

WISE GIVING™

GUIDE

BBB WISE GIVING ALLIANCE : WINTER/HOLIDAY 2013

2013 DONOR HANDBOOK

Governance Website Disclosures
Board Oversight Accumulating Funds
Budget Plan Board Meetings
ACCOUNTABILITY
Accurate Expense Reporting
CAUSE MARKETING DISCLOSURE
Transparency PROGRAM EXPENSES
Audit Report
FUND RAISING EXPENSES
Donor Privacy Board Size
IRS Form 990 Board Compensation
Annual Report CONFLICT OF INTEREST
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A Publication of the
BBB Wise Giving Alliance

The *Wise Giving Guide* is published three times a year to help donors make more informed giving decisions. This guide includes a compilation of the latest evaluation conclusions completed by the BBB Wise Giving Alliance.

If you would like to see a particular topic discussed in this guide, please email suggestions to give@council.bbb.org or write to us at the address below.

WINTER/HOLIDAY ISSUE 2013

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president's MESSAGE

The past year has been filled with many tragedies and challenges that resulted in an outpouring of American concern and contributions. There was the April 2013 bombing at the Boston Marathon. In May 2013, a category 5 tornado struck Moore, Oklahoma with a width of 2.6 miles at its peak. And, in November 2013, Typhoon Haiyan, one of the most powerful typhoons ever recorded, hit the Philippines and left devastation in its wake. It is gratifying to see, however, that after each one of these horrific events donors came through every time, providing immediate support to help those in need.

We thought we would devote this issue to you, the donor, to provide you with some basic facts about charitable giving along with advice about responding to Typhoon Haiyan and similar disasters, as well as tax deductibility reminders. Remember the needs resulting from these various 2013 events don't disappear when the headlines do. Rebuilding structures and communities takes time, effort and continuing support.

We also want you to have a better understanding of our charity reviews so you can make the best choices in response to tragedies and other charitable concerns. We have identified the top five reasons that charities do not meet our *BBB Standards for Charity Accountability*. Also included is a result of an academic study performed by a professor at Baruch College of the City University of New York that shows meeting all 20 BBB Charity Standards is associated with higher fundraising results for those charities.

Finally, we have enclosed a copy of The Overhead Myth letter. We participated in this donor education campaign, along with GuideStar USA and Charity Navigator, to help remind everyone to not solely consider finances when making a wise giving decision. This is a message that regular users of our services well know due to the broad nature of our standards and the content of our reports. We hope that you will pass along this important message to other donors as well so they might avoid the mistake of overemphasis on financial ratios.

Thank you for your continuing interest in strengthening charity accountability and for your thoughtful giving.



H. Art Taylor, *President*



TIPS ON TYPHOON HAIYAN RELIEF

At the time this issue went to press, Typhoon Haiyan hit the Philippines and caused unprecedented damage and devastation. As we anticipate continuing relief assistance requests during the holiday season and months to come, we offer the following advice to help donors decide where to direct donations to assist victims. Remember that the needs don't disappear when the headlines do. This tragedy will result in both short and long-term recovery activities.

Find out if the charity is providing direct aid or raising money for other groups.

Some charities may be raising money to pass along to relief organizations. If so, you may want to consider "avoiding the middleman" and giving directly to those that have a presence in the region. Or, at a minimum, check out the ultimate recipients of these donations to see whether they are equipped to provide aid effectively.

Find out if the charity has an on-the-ground presence in the impacted areas.

Unless the charity already has staff in the affected areas, it may be difficult to bring in new aid workers to provide assistance. See if the charity's website clearly describes what the charity can do to address immediate as well as longer-term needs.

Be cautious when giving online.

Be cautious about online giving, especially in response to unsolicited spam messages, emails and social media posts that claim to link to a relief organization. If you want to give to a charity involved in relief efforts, go directly to the charity's website. In response to relief assistance requests for previous hurricanes, tsunamis, and other natural disasters, the FBI and others raised concerns about websites and new organizations that were created overnight, allegedly to help victims.

Rely on expert opinion when it comes to evaluating a charity.

Be cautious when relying on third-party recommendations such as bloggers or other websites, as they may not have fully researched the relief organizations they list. The public can go to Give.org to research charities and relief organizations and verify that

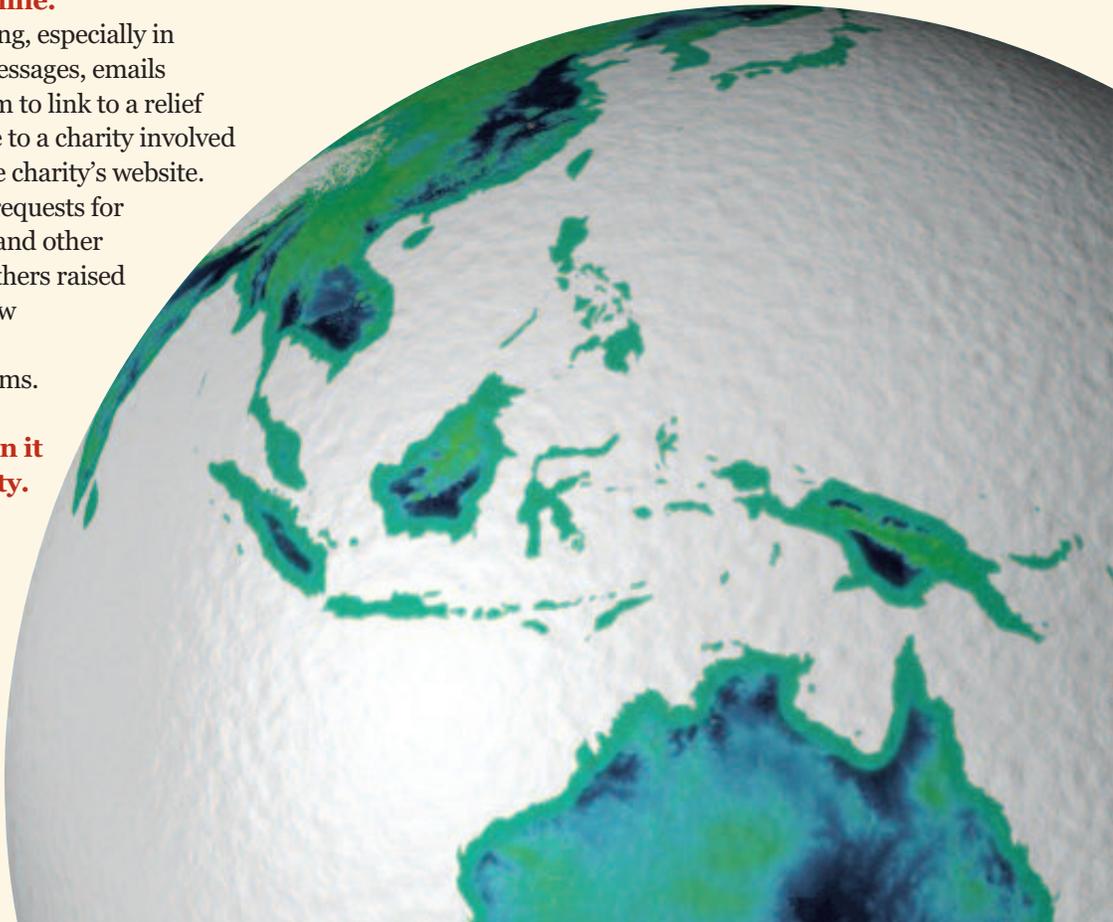
they are accredited by the BBB and meet the 20 *Standards for Charity Accountability*.

Be wary of claims that 100 percent of donations will assist relief victims.

Despite what an organization might claim, charities have fund raising and administrative costs. Even a credit card donation will involve, at a minimum, a processing fee. If a charity claims 100 percent of collected funds will be assisting disaster victims, the truth is that the organization is still probably incurring fundraising and administrative expenses. It may use some of its other funds to pay these costs, but the expenses will still be incurred.

Gifts of clothing, food or other in-kind donations.

In-kind drives for food and clothing, while well intentioned, may not necessarily be the quickest way to help those in need — unless the organization has the staff and infrastructure to distribute such aid properly. Ask the charity about its transportation and distribution plans. Be wary of those who are not experienced in disaster relief assistance. Relief organizations often prefer to purchase goods near the location of the disaster and avoid expensive long-distance freight costs. ■

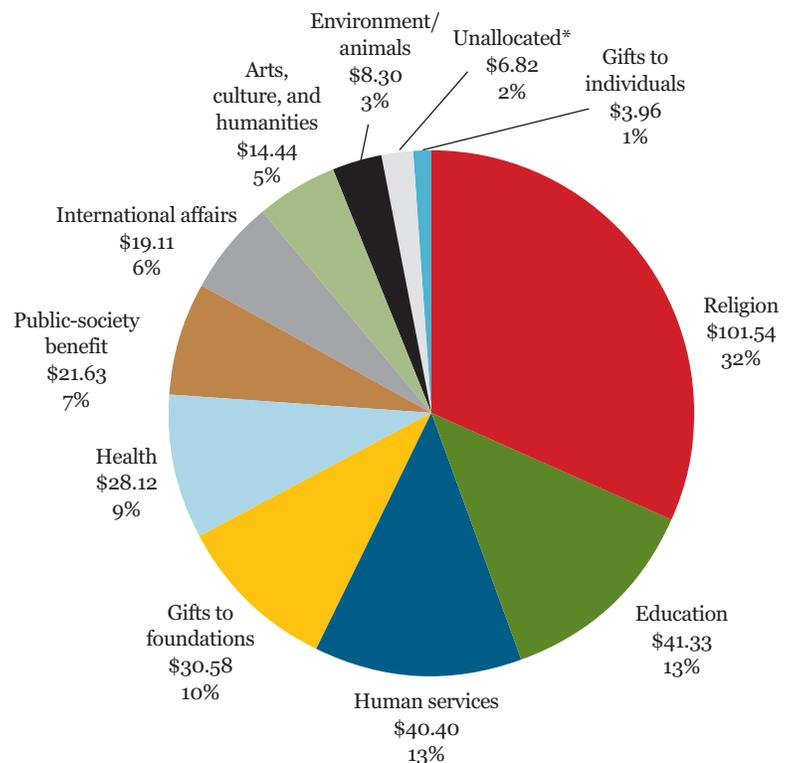


Total Giving in 2012: \$316.23 Billion

In terms of total dollars donated, America is the most generous country in the world. *Giving USA* reported that donations in 2012 totaled over \$316 billion. As shown, contributions from individuals comprise the largest part of total giving. The recipient organization chart shows that religious organizations received the largest portion of gifts (32 percent) followed by education and human service organizations which each totaled 13 percent. (Human services consists of charities providing all types of assistance and services to individuals and families.)

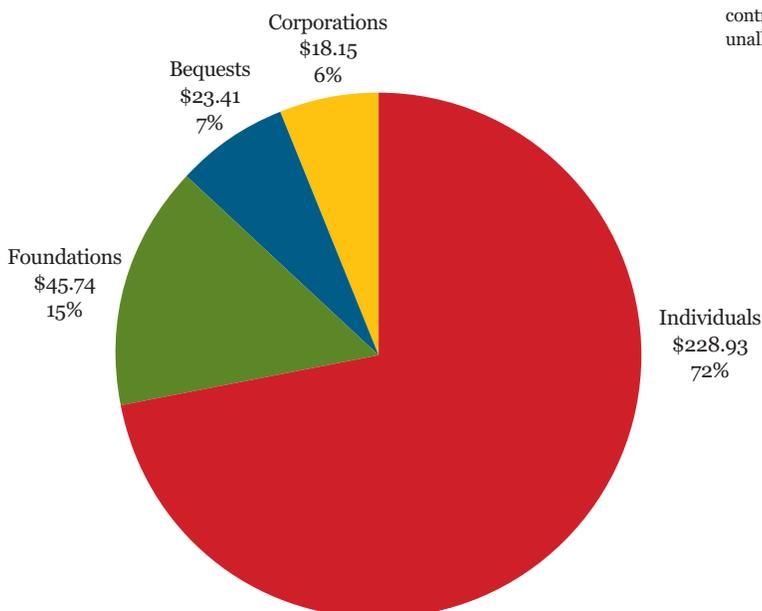
The statistics for the pie charts are from the 2013 edition of *Giving USA: The Annual Report on Philanthropy*. Since 1956, that publication has provided information on the sources and uses of charitable giving in the United States. It is the result of a collaborative effort of Giving USA Foundation, a public service initiative of the The Giving Institute, and Indiana University Lilly Family School of Philanthropy. For more information, visit givingusareports.org. ■

Recipient Charities by Type (in billions of dollars)



* Includes gifts to non-grantmaking foundations, deductions carried over, contributions to organizations not classified in a subsector, and other unallocated gifts.

Sources of Contributions (in billions of dollars)



Source: *GivingUSA, The Annual Report on Philanthropy*, Giving USA Foundation, 2013

TOP FIVE BBB Charity Review Findings

Of the nationally soliciting charities listed in this edition of the *Wise Giving Guide*, the breakdown of charity review results are as follows:

39%  Met all 20 BBB Charity Standards (i.e., Accredited Charity)

21%  Did not meet one or more BBB Charity Standard(s).

31%  Did not disclose requested information

9%  Provided updated information. The review is in progress.

Of the charities that provide requested information, the majority are able to meet all 20 BBB Charity Standards. It also appears however, that many charities have more work to do to satisfy the expectations of donors. For all charities that did not meet one or more standards, the Alliance has found that the most frequent deficiencies are as follows:

1. Annual Report (Standard 16)

41 percent of charities that did not meet one or more standard(s) either did not produce an annual report or had a report that did not include all of the recommended information (mission, programs, board roster and finances). Donors should be able to receive, in a single document, certain basic facts. Such a report does not have to be a fancy, expensive publication — it can be a simple word processed document or a page on the charity’s website. It just has to describe what the charity does in clear, layman’s terms, which is why we consider it such a valuable tool — it’s a simple way to get a very good idea of the charity’s work. We believe the contributing public deserves this type of understandable and accessible transparency.

2. Board Policy on Effectiveness (Standard 6)

36 percent of charities that did not meet one or more standard(s) lacked the recommended board policy for periodic self-assessment. We believe it is essential that organizations regularly make time to assess their past performance and define their future goals and actions. The charity should have a board-approved policy that commits to evaluating (at least every 2 years)

the success and impact of its program(s) in fulfilling the charity’s mission.

3. Effectiveness Report (Standard 7)

35 percent of charities that did not meet one or more standard(s) have not completed a written effectiveness assessment. This standard seeks to ensure the charity’s governing body has received and reviewed a written report on its effectiveness assessment. (In other words, how well it is addressing its mission.) This assessment is not to be confused with the charity’s annual report described in finding #1 above. If a charity does not already have such an assessment and seeks guidance, it can use the common reporting framework developed by Charting Impact, a joint project of BBB Wise Giving Alliance, GuideStar USA and Independent Sector. These are five simple — yet substantive — questions that, when completed and shared with the board, fulfills this standard. (This project was described in detail in the Summer 2011 *Wise Giving Guide*.)

4. Board Meetings (Standard 3)

31 percent of charities that did not meet one or more standard(s) had governing boards that met less than three times per year and/or lacked a majority attendance at those meetings. Engagement of decision-makers in charity activity is essential to ensure that an organization is on the right path. Of the three meeting minimum, one of these meetings can be by phone as long as official minutes are taken. In addition, this standard will accept video conferencing as an “in-person” meeting of the board as long as everyone can see each other.

5. Website Disclosures (Standard 17)

31 percent of charities that did not meet one or more standard(s) had websites that did not include access (such as a link) to the group’s IRS Form 990 and/or did not include other recommended information. Why should a donor need to rely on other sources to get this popular government financial document that the charity files each year? (Note: churches and other houses of worship are not required to file an IRS Form 990.)

We always provide charities with draft copies of our reports before they appear on our website. The BBB Wise Giving Alliance can amend any of these findings at any time if the charity contacts us and demonstrates that it has changed its practices. ■

Meeting BBB Charity Standards Associated With **GREATER FUNDRAISING RESULTS**

Regular readers of the *Wise Giving Guide* are familiar with the assistance that our charity evaluations can provide in making giving decisions. We thought the following news about a recently released academic study would be of interest.

Organizations meeting all 20 *BBB Standards for Charity Accountability* achieve significantly higher fundraising revenue, according to a new research study. The study concluded that “meeting *BBB Standards for Charity Accountability* is positively associated with increased levels of public support as measured by fundraising revenue.”

The study concluded that “meeting *BBB Standards for Charity Accountability* is positively associated with increased levels of public support as measured by fundraising revenue.”

The study was conducted by Professor Greg Chen of the Baruch College School of Public Affairs, City University of New York, and funded by BBB Wise Giving Alliance (BBB WGA) and the Education and Research Foundation of BBB of Metropolitan New York (BBB NY). The study results indicate that meeting all BBB Charity Standards was associated with a 13.5 percent increase in fundraising revenue for the Metro New York charity sample and an 8 percent increase in revenue for the national charity sample, controlling for documented key variables.

Professor Chen studied multiple datasets, including nationally soliciting charities that are reported on by BBB WGA and Metro New York area soliciting charities that are reported on by BBB NY. These two Better Business Bureau organizations are legally separate and independently staffed, but use the same standards and implementation guidelines in their charity review programs. Both national and Metro New York BBB Charity Reviews are completed at no charge to charities, and all BBB charity reports are available online for free public access.

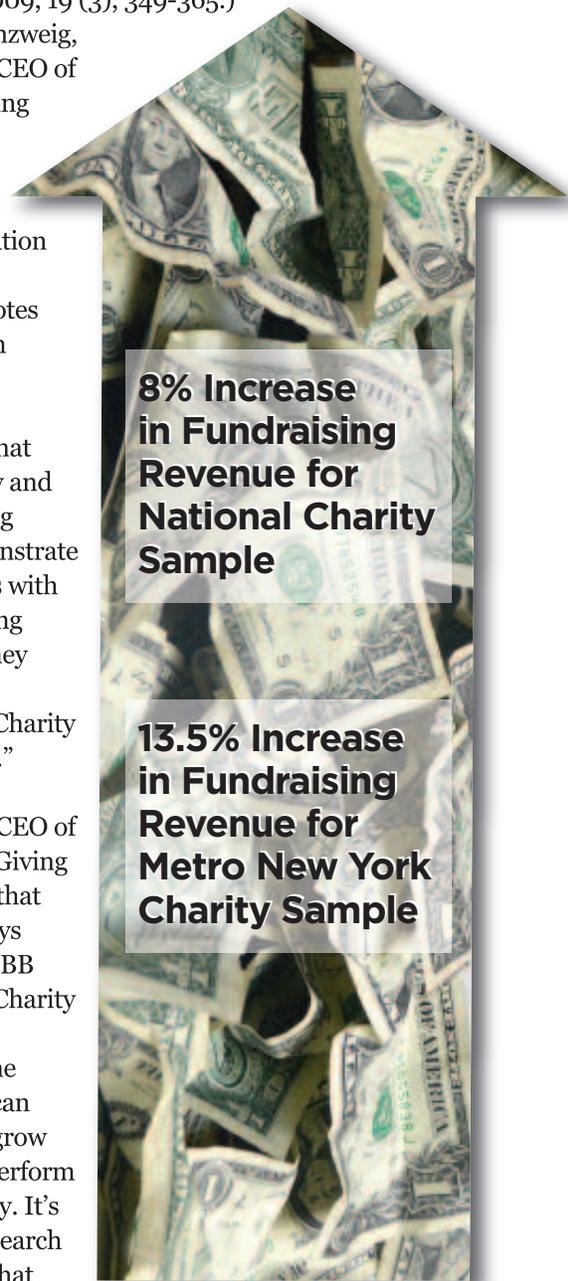
This new study reinforces the findings of a 2009 academic study by Professor Chen that used a previous

dataset from the Metro New York BBB Foundation’s Charity Review Program. That study also found that “Meeting BBB standards is associated with higher levels of public support.” (Chen, G. *Nonprofit Management & Leadership*, 2009, 19 (3), 349-365.)

Claire Rosenzweig, President and CEO of both BBB serving Metropolitan New York and the NY BBB Education and Research Foundation, notes that “This fresh evidence is an important confirmation that both nationally and locally soliciting charities demonstrate greater success with their fundraising efforts when they meet all BBB Standards for Charity Accountability.”

Art Taylor, President and CEO of the BBB Wise Giving Alliance, adds that “We have always believed that BBB Standards for Charity Accountability present baseline practices that can help charities grow stronger and perform more effectively. It’s great to see research documenting that BBB Accredited

Charities show better fundraising results. I hope this will encourage charities to look at the BBB Standards as a valuable planning and management tool.” ■



8% Increase in Fundraising Revenue for National Charity Sample

13.5% Increase in Fundraising Revenue for Metro New York Charity Sample



THE OVERHEAD MYTH

To the Donors of America:

We write to correct a misconception about what matters when deciding which charity to support.

The percent of charity expenses that go to administrative and fundraising costs—commonly referred to as “overhead”—is a poor measure of a charity’s performance.

We ask you to pay attention to other factors of nonprofit performance: transparency, governance, leadership, and results. For years, each of our organizations has been working to increase the depth and breadth of the information we provide to donors in these areas so as to provide a much fuller picture of a charity’s performance.

That is not to say that overhead has no role in ensuring charity accountability. At the extremes the overhead ratio can offer insight: it can be a valid data point for rooting out fraud and poor financial management. In most cases, however, focusing on overhead without considering other critical dimensions of a charity’s financial and organizational performance does more damage than good.

In fact, many charities should spend more on overhead. Overhead costs include important investments charities make to improve their work: investments in training, planning, evaluation, and internal systems—as well as their efforts to raise money so they can operate their programs. These expenses allow a charity to sustain itself (the way a family has to pay the electric bill) or to improve itself (the way a family might invest in college tuition).

When we focus solely or predominantly on overhead, we can create what the *Stanford Social Innovation Review* has called “The Nonprofit Starvation Cycle.” We starve charities of the freedom they need to best serve the people and communities they are trying to serve.

If you don’t believe us—America’s three leading sources of information about charities, each used by millions of donors every year—see the back of this letter for research from other experts including Indiana University, the Urban Institute, the Bridgespan Group, and others that proves the point.

So when you are making your charitable giving decisions, please consider the whole picture. The people and communities served by charities don’t need low overhead, they need high performance.

Thank you,

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The Overhead Myth Campaign: BBB Wise Giving Alliance Perspective

We participated in the Overhead Myth campaign because we have always believed that a charity's accountability should be assessed against broad standards for conduct rather than simple financial metrics alone. Because our standards also include recommended thresholds on the amounts spent on programs and fund raising we are often not given credit for also considering governance, effectiveness reporting, donor privacy, website disclosures and truthfulness in public information. In fact, less than 7 percent of the charities that provide requested information to the Alliance do not meet standards because of a financial ratio issue while nearly 30 percent fail to meet one or more of the other 20 standards. If we only used financial ratios, many more organizations would meet standards that should not.

Another point we hope to make with the Overhead Myth letter is that charities need to spend money on administration and fundraising in order to function well. Charities need good accountants, auditors, lawyers, information technology and other support services to function at a high level. Squeezing charities by requiring that they spend less than reasonable amounts on overhead does no one any good. There is a place for overhead and fundraising metrics but it is at the margins. Most of us would be uncomfortable supporting a charity that spends a preponderance of its funds on administration or fundraising but we should be less concerned when the amounts spent are reasonable as our standards recommend.

Finally, we believe there is a great misunderstanding about what constitutes overhead. Many donors mistakenly believe salaries and benefits paid to charity staff as well as training and even occupancy expenses are 100 percent overhead. In most instances, a portion of such expenses will be recognized as programs as well as fundraising and administration depending on how each of these expense categories are used. Generally Accepted Accounting Principles (GAAP) allow organizations to allocate expenses to the functions for which they were incurred. We hope that we can clarify this misconception that far too many hold about charity expenses. ■

Deducting Contributions: The Basics

The following provides some of the fundamentals of tax deductibility of charitable gifts. For more detailed guidance, see IRS Publication 526: *Charitable Contributions*.

Only itemizers can deduct contributions on their federal income tax forms. Contributions are deductible for the year in which they are actually paid or delivered. Pledges are not deductible until the year in which they are paid.

1. There are over 20 categories of **tax-exempt status**. In general, only organizations classified under Internal Revenue Code section **501(c)3** (charitable organizations) and **501(c)19** (veterans organizations) are eligible to receive contributions deductible as charitable gifts.
2. The value of **volunteer time** or services to a charitable organization is not deductible. However, out-of-pocket expenses directly related to voluntary service (such as transportation expense) are usually deductible.
3. Contributions for which **the donor receives a gift** or other benefits (for example, a dinner or show tickets) are deductible to the extent that the donation exceeds the fair market value of the benefit received.
4. **Direct contributions to needy individuals** are not deductible. To be tax deductible, contributions must be made to qualified organizations.
5. Keeping **records of contributions** is essential for itemizers. Acceptable records include bank records and written communications from the charity. Evidence of payroll deductions for charity includes a pay stub, W-2, or other employer furnished document. Single contributions of over \$250 require a written acknowledgment from the charity that indicates whether any goods or services were provided in exchange for the gift.
6. **Donated property** may generally be deducted at the fair market value of the property at the time of the contribution. However, there are special rules for the donation of cars and other vehicles.