash with no effort, but for the contributors, they may be enriching the marketing company rather than their own fire department. Be careful that your local fire company is actually getting the funds that you are sending in through marketing solicitations. It is often better to make a phone call and if possible, send a check directly to the organization, rather than through the market firm. By sending the check directly, your charity will get more of your money rather than their call center/telemarketer.

Just as in Investing: Do Your Homework

Responsible charitable contributors should handle their contributions in much the same way they would research their investments. Research into the charity is important. The more known about the charitable organization and its management and goals, the more impact that donors funds will have for the underlying beneficiaries.

Charity Site Analysis References:

Charity Navigator: (<http://www.charitynavigator.org/>),

“We rate charities by evaluating two broad areas of performance; their Financial Health and their Accountability & Transparency. Our ratings show givers how efficiently we believe a charity will use their support today, how well it has sustained its programs and services over time and their level of commitment to being accountable and transparent. In the not-too-distant future, we plan to also rate charities’ reporting of their results. We provide these ratings so that givers can make intelligent giving decisions, and so that the philanthropic community can more effectively monitor itself.

“(http://www.charitynavigator.org/index.cfm?bay=content.view&cpid=1284#.U8_L6fldUms)

Charity Watch (<http://www.charitywatch.org/>)

“Mission Statement

The mission of CharityWatch, a nonprofit charity watchdog and information service, is to maximize the effectiveness of every dollar contributed to charity by providing donors with the information they need to make more informed giving decisions.

Goals

To research and evaluate the efficiency, accountability and governance of nonprofit organizations; to educate the public about the importance of wise giving; to inform the public of wasteful or unethical practices of nonprofits and provide recognition to highly effective and ethical charities; to advise CharityWatch members and conduct special investigations and evaluations of nonprofits; to expand and re-define our programs periodically to meet the continuing challenge of keeping the contributor informed.

“(<http://www.charitywatch.org/aboutaip.html>)

GuideStar ((<http://www.guidestar.org/>))

“GuideStar’s Mission

To revolutionize philanthropy by providing information that advances transparency, enables users to make better decisions, and encourages charitable giving.

If you care about nonprofits and the work they do, then you’re affected by what GuideStar does—even if this is your first visit to www.guidestar.org. Here at GuideStar we gather and disseminate information about every single IRS-registered nonprofit organization. We provide as much information as we can about each nonprofit’s mission, legitimacy, impact, reputation, finances, programs, transparency, governance, and so much more. We do that so you can take the information and make the best decisions possible. Learn about our impact and results in 2013 and our plans for 2014 and beyond. We encourage nonprofits to share information about their organizations openly and completely. Any nonprofit in our database can update its report—for free. We combine the information that nonprofits supply with data from several other sources. You’ll find GuideStar data:

- *on our many client on this Web site*
- *and partner Web sites*
- *in computer applications used by funding entities and private companies that work with nonprofits”*

(<http://www.guidestar.org/rxg/about-us/index.aspx>)

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