

The Donor's Guide to Canadian Charities

Ginsler and Associates Inc.

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About Ginsler and Associates Inc.

Ginsler and Associates Inc. is a full service consulting firm addressing the needs of charitable organizations, their donors, and funders.

For charitable organizations we provide a range of services including Website donations planning, community capacity building processes, organizational excellence projects, collaborative community planning, donor prospecting, grant writing, and more.

For donors and funders we provide assistance with donations policies and processes, planning, and community needs assessments, as well as program evaluations and operational reviews of funded organizations or potential recipients.

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Introduction

"...And when you reap the harvest of your land, you shall not wholly reap the corners of your field, neither shall you gather up the gleanings of your harvest. And you shall not glean your vineyard, and the single grapes that drop in your vineyard shall you not gather up; for the poor and the stranger shall you leave them..."

Leviticus, XIX

"...see that justice be done to widows, orphans, and the poor."

Hammurabai, Circa 2000 BC



Charitable activity has been part of civilized culture for almost as long as we have written records. The fact that it continues today is an indication of its importance in maintaining the bond that holds communities together. At last count, over 70,000 charities were officially registered in Canada. They had annual revenues of \$90 billion—about the same as the entire economy of British Columbia. Over \$12 billion of that income came from charitable donations—the rest coming from government, fees, investments, and other forms of revenue.

As governments at all levels have reduced their role in funding charities over the last few years, individuals and businesses have become the recipients of more and more requests for donations. Whether it's by mail or by phone, through a friend or a co-worker, or on the way into the grocery store, the charities will find us.

Many Canadians have already begun to put charities into their financial planning, through life insurance policies, bequests in their wills, or other means. It has been estimated that in Canada in the next 20 years, two trillion dollars will pass from today's seniors to their children. Charities are doing their best to see that they get some of that wealth as it passes from one generation to the next. And the charities need it.

Charities perform an essential function in Canadian society. Our universities are charities, and we rely on them to harness the brain power we need to prosper as a society. We go to our hospitals—also charities—to be born and to die, and many

times in between. Our places of worship are charities. Many of our cultural institutions are charities—our museums, public art galleries, and symphonies. Our community service organizations are charities—hostels, food banks, counselling agencies, crisis services, services for seniors, and many, many more. Without charitable donations, all of us would suffer, because all of us rely on our charities at one time or another.

But as competition for our charitable dollar increases, we need to be more knowledgeable about how our contributions are spent and what they are accomplishing. And, as with all groups in society, not every charity is as good as it sounds.

This book is designed to help you, the potential donor, make good decisions about where you will put your charitable dollars. It will provide you with some background about charities in general, to help you understand what charities are all about. It will describe the kinds of things you should know about a charity before making a donation. It will also describe the different ways that you can help the charities you are interested in. Everybody's circumstances are different, however, so if you are considering making a significant donation to a charity, be sure you seek professional advice from a lawyer, accountant, or certified financial planner first. This book doesn't take the place of professional advice, but it can help you understand what you need to know.

Charities and non-profit organizations. What's the difference?

Let's start with non-profit organizations. Non-profits are sometimes small, loosely organized groups of people who have come together to accomplish something in their community. Neighbourhood associations, Neighbourhood Watch groups, etc. are usually non-profits. Local community health and social service organizations usually start out as informal groups of people who see a community need or problem and get together to do something about it. Later, some incorporate and obtain charitable registration as they become more formalized. Non-profits can also be large, however. Organizations like professional associations, business associations, real estate multiple listing services, etc. are also set up as non-profit organizations. A non-profit corporation is, formally, an organization without share capital. That means that the profit (the surplus at the end of a year), if any, from a non-

profit organization's operations is not distributed among shareholders. It stays with the organization.

Charities are non-profits that are approved by Revenue Canada to issue tax receipts for donations. To do that, an organization must restrict its activities to specific areas that are seen as being charitable. In our legal tradition, and this goes back to the early 1600's in England, charitable areas have been defined as religion, education, health, and relief of poverty. More recently another category has been added: services that benefit the community. This is how museums, symphonies, and many other organizations have obtained their charitable status. Not all non-profit organizations fit into these categories, however. Professional associations, the local chamber of commerce, and your local real estate board, for example, are non-profits; but they don't qualify to become charities.

Different kinds of charities

Before we get into any more detail, we should discuss some definitions so we can keep our terms straight.

Foundations

Charitable foundations are created to provide funding to other charities to pursue charitable activities. Revenue Canada registers two types of foundations—public and private. In a public foundation, half or more of the members of the board of directors deal with each other at arm's length. This means they are not family members, business partners, etc. Also, they have not contributed 50% or more of the foundation's capital. Community foundations, for example, are public foundations.

In private foundations, fewer than 50% of the members of the board of directors deal with each other at arms length and/or they have contributed 50% or more of the foundation's capital. Families sometimes create private foundations to use some of their wealth to do charitable activity and sometimes corporations do the same.

Charitable organizations

A charitable organization devotes its resources to its own charitable activities. These are the groups that most often ask for your charitable donation. Charitable organizations provide direct services to people and communities. They are the groups that we hear from most often when we are contacted by fundraisers.

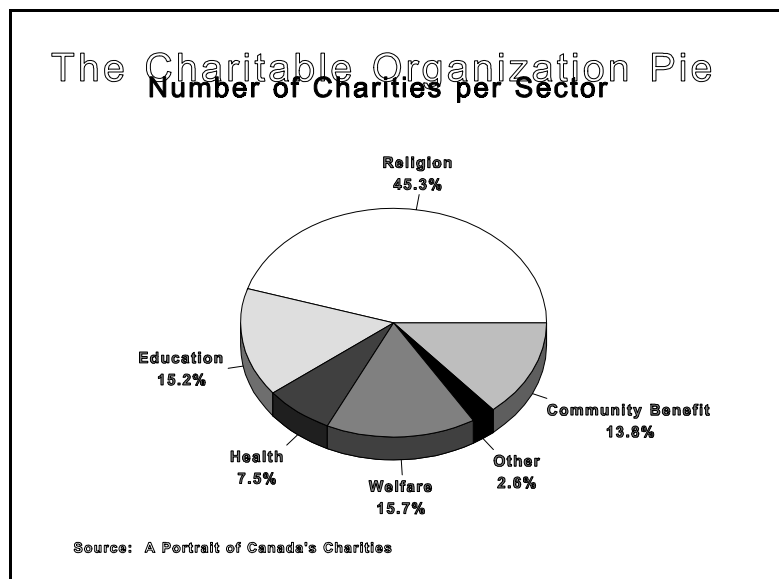
The charitable sector in Canada

About \$90 billion a year passes through Canada's charities. Charities employ 1.3 million people, about 9% of Canada's workforce, who receive about \$40 billion in salaries. Private donations account for \$10 billion of their revenue, corporate donations for \$1.2 billion, and just under a billion dollars comes from other private donors, like unions and business associations. Four-and-a-half million people volunteer for charities.

Charitable organizations (as opposed to foundations) form by far the largest group of registered charities—over 90%—so most of our attention in this book is directed to this group.

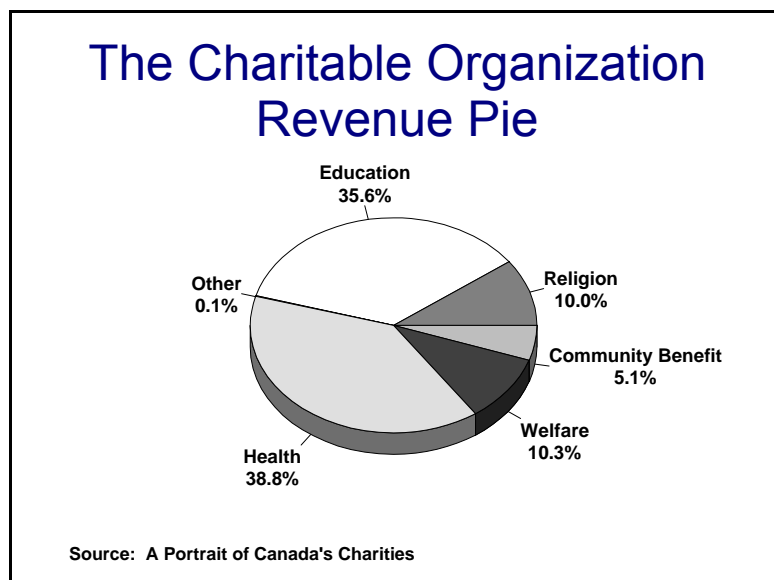
Almost 50% of all charitable organizations are religious organizations. This includes not only places of worship, but also religious charitable trusts, convents and monasteries, missionary organizations, and other religious organizations. (For the most part,

religious organizations restrict their fundraising to their members and congregations, so they have not been included in the tables at the back of this book.) Welfare (relief of the poor), education, and organizations that benefit the community, like libraries and museums, historical preservation sites, and other community organizations are about equally



divided. Health organizations form the smallest slice of the pie, except for "other" which includes organizations like service clubs, employee charitable trusts, amateur athletic associations, and a few other charities.

While religious organizations may make up the biggest slice of the charitable organization pie, they take only 10% of the revenue pie. This is because many of the health and education charities are extremely large. There are few charitable organizations that can compete with a hospital or university for the size of their budget.



Most charities, however, are actually very small. About half of Canada's charities report revenues of less than \$50,000. Another third have revenues of between \$50,000 and \$250,000. Only 19% of all charities have revenues of over \$250,000, and only 2% exceed \$5 million. This final 2% is where the hospitals and universities sit.

Charities in Canada are a growth industry. Especially in the areas of community benefits, welfare, and education, the number of charities has been growing much faster than the population as a whole. This parallels the growth and development of the social welfare system in Canada since the end of the Second World War.

Who controls charities?

In order to be registered as a charity, a group must make an application to Revenue Canada. Revenue Canada, in turn applies a set of criteria to each application. They look for:

- The charitable objects (goals) of the organization. Do they fit the legislative requirements of religion, education, health,

relief of poverty, or community benefit? Community benefit is not a catch-all that allows every organization to get registration. Community benefit has to fit into categories that are well accepted, like arts and culture.

- A volunteer board of directors consisting of at least three people. These volunteers must serve for free, and they cannot be employees of the organization. There is no upper limit on the number of board members.
- A fairly detailed description of how the organization intends to implement its goals. Just listing the goals won't do, and vague descriptions won't do either.
- Organizations claiming to provide relief for the poor must be able to prove that all or substantially all of their users are actually poor.

In Ontario, B.C. and Alberta, the provincial governments are also involved in overseeing charities. In Ontario, for example, Revenue Canada checks with the Provincial **Registrar of Charities** for an opinion before registering charities.

Revenue Canada also requires charities to submit an annual information report called **Form T-3010**. This is a form that provides an annual summary of revenue and expenditures, the amount of income spent on charitable activities, the amount spent on administration, and salary information on the organization's highest paid staff.

At the operational level, the charity is controlled by its board of directors. This is the group of volunteers who decide on the policies of the organization and ensure that they are carried out properly. The board members, collectively and as individuals, are legally responsible for the actions of the charity. Even if the charity is incorporated as a separate legal entity, the board volunteers are responsible, although there are some forms of insurance to protect them from some financial claims.

Some forms of charities can also obtain accreditation from professional bodies. Universities, hospitals, some counselling agencies, and some other charities are regularly accredited by special bodies. Accreditation means that the organization is operating within the accepted standards of that particular body.

Restrictions on charities' activities

Minimum to be spent on charitable activity

Charities have special tax status in Canada—they don't pay any on their income. In return for this benefit, as well as the benefit of being able to issue tax receipts to donors, charities are expected to make sure that the money they raise through donations is, in fact, spent being charitable. For that reason charitable organizations are required to spend at least 80% of **receipted donations** on their charitable activities. This does not mean that charities have to spend 80% of their total income on charitable activity.

A charity, for example, might receive \$100,000 in donations for which it issues receipts, but it might also bring in another \$900,000 in fees, government grants, and other forms of income. So it can easily claim that all its charitable donations go to providing charitable services while, in fact, it spends well over 20% of its total income on non-charitable activity such as administration, fundraising, etc.

In fact, it is not unusual, and it is not necessarily bad, for a charity to spend more than 20% of its income on non-charitable activity from time to time. It might, for example, spend 5% of its resources working to get improvements in public services for its client group (like parking spots for persons with disabilities), 20% on administration, and an extra 5% on a new fundraising program it expects will provide positive results in the future.

Foundations have different spending requirements. Foundations are expected to accumulate capital and to distribute most of the interest they earn from it. By accumulating capital and distributing the earnings, foundations can build capital over time and can fund charities long after the original capital contributions are made.

How charities raise money

The table below shows the various sources of income for Canada's charities in 1994. What may be surprising to many people is the fact that over half the revenue of charities comes from government. When one realizes, however, that the largest charities—hospitals and universities—receive a large

part of their income from government, it begins to make more sense.

Source of Revenue	Amount \$M	Total Revenue
Government		
Federal	5,331	6.2
Provincial	41,205	47.6
Local	2,325	2.7
Sub-Total	48,861	56.5
Received Donations		
Individual	6,612	7.6
Corporate	1,000	1.2
Other	794	0.9
Sub-Total	8,406	9.7
Other		
Unreceipted Donations	2,046	2.4
Gifts From Other Charities	2,078	2.4
Gifts-in-Kind	540	0.6
Investment Income	3,015	3.5
Net Capital Gains	3	0.0
Net Related Business Income	644	0.7
Fees	4,376	5.1
Other	16,543	19.1
Total	86,512	100

(source: A Portrait of Canada's Charities)

Who donates to Charities?



In 1996, about 5.5 million Canadians made donations to charities. That's up just slightly from the year before, but lower than in the early 90's. The median donation in 1996 (half were bigger; half were smaller) was \$150. Interestingly, Newfoundlanders, who had the lowest median income at \$27,700, also had the highest median donations, at \$260. Quebec's donors had the lowest median donations, at \$100.

Because some people make very large donations, the average donation was \$730. In the case of married couples, one spouse can claim the donations for both, so in many cases the numbers may represent the total donations made by two people, but claimed by one. So more than 5.5 million people made donations if these additional donors are taken into account. This means that for couples who both make donations, but claim them all on one tax form, the actual median and the average for each donor is lower than the amount claimed on the one tax form.

Older Canadians are the most active donors, with 38% of those age 65 and older claiming charitable tax credits in 1996. Of all tax filers, 27% claim charitable donations.

Charitable fundraising



Places of worship and community organizations that focus on welfare, sport, culture, and recreation are most heavily dependent on donations. While places of worship received only \$84 million from government in 1994, they received \$4 billion from receipted and un-receipted donations, gifts from other charities, and gifts-in-kind. The community organizations group received \$5 billion from receipted and un-receipted donations, gifts from other charities, and gifts-in-kind.

Individuals are allowed to claim donations of up to 75% of their income in that year for a tax credit. They also only have to pay half the capital gains tax on publicly traded securities donated to a charity (37.5% versus 75% of the total gain). The federal tax credit is 17% on the first \$200 of

donations and 29% on everything thereafter. Because provincial income taxes are calculated as a percentage of your federal tax, your tax credit is increased by your provincial tax rate as well. For example, if your provincial tax rate is 50%, your total tax credit will be 25.5% on the first \$250 and 43.5% on everything else. Donations of more than 75% of income in any one year can be carried forward for five years; however, the 75% limit applies in those years too.

Charitable gifts made in the year of a person's death, including gifts made through a will, are not subject to the 75% limitation, and there is no carry-forward provision. They can, however, be carried back one year. This is one of the reasons why many people are becoming more interested in regular giving, rather than waiting until they die.

Charities have an ever-expanding list of ways to encourage you to donate some or all of that 75%. In 1991, of the 3 in 10 Canadian tax-filers who claimed charitable donations, the average amount claimed equalled seven-tenths of 1 percent of their income. Not many of us need to worry about exceeding the 75% rule! The following are the major methods that charities use to raise funds from the public.

Methods of raising money

United Way/Centraide

The United Way/Centraide movement operates the largest annual group of fundraising drives in Canada. In 1997, United Ways across the country raised \$266 million for distribution to over 4,000 community health and social service agencies.

One hundred and twenty-five United Ways run collective campaigns on behalf of local charities in communities across Canada. By raising money on behalf of numerous organizations, they can do the job of fundraising more effectively and efficiently than if every organization operated a community-wide campaign on its own.

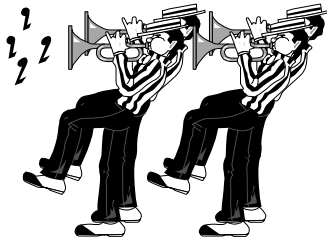
As government funding drops, however, and community needs expand, more and more United Way-funded organizations are also running their own campaigns. Many United Ways put restrictions on the kinds of fundraising their members can

undertake and at what time they can do their own fundraising so they don't compete with the United Way campaign. But don't be surprised if the idea of one campaign for many organizations breaks down in practice where you live. United Way funding rarely meets all the financial needs of any charity they fund, so some form of fundraising is simply a fact of life for almost all local charities.

In many cases, what United Way provides, in addition to funding for charities, is a community stamp of approval. Part of the United Way system of funding is a regular review of the organizations they fund conducted by teams of community volunteers. These volunteers, often aided by professional staff, look at whether the organizations receiving funds are operating efficiently and effectively.

For some community organizations, just being a United Way member is more important than the amount of funding they receive because they believe it gives them a certain level of legitimacy that non-members lack.

Special events



Fundraising dinners, balls, and other "events" are used by some charities to raise significant amounts of money from donors. Because the price of admission can sometimes be quite steep, and the planning for a major special event can be onerous, staff are often involved in supporting a team of volunteers who organize the event.

If you buy a ticket for such an event, you will notice that you get a charitable receipt for only part of the purchase price. The food and any professional entertainment at a dinner, for example, is considered to be a benefit to the purchaser, so your charitable receipt is for the amount of the ticket price, less any benefit you receive.

A number of charities run circuses to raise money. Often, if you don't want to attend yourself, they will ask you to buy tickets so needy children can attend. You should know that the circus operator gets paid first. Then, if there is any money left over, the charity gets part of the profit. This usually

results in the charity getting a very small portion of the total proceeds.

Over the years some communities have established local groups to review the fundraising practices of all charities that want to run campaigns there. The charities' proposals are compared to a set of approved standards and guidelines. In Halifax in the early 70's, circus operations stopped coming to Halifax because they could never meet the guidelines for minimum distribution to charity.

"-a-thons"



Walk-a-thons began to increase in popularity about thirty years ago. Since then we have seen just about every kind of "-a-thon" imaginable. The attraction is that people who have an interest in helping a particular charity can actively do something about it. By recruiting friends, relatives, neighbours, and co-workers, they can multiply their own interest, and the harder they work, the more money they raise.

Most "a-thons" require very little staff support; so they are inexpensive to operate. Some, like the annual Terry Fox walk-a-thon, raise millions of dollars every year. Others are local events for local charities and may only raise a few thousand dollars. But they get public attention and they spread the burden of donations across many donors, so they are effective.

Telephone solicitation



Fundraisers know that most people are sympathetic to the needs of children and people with disabilities. That's why so many of the telephone calls you get are for these two groups. It's hard to say no to someone wanting to help a needy child. The same is true for people with disabilities. Who hasn't seen a person with a severe disability and been thankful that he or she was healthy? Often your number is dialled by a computer that just selected the next combination in a series of numbers for your area. Sometimes your name comes from a list provided by a company doing the calling.

There are companies that run telephone solicitation fundraising for charities. They often hire local people to staff the phones, tell them what to say, and give the charity a share of the profits after deducting their expenses. Because a lot of people get called in a fairly short period of time, the companies can sometimes raise a lot of money quickly in the charity's name if the sales pitch is good. But, because many people have to be paid for their efforts, the charity usually sees only a small part of what is raised. From the charity's point of view they get much needed money with very little work. Any money is better than no money. From the donor's point of view, you should realize that most of the money you are donating is probably going to the fundraising company, not the charity. However, some charities use their own staff and volunteers to call people. In that case, all the money raised stays with the charity. So, if you are considering responding to a telephone solicitation it is important to find out who is calling—a staff person or volunteer associated with the charity, or someone paid to call you. The information will be helpful in judging whether or not to make a donation.

Direct mail



There are many ways to get on a charity's mailing list. The most direct way is to make a donation. Once you do that, the charity assumes you are a supporter and encourages you to support them again. This applies whether the charity has a direct-mail fundraising program or not.

Charities that do run a direct-mail campaign have several ways of getting your address, even if you have never given a donation to them. A charity running a province-wide or national campaign will usually do a fair bit of research into the kinds of people who already donate to them. Are they older or younger, urban or rural, male or female, highly educated or less so, professionals or not, ...? Lists of characteristics of their donors can be quite extensive.

They then look for mailing lists of people who look like their donors. Lists are bought and sold regularly, so the trick is to find the lists that have the most likelihood of providing donors. They will look for magazines that target people like

the ones who donate to them and explore buying their subscription lists. They may look for mailing lists from alumni associations, professional associations, unions, or any other group that resembles their donor profile.

More and more often, when you get a request in the mail, you also get a little something to keep—address labels, Christmas cards, fridge magnets, etc. The reason is that when people are given something, they are more likely to feel obliged to give something back. In this case it's a donation. The donation is almost always worth more than the gift.

Most people don't respond to direct-mail campaigns, but enough do to make it worthwhile. These days, making it worthwhile means breaking even. The charity that spends \$10,000 on its direct mail "prospecting" campaign and receives \$10,000 in donations is happy.

Why would they be happy just to break even? Because direct-mail campaigns to people who haven't donated before aren't about making a lot of money, they're about identifying people who are interested in giving. Give once and you will begin to get mailings targeted to your specific interests. You will learn more about the charity, and the charity will learn more about you in the hope that you will increase your donation over time. There is nothing wrong with this approach. It stands to reason that if you are attracted to the things a particular charity does, the more you find out about it, the more you are likely to give.

Some charities go overboard, however, and begin to send you several mailings a year. If you want to hear from them often, this is fine, but many people only intend to give once a year at most, and don't want to be asked more often than that. If that is the case with you, let them know that you only want to hear from them once a year or you will stop donating. They will probably stop sending you multiple mailings.

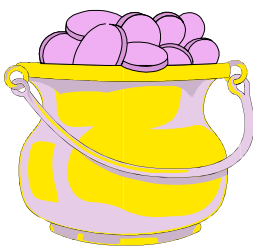
Door-to-door



Some charities use a door-to-door canvass to raise money. These are often among the biggest and most popular charities because it takes thousands of volunteers across Canada to make a national door-to-door canvass successful. The Canadian Cancer Society, for example, uses a door-to-door canvass. Fighting cancer is something that everyone can identify with, and saying no to someone face-to-face is much more difficult than saying no over the phone or rejecting a request by mail. The person at your door may also be someone you know—a neighbour—which makes it even more difficult to say no. Door-to-door canvassing is also very cost-effective. The canvassers are volunteers. There are few printing costs, and no postage costs.

Some small local charities also use a door-to-door canvass because it is easy to mount and can be quite successful. But be aware that there are some "sound alike" groups that go door-to-door that may not be charities at all. Some groups that sell candy bars, hand-made products, or that are "raising money to send poor kids to camp", etc. may not be charities at all and may use a name that sounds like a charity you know to get you to give them money. If you have any doubt at all, ask them for their charitable registration number. This doesn't mean you shouldn't buy something from the child supporting her local school; it just means you should know who you are donating to or buying from, and where the money is going.

Lotteries and gambling



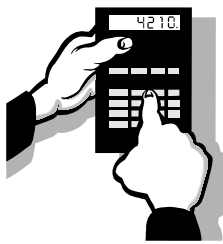
More and more charities are getting involved in the lottery business. A number of hospitals run lotteries, health charities run lotteries, and many others run cash lotteries, home lotteries, car lotteries and others. Lotteries are not a sure bet, however. Two major charities in Ontario have lost significant amounts of money running lotteries lately simply because the competition among lotteries was so great that they didn't sell enough tickets to cover the costs of advertising and prizes.

Bingos and casinos have long been a staple source of funds for some charities. Whether it is the local church or the soccer club, groups with many members who can be spread across

weekly events as volunteers find these kinds of fundraising opportunities easy and often profitable ways to raise money.

Many governments are now beginning to compete for the gambling dollar with some giving part of the proceeds to charities. Gambling is big business and billions in revenue will be raised this way every year. For the charities that run small operations, there is a good chance that they will be left behind as the stakes grow.

Planned giving



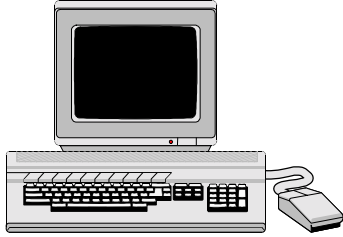
Planned giving is the fastest growing fundraising sector. Planned giving campaigns are usually associated with some kind of endowment fund. This can be through a community foundation, through another public foundation, through a foundation set up to raise money for a specific charity, or through a segregated fund within a charity.

The idea of a planned giving campaign is to encourage you to give a gift that will keep on giving. Unless otherwise specified, donations to a planned giving campaign are used as principal which generates income for either operating or capital costs. The principal stays in the fund to continue earning money for the charity. Planned giving campaigns focus on gifts left through wills, on life insurance policies for which the charity is the beneficiary, on donations of securities of all sorts, and on cash donations.

This is different from annual giving in which the money you donate is used in the ensuing year for operating costs. The kinds of gifts that a planned giving consultant can advise you on include:

- Cash donations
- Bequests through a will
- Life insurance, both existing policies and proceeds at death
- Charitable Remainder Trusts
- Charitable Gift Annuities
- Gifts of securities

In-kind donations



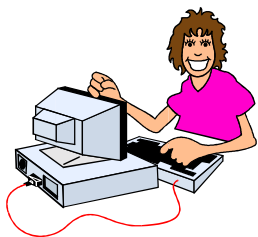
By-and-large in-kind donations are donations of goods and services rather than cash. In-kind donations can extend from refreshments for a meeting, to building materials for a construction project.

To issue a receipt for the in-kind donation, the charity has to determine a true value for the goods. Sometimes the valuation is easy. For example, if a hardware store owner donates 100 kilos of nails for a charity's construction project, their value would be the retail price of the nails. For used goods, the depreciated value is the appropriate value for a receipt. A five-year old computer that was purchased at \$5,000 is probably only worth about \$100 now. The receipt would have to be for \$100, not \$5,000.

From the charity's point of view it is best to trade cheques with the donor. At annual audit time the auditor will want to match the receipts for donations with bank deposits or the goods themselves. If the hundred kilos of nails are in the walls, that's hard to do. How does the auditor know that the charity received the nails? So charities will often pay for the goods, and ask the donor to donate back the same amount. Then the charity has a donation record to match with the receipt.

Sometimes donors are interested in making a large donation of art, real estate, or some other form of property to a charity. Revenue Canada has set up detailed regulations on the valuation, circumstances, and other criteria that affect the value of a donation of property. They are far too detailed for a book like this. If you are considering this kind of donation consult a qualified professional who can help you determine the steps you must take.

Donated services



For a donation of professional services, the donor's regular rate should be used. Services are trickier to work with because they are less quantifiable. If the donor is also a member of the organization's board of directors, a potential conflict of interest comes into play, since board members are not allowed to benefit from their

board activities.

There is another cautionary note for people who donate their services. If the local lawyer donates \$5,000 of legal advice and trades cheques, Revenue Canada will consider the cheque that the charity paid to the lawyer to be income, and the lawyer will have to pay tax on it.

Cash



The most common kind of donation is one of cash, either in currency or by cheque. Often, these donations are spur-of-the-moment affairs, made as we pass by a Salvation Army drop box at Christmas time, as we put our spare change into a container at a retail counter when we pay for a purchase; or as we withdraw money from a bank. The donor gets no charitable receipt for these donations, although the charity counts them as donations in its income statement. This is partly why figures for receipted donations, total donations, and donation tax credits claimed (we sometimes lose our receipts) never add up when we try to examine the charitable economy.

Sometimes cash donations are the result of a knock at the door. It may be the Cancer Society, Heart and Stroke, a local sports group, or just about anyone else. Many people are amazed at the end of the year by how many receipts they have collected from door-to-door canvassers. If the canvasser is selling you a product—a candy bar, wrapping paper, or whatever—they can't give you a charitable receipt. In order for your contribution to be charitable, you must not get anything (other than recognition) in return for the money you give.

Corporations also donate to charities, but their contribution, although important, is only a very small part of the total revenue pie—a little over 1 percent. The Canadian Centre for Philanthropy operates the Imagine Campaign, an effort to encourage businesses to donate 1% of pre-tax profits to charity.

Regulating charitable fundraising



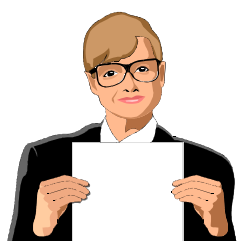
There are no federal laws in Canada that specifically address charitable fundraising. It is up to each province to decide whether to control

charitable fundraising and, if so, how. Alberta has a newly passed Charitable Fund-raising Act which contains rules and regulations covering professional fundraisers. Some local communities have put structures into place to provide advice to potential donors and to try to co-ordinate major campaigns, but these are mostly voluntary in nature. The only laws that apply to fundraising are the same laws that apply to truth in advertising, fraud, etc.

A number of professional associations have developed standards and guidelines for fundraising and fundraisers. The Canadian Society of Fundraising Executives, for example, sets out principles for ethical fundraising. Probably the most contentious is their prohibition against commission fundraising for their members. In commission fundraising, the fundraiser (either an individual or a company) receives a percentage of the proceeds (we'll take 10% of everything we raise). According to the standards set by the National Society of Fund Raising Executives (there are chapters in many cities across Canada), fees should be based on the work provided—so much per hour or day, plus expenses—or for the whole project.

A recent report by the Panel on Accountability and Governance in the Voluntary Sector, headed by Ed Broadbent, has proposed a number of accountability criteria and regulatory mechanisms. Over the next few years, some of these may be implemented by government.

A donor's bill of rights



The Canadian Centre for Philanthropy has developed a bill of rights for donors. If the charity approaching you violates this bill of rights, think twice before making a donation. The donors' rights are:

1. All donors (individuals, corporations, and foundations) are entitled to receive an official receipt for income tax purposes for the amount of the donation. Donors of non-monetary eligible gifts (or gifts-in-kind) are entitled to receive an official receipt that reflects the fair market value of the gift. (Note: "Eligible gifts" are defined in Revenue Canada Interpretation Bulletin IT-110R2 or its successor. Some common gifts, such as donations of volunteer time, services, food, inventory from a business, etc. are not eligible to receive official tax receipts.) The charity's governing board may establish a minimum amount for the

automatic issuance of receipts, in which case smaller donations will be receipted only upon request.

2. All fundraising solicitations by or on behalf of the charity will disclose the charity's name and the purpose for which funds are requested. Printed solicitations (however transmitted) will also include its address or other contact information.

3. Donors and prospective donors are entitled to the following, promptly upon request:

- the charity's most recent annual report and financial statements as approved by the governing board;
- the charity's registration number (BN) as assigned by Revenue Canada;
- any information contained in the public portion of the charity's most recent Charity Information Return (form T3010) as submitted to Revenue Canada;
- a list of the names of the members of the charity's governing board; and
- a copy of this Ethical Fundraising & Financial Accountability Code.

4. Donors and prospective donors are entitled to know, upon request, whether an individual soliciting funds on behalf of the charity is a volunteer, an employee, or a hired solicitor.

5. Donors will be encouraged to seek independent advice if the charity has any reason to believe that a proposed gift might significantly affect the donor's financial position, taxable income, or relationship with other family members.

6. Donors' requests to remain anonymous will be respected

7. The privacy of donors will be respected. Any donor records that are maintained by the charity will be kept confidential to the greatest extent possible. Donors have the right to see their own donor record, and to challenge its accuracy.

8. If the charity exchanges, rents, or otherwise shares its fundraising list with other organizations, a donor's request to be excluded from the list will be honoured.

9. Donors and prospective donors will be treated with respect. Every effort will be made to honour their requests to:

- limit the frequency of solicitations;
- not be solicited by telephone or other technology;
- receive printed material concerning the charity.

10. The charity will respond promptly to a complaint by a donor or prospective donor about any matter that is addressed in this Ethical Fundraising & Financial Accountability Code. A designated staff member or volunteer will attempt to satisfy the complainant's concerns in the first instance. A complainant who remains dissatisfied will be informed that he/she may appeal in writing to the charity's governing board or its designate, and will be advised in writing of the disposition of the appeal. A complainant who is still

dissatisfied will be informed that he/she may notify the Canadian Centre for Philanthropy in writing.

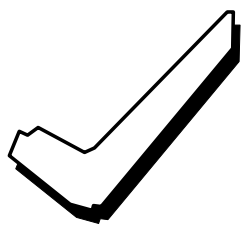
Charities conducting business activities



Some charities, in order to increase their revenue, operate business activities. Some have done so for a long time, like the used clothing outlets operated by Goodwill Industries. Others have begun to operate business activities, or profit centres, more recently, from donut shops in hospitals to employee assistance programs operated by counselling agencies.

In some cases there has been some local controversy when a business run by a charity is seen as being in competition with a commercial business. This has happened most often in the area of recreation and fitness, where some commercial fitness centres have complained about what they see as the unfair tax advantage given to YM and YWCA's. According to Revenue Canada the business has to be consistent with the charity's charitable goals and it should not offer undue competition to private businesses.

Evaluating charities



In terms of effectiveness and efficiency, charities are like every other kind of organization. Most fall into the large group of reasonably well run operations. A few are exceptionally good, leading the way in providing the best services in the most efficient way. And a few have fallen behind, lacking direction, operating too expensively, providing yesterday's services for today's needs. Even if this last group constitutes only 5% of the total, that's 3,750 charities that can't use your money well. It's a wasted donation.

This is not to say that you need to formally evaluate every charity that you consider donating to. Nor is it possible in many cases. If you want to donate to your place of worship, you probably already have a pretty good idea of how well it operates. When someone from your alumni association calls and asks for a donation for the university or community college campaign, you already know the organization's reputation. When the local hospital comes calling, for the

most part you have to go on your feelings about that particular organization. Even if you wanted to delve into their business, you probably wouldn't learn a lot from their financial statements or Form T-3010. There are too many parts of the operation that most of us just don't understand. So for people who aren't intending to donate a large amount, often reputation will have to do. For the rest, those who are considering a considerable donation, some independent investigation before making the donation may save disappointment later on.

The bulk of the requests that most people get, however, aren't from hospitals and universities. They are from local community organizations providing services to your community, and from national health charities. It is the requests in the mail, the phone calls (at dinner time because you are more likely to be at home), and the door-to-door canvasser, that make up the bulk of the requests that most people get. And these are requests over which you do have some control. If the charity's approach looks or sounds appealing, don't just send off a cheque or agree to make a pledge. There's no hurry. Do a little research.

Ten helpful hints:

If the charity that has approached you sounds like something you might be interested in, but you don't know much about it, here are 10 suggestions to help you sort out the good pitch from the good cause.

1. Ask the caller or visitor if he or she is a volunteer, an employee of the charity, or working for a company to raise money. Charities that use companies to call you often spend a lot of what you give them on the fundraising company.
2. Ask how much of the income from this campaign is spent on fundraising.
3. Ask how much of the charity's total income goes to its charitable activities.
4. If you are not familiar with what the charity does, ask what specific need or needs it meets, and what it does to meet those needs. Do its services sound reasonable in comparison to the needs?
5. If you are still interested, ask them to send you a copy of their most recent annual report and audited statement. Charities have to list a statement of their income and expenses every year, produced by an independent auditor. If they won't send you information, don't give them any money, and never agree to give them money over the phone.

Mail

If you get requests in the mail, or if a charity responds to your request for information...

6. Does the information list the members of the board of directors—the volunteers who control the charity? Is there anyone whose name you recognize and respect?
7. If you receive information on their income and expenses, does the information look reasonable? Do they have a big surplus, or a big deficit?
8. If you receive information on their services, do the activities or services they describe seem reasonable? If their claims about what they do sound too good to be true, they probably are. Remember, no one is going to cure poverty or save all the homeless in the next few years!

General cautions

9. Sometimes two charities have similar sounding names. Are you are making a donation to the one you think you are?
10. If you have any doubts, call your local Better Business Bureau to see if there have been any complaints about this group.

Four more for good measure

1. **Beware** of scam artists who make themselves sound like charities but aren't. Written material from charities asking for donations should include their Charitable Registration Number. Phone callers should be able to provide you with the number too. If you have any doubt about their authenticity, call Revenue Canada toll-free at 1-800-267-2384. They can tell you whether the number you have been given corresponds to the charity you are hearing about.
2. **Don't** respond to pressure. No responsible charity will brow-beat you into giving.
3. **Don't** give in to sob-stories. Emotional appeals about starving children or abused animals play to your sense of pity for the innocent. Ask for specific information on how your donation will be used and how much of your donation will go to the organization's charitable activities.
4. **Remember** that charitable registration does not ensure quality. Revenue Canada reviews very few registered charities in any year.

Does the charity meet a real need?

Before you make a donation to a charity, you want to know that it meets a real need in the community. Sometimes the charity and the need are well known—the Cancer Society and research for a cure, for example. Other times, what the charity does may be vague to you, or even if you know what it does, you may not be sure that it really needs doing. You could ask some of the following questions and see how they answer.

- How do you know that what you do is needed?
- How do you measure the level of need?
- Does anyone else provide services that meet this need?
- If so, how are your services different?
- What would happen if you didn't provide your services?

If you are convinced that the charity meets a real need in the community, you should also make sure that they meet it efficiently and effectively. Even if a charity is providing services to meet a real need in the community, it is important to make sure they are doing it in an efficient manner.

Amount spent on administration

Simply measuring the percentage going to charitable activity is not sufficient to make sure that a charity is operating well. The charity that is spending more on non-charitable activity this year, but is investing in future success, might do better in the long-run than the one that has a hard and fast rule about administrative costs.

Many people wonder why charities have to employ people at all. Why not just use volunteers and eliminate the administrative and service costs altogether? The simple answer is that volunteers don't appear out of nowhere. They have to be recruited, trained, and supervised, otherwise you have chaos. Also, in some areas, special skills are needed to provide an appropriate service.

Take United Ways, for example. They are among the most efficient fundraisers in the country. United Ways in urban centres use thousands of volunteers in their campaign each year. United Way of Greater Toronto, the country's largest, uses 20,000. It would be impossible to find 20,000 volunteers and make good use of them without highly trained staff to co-ordinate the effort.

On a smaller scale, your local meals-on-wheels program is most likely run by a charity. Volunteers serve on the board of directors, they may be involved in fundraising, and they deliver the meals. But in all but the smallest communities staff are needed to register clients and make sure they qualify, to order

the meals each day, to organize the delivery routes, and to do the bookkeeping.

Volunteers are often involved in service delivery, but again they have to be recruited, trained, and supervised. People who act as big brothers and big sisters, for example, are volunteers. But they couldn't do their volunteer jobs if someone trained in the needs of sometimes difficult children wasn't available to match children with adults, to train the volunteers, and to help them when they run into difficulty.

Cost of service

Another measure of efficiency is the cost of service compared to the volume of service. In an era where "more for less" seems to be the usual expectation, one way of measuring efficiency is to compare the cost of a unit of service (i.e. a night in a hostel, matching a big sister with a little sister, teaching a high school drop-out basic computer skills) this year with previous years. If the cost of the service per unit has gone down, or if the size of the unit has increased with a smaller increase in cost, it is assumed that the efficiency has increased.

One should be careful, however, to avoid simple cost/unit comparisons. If the cost has gone down, has the quality of the service been maintained? Has it been delivered as effectively?

Some people try to compare the cost of a service at one charity with a similar service at another. This can be fraught with problems, though, because even if the service is similar, like computer training, the trainees may not be. It will take high school drop-outs longer than recent graduates to obtain the same level of expertise, so each unit will cost more.

Effectiveness

Output vs outcome

Most charities that provide services to people measure their effectiveness in terms of **output** ("Last year we provided services to 1,000 low-income families—an increase of 7% over the previous year."). This means that they equate activity with effectiveness. But lately, donors have begun to ask whether being "active" is the same as being "good". If 7% more clients went

through skills training programs, how many more got jobs? If the inner-city camp served 5 more children for the same cost, did they have the same quality experience?

It is really outcomes that most donors are concerned about, not output. If you are going to give an organization some of your money, you want to make sure it is going to do some good. Here are two simple questions to ask (the questions are simple, the answers aren't). Organizations that cannot provide reasonable answers should at least show that they are moving in this direction before you donate.

1. What are the outcome goals for each program or service you provide?

Charitable organizations are moving towards outcome measurement as a second form of quality assurance. Outcomes are the results of the service, not the number of people served or the number of services provided. Goals should specify the result of the service or program that the organization provides. "Educating the public about head injuries from bicycle accidents" is not specific. "Reducing the number of new head injury cases from bicycle accidents" is. "Reducing the number of new head injury cases by 10% in the next three years" is specific and quantified. Now you know the organization has a way of measuring success.

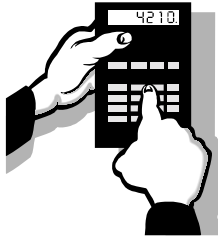
2. How do you know whether you are meeting your goals?

Organizations should be able to tell you how they evaluate success. Does the bicycle head injury education organization rely on hearsay to know whether the rate of new cases has declined, or do they have hard evidence from health authorities?

If the answers to these two questions sound reasonable, there is a pretty good chance that the charity is on the ball. To be fair, however, the task of measuring successful outcomes is harder for some charities than for others. The above example is pretty cut and dried. Drop-ins for homeless people, prevention of abuse, and similar services are much harder to quantify. The successful outcome of a training program in a community with few jobs is hard to specify. So one needs to temper the evaluation of what a charity does

with some knowledge of the environment in which it operates.

Creating your own donations budget



Lots of people have family budgets. They budget for vacations, for cars, for housing expenses, for schooling, and for many other things.

A donations budget can help you make sure you give to the kinds of things you want to support instead of giving to spur-of-the-moment impulses.

It's like a grocery list. If you take a list to the supermarket you are much more likely to buy what you want to buy and less likely to buy what just looks good as you pass by.

A donations budget can also help you focus your donations in a way that helps you do the most good. Thinking about how you want to make your donations beforehand gives you time to check out whether charities that are unfamiliar to you are effective at doing the kinds of things you want to support. You won't feel rushed to say yes.

How much is the right amount? There is no absolute rule about how much to give. Some groups have come up with suggestions to help, though. Some suggest an hour's pay a month - about two-thirds of one percent of your earnings. Others suggest aiming for one percent, like the Imagine Campaign suggests for corporations. Some religious denominations practice tithing. That's ten percent.

Figure out how much you want to give, and start from there. If you make \$45,000 a year and donate an hour a month to charity, that makes a donations budget of \$300. The form on the next page will help you to plan ahead. If you give regularly where you worship, enter the amount you donate. If you donate to United Way, put in that amount as well. If you don't, and you are not sure where you want your donations to go, United Way is a good choice. It's like investing in a mutual fund, your donation is spread across a number of organizations that have demonstrated that they meet a community need efficiently and effectively.

Next, think about any particular interests you have and divide the rest of your budget among them on the form.

Now, when someone comes calling, you will know what you have already planned to do, and you will be less susceptible to spur-of-the-moment donations. No matter how much or how little you give, your donations will help to build a stronger, healthier community.

My annual charitable donations budget	
Type of donation	Amount
Donations made every year	
Community Campaign (i.e. United Way)	\$
Religious organization	\$
Other	\$
Other	\$
Specific Charities to Support	
Arts and Culture	\$
	\$
Education	\$
	\$
Environment	\$
	\$
Health	\$
	\$
International Aid	\$
	\$
Recreation	\$
	\$
Social Services	\$
	\$
Other	\$
	\$
TOTAL	\$

Detailed Inventory of Your Charitable Interests

Y N

- Academic Upgrading
 - Addictions
 - Adult Day Care
 - Adult Education
 - AIDS
 - Alcoholism
 - Alzheimer Disease
 - Amateur Sport
 - Animal Welfare
 - Art Galleries
 - Assaulted Women
 - Bereavement
 - Blindness and Impaired Vision
 - Camps and Camping
 - Caregiver Relief
 - Child Care
 - Child Sexual Abuse
 - Child Welfare
 - Children
 - Community Development
 - Community Health
 - Conflict Resolution
 - Correctional Services
 - Counselling
 - Crime Victims
 - Crisis Intervention
 - Dance
 - Deafness and Impaired Hearing
 - Depression
 - Developmental Challenges
 - Disease
-
-
-
- Distress Lines
 - Eating Disorders
 - Education

- Elder Abuse
- Employment Services
- Environment
- Exceptional Children
- Family Life Education
- Family Planning
- Family Violence

Y N

- First Aid
- Feeding Programs
- Food Security
- Friendship Services
- Geriatric Services
- Health Education
- Health Services
- Home Help
- Home Support
- Homeless People
- Homemaking
- Hospices
- Hostels
- Housing
- Immigrants and Newcomers
- Infants
- International Development
- International Relief
- Leadership Training
- Learning Disabilities
- Life Skills
- Literacy
- Male Batterers
- Mental Health
- Music
- Native Peoples
- Nursery Schools
- Nursing Homes
- Offenders
- Parenting
- Physical Challenges

- Pregnancy
- Race Relations
- Recreation
- Recreational Sport
- Residences
- Retirement Homes
- Social Action
- Social Planning
- Social Policy
- Theatre
- Translation and Interpretation

- Self-Help Groups
- Seniors
- Settlement Services
- Sexual Assault
- Sex Offenders
- Single Parents
- United Way
- Vocational Counselling
- Volunteering
- Women
- Young Offenders
- Youth