

THE CHARITY 100

WHERE IS YOUR MONEY GOING?

MOST OF US KNOW ALMOST NOTHING ABOUT HOW OUR DONATIONS ARE USED. *MONEYSense* HAS CREATED CANADA'S FIRST CHARITY GRADING SYSTEM TO HELP CHANGE THAT

By Sarah Efron

Data research by Phil Froats

The idea of creating a ratings system for charities first occurred to me while eating curried shrimp and eggplant with my uncle Art at a Chinese restaurant in Toronto's Yorkville district. As rain poured down outside, we got into a deep discussion about which charities most deserve your money. My uncle, a retired professor who lives in Buffalo, N.Y., donates around \$8,000 a year to human rights groups, poverty advocates and environmental organizations, but he worries about how his money is used. Like many donors, he's happy to give generously if his money is actually helping people—but he has no guarantees that it is.

Recent studies and newspaper headlines are enough to give any donor doubts. In 2008 the Hospital for Sick Children Foundation was criticized for giving former president Michael O'Mahoney a lavish \$2.1-million golden parachute. A *Toronto Star* investigation in 2002 revealed that almost one in six Canadian charities was spending more money on running the organization than on the

actual charitable work. Data from five American states shows that less than half the money collected by for-profit contract fundraisers actually reaches the charities. Meanwhile a 2003 study by Harvard Business Review and McKinsey & Co. found that nonprofits in the U.S. could free up \$100 billion a year by changing operating practices to become more efficient.

My family has strong ties to the non-profit sector, so I know that many organizations are lean and well-run, constantly stretching their limited dollars to push important causes forward. But a few bad apples can taint the barrel, and it's tough to find out which apples are bad. The Canadian government tries to regulate charities through its tax collection arm, the Canada Revenue Agency (CRA), but with only 270 staffers overseeing 85,000 charities—and a mandate that's more concerned with tax evasion than charitable program outcomes—mismanaged organizations and outright scams can and do slip through the cracks.

To me, it seems that part of the solution is to give potential donors more information

so they can judge the charities for themselves. If an independent third party could delve into the charities' financials and come up with a fair and easy-to-use ratings system, Canadians would be more likely to direct the \$14 billion that they donate every year to the charities that most deserve their money. That's why we have decided to attempt what many say is impossible: establish the country's first ever grading system for Canada's 100 largest charities. We know that such a system is controversial and doomed to be incomplete, but having some information is better than none—and the key financial indicators can be telling.

Ryan Blau/Jewish General Hospital Foundation



Fundraising events, such as the Jewish General Hospital Foundation's Ride to Conquer Cancer, bring in valuable revenue but can have high costs

For instance, we think it's useful to know how much of your money is absorbed by overhead, and how much goes directly to the cause. We understand that charities need to spend some of the money they receive on things like accountants and offices for support staff—but if a charity is spending more on such things than the cause itself, we think there's some explaining to do. We also think it's helpful to get an idea of how much a charity is spending to raise each additional dollar in its fundraising efforts. Imagine if you donated \$10,000 to a charity, only to find out that all of your money was used to air annoying hospital lottery TV ads, rather

than helping people. In our rating system, we also keep an eye out for charities that don't seem to need your money, because they never use it. Believe it or not, some charities already have years of reserves in their vaults. Do you really want to add another \$1,000 to a growing pile of dusty, unused money? Finally we look for red flags such as poor governance and secretive charities that won't divulge what they do with your money, even when donors ask.

There are many other important things you need to know before giving to a charity, such as how valid its mission is and how successful it is at accomplishing its goals. But

such factors are difficult to measure through hard numbers, so we weren't able to incorporate them directly into our rating system. Instead, we did the best we could with the data currently available through the CRA's 2008 charity information filings to come up with what we call the *MoneySense* Charity Standards Grade. This score is based on similar systems already in place at charity rating agencies in the U.S., and it's designed to make it easier to spot when key financial ratios at a charity are out of line for its sector. It also helps donors identify charities with overly large or small reserves, or those without proper governance. (continued on page 60)

THE CHARITY 100

CHARITY	OVERALL CHARITY EFFICIENCY		FUNDRAISING EFFICIENCY		GOVERNANCE AND TRANSPARENCY		RESERVE FUND SIZE		OVERALL GRADE
	PERCENT OF SPENDING GOING TO PROGRAMS	GRADE	COST TO RAISE \$100	GRADE	SCORE OUT OF 10 (+1 BONUS POINT)	GRADE	YEARS OF RESERVES ON HAND	GRADE	GRADE
CULTURE, ARTS & RESEARCH									
Art Gallery of Ontario	87.2%	A	\$6.50	A	3	D+	n.a.	n.a.	B
Centre for International Governance Innovation	85.1%	A	\$2.80	A	2	D	11 yr. 5 mo.	D	B-
Montreal Museum of Fine Arts	86.0%	A	\$3.00	A	5	C	n.a.	n.a.	B+
Perimeter Institute	92.1%	A	\$0	A	3	D+	14 yr. 8 mo.	D	B-
ENVIRONMENT									
Canadian Wildlife Federation	66.6%	C+	\$26.30	C+	5	B	8 mo.	A-	B-
Ducks Unlimited Canada	65.1%	C+	\$31.70	C-	7.5	A-	11 mo.	A-	B-
Nature Conservancy of Canada	92.8%	A+	\$6.30	A+	5	B	2 yr. 3 mo.	A-	A
World Wildlife Fund Canada	72.9%	C+	\$24.10	C+	5	B	6 mo.	A-	B-
FUNDRAISING ORGANIZATIONS									
Alberta Shock Trauma Air Rescue Service Foundation	67.9%	D	\$31.30	D	5	B+	2 mo.	B	C
BC Cancer Foundation	62.1%	D	\$37.30	D	5	B+	8 mo.	A	C
Calgary Foundation	88.7%	A-	\$0.30	A+	9.5	A+	8 yr. 5 mo.	D	A
Canadian Unicef Committee	71.5%	C	\$19.80	B	7.5	A-	0	D	B-
Centraide of Greater Montreal	87.5%	A-	\$11.90	B	5	B+	1.6 mo.	B	B+
Federation CJA	78.2%	B-	\$13.70	B	2	D	1 yr. 3 mo.	A	C+
Health Partners International of Canada	98.0%	A+	\$0.60	A+	8	A	0	D	A
Jewish Community Foundation of Montreal	93.0%	A+	\$0.40	A+	2	D	8 yr. 6 mo.	D	B+
Mennonite Foundation of Canada	98.7%	A+	\$0	A+	8.5	A	3.7 mo.	A	A+
Royal Ontario Museum Governors (Royal Ontario Museum Foundation)	88.2%	A-	\$5.80	A-	8.5	A	11 mo.	A	A
Terry Fox Foundation	81.6%	A-	\$13.40	B	5	B+	3 yr. 6 mo.	B	B+
Tides Canada Foundation	97.8%	A+	\$0	A+	11	A+	8 mo.	A	A+
United Jewish Appeal of Greater Toronto	82.2%	A-	\$17.30	B	3	C	0	D	B-
United Jewish Welfare Fund of Toronto	84.2%	A-	\$9.00	A-	5	B+	3 yr 0.4 mo.	B	A-
United Way of Calgary and Area	89.0%	A-	\$10.60	B	9.5	A+	4 mo.	A	A-
United Way of Greater Toronto	88.9%	A-	\$9.20	A-	10	A+	3.8 mo.	A	A
United Way of the Alberta Capital Region	79.8%	B-	\$11.80	B	9.5	A+	2.9 mo.	B	B+
United Way of the Lower Mainland	78.5%	B-	\$18.60	B	3	C	1 yr. 5 mo.	A	B-
United Way of Winnipeg	82.2%	A-	\$16.90	B	3	C	0	D	B-
United Way Ottawa	74.4%	C	\$15.20	B	3	C	1.3 mo.	B	C+
Vancouver Foundation	92.0%	A+	\$4.50	A+	5	B+	8 yr. 8 mo.	D	A
HEALTH/HEALTH SERVICES									
Alberta Cancer Foundation	59.5%	D	\$36.20	D	5	A	2 yr. 7 mo.	A+	B-
Canadian Breast Cancer Foundation	51.6%	D	\$29.90	A-	3	A-	11 mo.	A+	B
Canadian Cancer Society (Quebec Division)	63.6%	C+	\$30.90	C	3	A-	5 mo.	A+	B
Canadian Cancer Society Alberta/N.W.T. Division	42.4%	D	\$47.40	D	8	A+	2.4 mo.	B+	B-
Canadian Cancer Society British Columbia and Yukon Division	59.0%	D	\$43.00	D	5	A	1 mo.	B+	C+
Canadian Cancer Society Ontario Division	54.8%	D	\$43.40	D	7.5	A+	4 mo.	A+	B
Canadian Cystic Fibrosis Foundation	62.3%	C+	\$31.40	C	7.5	A+	1 yr. 3 mo.	A+	A-
Canadian Diabetes Association	43.0%	D	\$43.40	D	8.5	A+	1.3 mo.	B+	B-
CNIB (Canadian National Institute for the Blind)	58.6%	D	\$65.60	D	5	A	0	D	C
Heart and Stroke Foundation of Alberta, N.W.T. & Nunavut	27.3%	D	\$62.10	D	8	A+	3.5 mo.	A+	B
Heart and Stroke Foundation of British Columbia and Yukon	68.8%	A-	\$37.30	D	10	A+	6 mo.	A+	A-
Heart and Stroke Foundation of Ontario	55.4%	D	\$60.70	D	8	A+	4.8 mo.	A+	B
Juvenile Diabetes Research Foundation Canada	61.8%	C+	\$42.70	D	8	A+	4 mo.	A+	B+
Kidney Foundation of Canada	51.4%	D	\$39.30	D	5	A	6 mo.	A+	B-
Multiple Sclerosis Society of Canada	51.2%	D	\$65.20	D	7.5	A+	1.6 mo.	B+	B-
Multiple Sclerosis Society of Canada (Ontario Division)	56.1%	D	\$42.40	D	7.5	A+	2.5 mo.	B+	B-
War Amps (War Amputations of Canada)	90.4%	A+	\$1.40	A+	1	D	10 mo.	A+	A
HOSPITAL FOUNDATIONS									
Alberta Children's Hospital Foundation	57.4%	D	\$14.90	A-	5	A-	9 yr. 9 mo.	D	B-
Baycrest Centre Foundation	73.0%	C	\$27.40	C	3	B-	4 yr. 9 mo.	B	C+
B.C. Children's Hospital Foundation	70.7%	C	\$18.80	A-	3	B-	1 yr. 10 mo.	A+	B
Calgary Health Trust	62.4%	D	\$41.90	D	5	A-	2 yr. 1 mo.	A+	C+

HOW TO USE THIS TABLE

The *MoneySense* charity standards grade is based on how each charity performs in four categories, as described below.

Overall Charity Efficiency: This grade measures the percentage of charity expenditures spent on program costs, rather than overhead and fundraising costs. The higher the percentage going to program costs, the better the grade.

Fundraising Efficiency: This grade looks at how much the charity spends to raise each \$100. The less the charity has to spend to raise \$100, the better the grade.

Governance and Transparency: Part of this grade is based on the charity's response to a questionnaire we sent out based on the Better Business Bureau's governance standards. The other part of this grade is based on transparency, as measured by whether the charity posts complete audited financial statements on its website, and other factors.

Reserve Fund Size: According to charity rating organizations in the U.S., most charities should have between three months' and three years' worth of reserves on hand. We gave lower scores to charities with less or more than the ideal amount on hand (unless that type of charity doesn't hold reserves at all). Note that this category was weighted at 50%, versus 100% for the other three categories.

How to interpret the grades: As much as possible, we tried to grade the charities in relation to their peers. To do this, we grouped similar charities together and normalized the grades. As a result, two charities with similar raw data may receive quite different grades if they are in different categories. For instance, a Health Services charity devoting 90% of expenditures to program costs gets an 'A+' for Charity Efficiency, while a Fundraising Organization spending the same amount on programs only gets an 'A-'. That's because the charities are rated in relation to the other charities in the same category.

It's important to note that the final grade we award to each charity is not meant to measure how successful that charity has been at achieving its program goals. Rather, our grade is a measure of how the charity compares to other charities in its sector when it comes to meeting specific financial and governance benchmarks. There may be extenuating circumstances we are not aware of that explain why a charity has a low percentage of expenditures going to programs, high fundraising costs, or reserves that fall outside our target range. Thus, we recommend that you do not use our grades in isolation when deciding which charities to support. Instead, use our grades as a starting point for your own research.

Sources: Canada Revenue Agency 2008 T3010 charity information filings (this data is collected by the CRA, and we are not responsible for any errors it may contain); *MoneySense* governance questionnaire; charity financial statements; charity websites.

THE CHARITY 100

CHARITY	OVERALL CHARITY EFFICIENCY		FUNDRAISING EFFICIENCY		GOVERNANCE AND TRANSPARENCY		RESERVE FUND SIZE		OVERALL GRADE
	PERCENT OF SPENDING GOING TO PROGRAMS	GRADE	COST TO RAISE \$100	GRADE	SCORE OUT OF 10 (+1 BONUS POINT)	GRADE	YEARS OF RESERVES ON HAND	GRADE	GRADE
IWK Health Centre Foundation	78.4%	B+	\$0	A+	8	A+	1 yr. 1 mo.	A+	A+
London Health Sciences Foundation	57.3%	D	\$38.70	D	3	B-	2 yr. 3 mo.	A+	C
Montreal Children's Hospital Foundation	82.3%	A+	\$5.70	A+	3	B-	3 yr. 3 mo.	B	A
Mount Sinai Hospital Foundation of Toronto	84.0%	A+	\$23.90	C	5	A-	1 yr. 1 mo.	A+	A-
Ottawa Hospital Foundation	81.9%	A+	\$19.60	A-	3	B-	3 yr. 0.1 mo.	B	A-
Princess Margaret Hospital Foundation	44.0%	D	\$11.60	A-	5	A-	2 yr. 0 mo.	A+	B
QEll Health Sciences Centre Foundation	51.0%	D	\$47.80	D	5	A-	1 yr. 9 mo.	A+	C+
Sainte-Justine UHC Foundation	72.2%	C	\$21.70	C	3	B-	2 yr. 8 mo.	A+	B-
SickKids Foundation (Hospital for Sick Children Foundation)	65.3%	D	\$36.70	D	5	A-	4 yr. 9 mo.	B	C
Sir Mortimer B. Davis Jewish General Hospital Foundation	86.2%	A+	\$19.10	A-	6.5	A+	2 yr. 3 mo.	A+	A+
Southlake Regional Health Centre Foundation	71.5%	C	\$21.40	C	5	A-	1 yr. 11 mo.	A+	B
St. Michael's Hospital Foundation	69.9%	D	\$17.40	A-	3	B-	4 yr. 4 mo.	B	C+
Stollery Children's Hospital Foundation	65.0%	D	\$16.40	A-	3	B-	1 yr. 4 mo.	A+	B-
Sunnybrook Health Sciences Centre Foundation	79.4%	B+	\$11.60	A-	8	A+	2 yr. 7 mo.	A+	A
Toronto General & Western Hospital Foundation	78.5%	B+	\$22.80	C	11	A+	5 yr. 6 mo.	D	B+
University Hospital Foundation	100.0%	A+	\$33.50	D	2	C-	4 yr. 6 mo.	B	B-
VGH & UBC Hospital Foundation	56.4%	D	\$49.10	D	1	D	2 yr. 3 mo.	A+	D+
HOSPITAL/ MEDICAL SERVICES									
Centre de Santé et de Services Sociaux Richelieu-Yamaska	84.0%	B-	\$0	A	2	D	n.a.	n.a.	B-
McGill University Health Centre	95.0%	A	\$0	A	3	D+	n.a.	n.a.	B+
Mount Sinai Hospital	87.1%	A	\$5.30	A	3	D+	n.a.	n.a.	B+
SickKids Hospital (Hospital for Sick Children)	60.0%	C-	\$0	A	3	D+	n.a.	n.a.	C+
St. Michael's Hospital	98.9%	A	\$0	A	3	D+	n.a.	n.a.	B+
INTERNATIONAL AID & DEVELOPMENT									
Aga Khan Foundation Canada	95.4%	A+	\$0.80	A+	1	D-	2 yr. 8 mo.	A-	B+
Canadian Feed the Children	85.8%	A+	\$10.10	B	3	C-	1.2 mo.	C+	B
Canadian Red Cross Society	85.7%	A+	\$33.00	C-	5	B	2.5 mo.	C+	B
Chalice	93.3%	A+	\$4.00	A+	8.5	A	2.2 mo.	C+	A
Christian Blind Mission International	84.8%	B	\$9.70	A+	5	B	1.6 mo.	C+	B+
Christian Children's Fund of Canada	86.8%	A+	\$20.70	C	5	B	0	D	B
Compassion Canada	84.3%	B	\$10.30	B	11	A+	1.3 mo.	C+	A-
Doctors Without Borders Canada (Médecins Sans Frontières Canada)	82.1%	B	\$18.10	B	5	B	1.4 mo.	C+	B
FTC Federation in Canada	88.6%	A+	\$5.10	A+	3	C-	0	D	B+
Hope International Development Agency	95.3%	A+	\$3.80	A+	3	C-	1.3 mo.	C+	B+
Kids Can Free the Children	89.6%	A+	\$0	A+	3	C-	2 mo.	C+	B+
Plan International Canada	78.4%	B	\$16.60	B	3	C-	0	D	C+
Samaritan's Purse Canada	90.1%	A	\$0.80	A+	5	B	3.4 mo.	A-	A-
United Israel Appeal of Canada	80.1%	B	\$25.80	C	1	D-	8 mo.	A-	C
World Vision Canada	81.7%	B	\$15.20	B	10.5	A+	0	D	B+
OTHER									
British Columbia Society for the Prevention of Cruelty to Animals	76.1%	B+	\$17.80	A-	5	B	0	D	B
Children's Wish Foundation of Canada	64.3%	C	\$20.80	C+	3	C	1 yr. 10 mo.	A-	C+
Tim Horton Children's Foundation	78.1%	B+	\$4.80	A+	3	C	9 mo.	A-	A-
RELIGION									
Crossroads Christian Communications	84.6%	B	\$7.60	A+	1	D	0	D	B-
Power to Change Ministries	86.8%	A+	\$14.80	B	1	D	0	D	B-
Watch Tower Bible and Tract Society of Canada	95.7%	A+	\$0	A+	0	D-	2 yr. 3 mo.	A-	B+
Wycliffe Bible Translators of Canada	86.7%	A+	\$5.80	A+	9	A	1.8 mo.	B-	A
SOCIAL SERVICES									
Calgary Inter-Faith Food Bank Society	97.5%	A+	\$0.20	A+	3	C	1.7 mo.	B	A-
Covenant House Toronto	72.5%	B-	\$29.30	C+	5	B	0	D	C+
Salvation Army Territorial Headquarters for Canada and Bermuda	67.0%	B-	\$11.30	A-	5	B	1 yr. 6 mo.	A-	B
Second Harvest Food Support Committee	90.5%	A+	\$5.30	A+	9	A+	0	D	A
Teen Challenge	76.3%	B+	\$9.90	A+	1	D	0	D	B-
Toronto Windfall Clothing Support Service	98.8%	A+	\$0.50	A+	8.5	A	0	D	A

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By applying it to Canada's largest 100 charities—as measured by the dollar amount of public donations they receive—we're simply hoping to help our readers make the most effective use possible of the limited dollars they have available to give.

How much goes to the cause?

The first factor we looked at was how much of your donated money goes to the cause itself, versus administrative and fundraising costs. Yes, sometimes you need to spend money to raise money. But Kate Bahen, managing director of Charity Intelligence Canada, a Toronto organization that advises donors, says that charities can get carried

than 70% going to other charities received no points in this category.

How efficient is the fundraising?

Spending big bucks on galas, telemarketing, door-to-door campaigns and TV ads can raise awareness of a charity—which in turn can bring in even bigger bucks. But some charities are more efficient at this than others. So the next factor in our Charity 100 grade is how much each charity spends on fundraising for every \$100 raised.

This is a controversial subject, because from a charity's point of view, spending \$90 to raise \$100 makes perfect sense. After all, at the end of the day you end up with \$10

Bureau Wise Giving Alliance cite \$35 as a reasonable upper limit to the amount that should be spent to raise \$100. The CRA agrees, saying that a charity which spends \$35 or less to raise \$100 is unlikely to generate concerns about its fundraising costs.

For organizations that focus primarily on fundraising for outside causes, such as hospital foundations and the United Way, we again demand a higher level of efficiency, since fundraising is pretty much all they do. For these organizations, we awarded full points to those that spend less than \$5 to raise \$100, while organizations that spend more than \$30 to raise \$100 were given a zero.

When we looked at how efficient the

HOW MUCH OF YOUR MONEY GOES TO THE CAUSE? SOME CHARITIES ARE VERY EFFICIENT, OTHERS ARE BLOATED

away and spend more time empire-building than helping the people they're supposed to help. "There are some organizations that are incredibly nimble and cost-efficient," she says, "while others have an incredibly bloated cost structure." Because of this, she says, the percentage of income an organization spends on administration and fundraising can be revealing.

In our rating system, charities receive 10 points if 85% or more of their overall annual expenses go to charitable programs, 7.5 points if 75% to 85% go to programs, and so on. Charities that spend less than 60% on charitable programs get zero points.

One wrinkle we ran into was how to grade fundraising organizations such as the United Way or hospital foundations, which don't run charitable programs themselves. Such organizations exist mainly to funnel money to outside groups, so in these cases we decided to count the money they transferred to other organizations as program expenses. As well, fundraising organizations generally have lower overhead costs (as they are not running programs directly), so we held them to a higher standard, awarding top marks only if 90% or more of their expenses go to other charities. Fundraising organizations with less



Charities with low administrative and fundraising costs have more money left over for programs, such as this Samaritan's Purse relief project in Haiti

more to spend on your charitable programs. "But from a donor's perspective, do you want 90 cents of your dollar to go to fundraising costs, and only 10 cents to go to charitable programs?" asks Bahen. "It's prudent to seek charities with low fundraising costs where your dollar will have more impact."

To rate the charities on fundraising efficiency, we divided the amount spent on fundraising in a year by the amount raised. A charity gets a top mark of 10 points if it spends \$10 or less to raise \$100. It gets 7.5 points if it spends between \$10 and \$20 to raise \$100, and so on. If it spends \$35 or more, it gets zero points. That cutoff point may seem arbitrary, but both the American Institute of Philanthropy and the Better Business

top 100 charities were at fundraising, we were surprised to find that many big-name organizations spent far more than our \$35 cutoff. For instance, the Heart and Stroke Foundation of Ontario spent \$61, and the Canadian Cancer Society Ontario Division spent \$43. When we looked closer, we quickly found out why their fundraising expenses were so high: lotteries.

It turns out that using lotteries to raise money is particularly costly, as they rely on pricey TV ads, cash prizes, cars and trips, all of which have to be paid for.

But Heart and Stroke Foundation of Canada chair Irfhan Rawji argues that the Ontario lottery generates \$10 million in profits—money it couldn't raise otherwise. "Calculating a fundraising efficiency ratio from the information from the CRA doesn't tell the whole story for an organization like the Heart and Stroke Foundation, which raises money in many different ways," he says.

That's a reasonable argument, but we still stuck to our \$35 limit. That's because we felt that lottery expenses really are a hard fundraising cost. Lotteries can be so expensive, in fact, that they can result in a huge waste of your donated money. In 2008, the BC Cancer Foundation lost more than \$600,000 on an unsuccessful lottery. ▶

When looking at the fundraising efficiency grades, however, keep in mind that there could be valid reasons for a low score. A new charity, or one working on a less popular cause, such as helping drug addicts, will usually have higher fundraising expenses, for example.

Is the charity run properly?

A charity is only as good as the men and women in charge, and “many have concluded that an organization with a strong and active board is less likely to have other problems,” says Bennett Weiner, of the Better Business Bureau Wise Giving Alliance. We agree, so we decided to make strong

Others, however, had bare bones websites and refused requests to provide information. “Many organizations are not interested in transparency,” says Mark Blumberg, a charity lawyer with Blumberg Segal LLP. “They want to be private fiefdoms where they can secretly do what they want and put out the information they think you need to know.”

In order to rate the top 100 charities on transparency, we looked at both what information they provide automatically and how they deal with specific requests. For instance, if a charity posts complete audited financial statements on its website, it receives four points; if it posts only partial financial statements online, or if it agreed to provide us

\$10,000 donation to a charity from three years ago hadn’t been touched? Not too good, we imagine, yet it happens all the time. That’s because some charities build up massive reserve funds that sit in investment accounts for years. “It’s mind boggling,” says Bahen. “People think they’re making a difference and helping find a cure for disease in this lifetime, but the money’s being parked in investment accounts. It’s just going to Bay Street.”

Charities argue that large reserve funds give them long-term stability and provide income, which is true, but we felt that if reserve funds were ballooning beyond three years’ worth of expenses, it could mean that

‘MANY ORGANIZATIONS ARE NOT INTERESTED IN TRANSPARENCY. THEY WANT TO BE PRIVATE FIEFDOMS’

governance one of the categories in our rating.

Half of the points in this category are awarded based on a short governance questionnaire that we sent out to all 100 charities. We based our questions on the Better Business Bureau’s governance standards and adapted them based on the opinions of various Canadian experts about standard practices in well-run organizations. Organizations got half a point for every question they answered “yes” to. Twenty-nine of the 100 organizations we contacted responded to our questionnaire.

Those which did not respond at all—even after a follow-up phone call—got zero.

The remaining points in the governance category were awarded for transparency. Susan Phillips from Ottawa’s Centre for Voluntary Sector Research and Development, says that of all the factors used for assessing charities, “transparency is the most important.” Charities should expect to be accountable to the public if they rely on the public for donations, and we felt it’s not right for a charity to ask you for money, then refuse to tell you how that money is spent.

While researching our rating system, we found a huge range in attitudes when it came to secrecy. Some charities were open with their financial information when we requested it.



Having reserves helps programs like this Tim Horton Children’s Foundation camp run smoothly. But if charities have too much cash, they don’t need your money

with complete audited financial statements only upon request, we gave them two points. If a charity refused to provide financial statements, or didn’t respond at all, it got zero points. If the organization had a privacy policy on its website explaining how personal information was used, it got another point. We awarded a bonus point in the governance category to charities that disclosed the exact salary of their executive director, as we believe that charity leaders—just like CEOs of public companies—should be transparent about their pay. Only 11 out of the 100 charities gave us this information.

Do they even need your money?

How would you feel if you found out your

a charity is not in urgent need of new donations.

The American charity evaluator, Charity Navigator, believes that a healthy charity needs to have some rainy day funds on hand, so we decided that a charity should have at least three months’ reserve to get a top score of 10 points in this category. Organizations got no points if they ran a deficit and had no reserve funds (except for hospitals and major art galleries, which tend to have little money in reserve due to regular government funding), or if they had more than five years’ worth of funds on hand. Keep in mind that there could be some legitimate reasons for a charity to temporarily have a large amount of money in reserve, for example, if it is saving up for a new building or if it has just received an unusually large donation.

How to use our rating system

The MoneySense Charity 100 provides a quick way to tell if a charity is meeting industry standards for its finances and governance. But many people I spoke with warned me there are crucial things you need to know about a charity that can’t be captured by comparative data. There’s no quick solution. To find a charity you can support with confidence, you need to do some ►

research, and some thinking.

Start with an issue that you're passionate about. Don't rely on telemarketers and door-to-door salespeople to tell you what's important to you. Much of this type of soliciting is done by for-profit fundraisers, meaning a chunk of your donation will be skimmed off before it even reaches the charity. Instead, be proactive: look online or on our Charity 100 for organizations working in the area you're interested in until you find a few that you think might be a good fit.

If the organizations you like are on the Charity 100, at this point you may want to see if they are meeting financial and governance standards. You'll find that on our chart we have divided the charities up into sectors and awarded them easy-to-read letter grades, just like those awarded in school. (When calculating the overall grade, all categories were weighted at 100% except for the reserve fund score, which was weighted at 50%.)

One important point we'd like to make is that we only compared each charity to other charities within the same sector. So you can't say that a charity that got an 'A' in the Fundraising Organizations category is necessarily better than a charity which got a 'B' in the Social Services category. Because we normalized the scores across each sector, it's quite possible that a less efficient charity in one sector will get a higher grade than a more efficient charity in a different sector.

Finally, even if a charity you're interested in receives a low overall grade, don't write it off automatically—it's possible the charity may have a legitimate explanation. Instead, look at the subcategories to see where the charity is weak and where it is strong, and read the charity's website to make sure you have a clear understanding of what it does, how it is structured and its track record. As you do your research, it may become clear why it has unusually high fundraising costs, for instance, or no reserve fund. It doesn't hurt to do a quick Google search to see what people are saying about the organization, and if you still have questions about the charity, you should call.

The most important thing is to get an understanding of the overall effectiveness of the organization's programs. Good financial health and governance are irrelevant if an organization isn't accomplishing anything. If it's an addiction centre, find out how many addicts have been successfully rehabilitated in the last year. For a land trust, find out how much land has been purchased. Ensure that the organization has a long-term strategic plan, as well as regular evaluations to measure and improve the results of their programs.

We think our Charity 100 is a valuable tool for Canadian donors. But we know it's far from perfect. More sophisticated systems, such as the one used by Charity Navigator in the U.S., have customized target ranges for program costs, fundraising efficiency and reserves for various sub-sectors within the charity field. They also use more than one year of data, to smooth out irregularities such as large one-time donations.

Any measurement system is only as good as the data it uses, and unfortunately, the data available to us was limited in both quantity and quality. In some cases, the numbers may not be accurate due to differences in how charities categorize costs, in others, because charities provided the CRA with misleading or erroneous data.

In fact, after completing this process, we feel strongly that the Canadian government needs to provide donors with more information and do more to ensure its accuracy. Both the U.S. and England have stronger disclosure requirements for charities. As well, while little governance information is collected in Canada, in the U.S. the IRS asks for detailed senior executive salary information as well as including questions similar to the ones in our governance questionnaire.

Charities need to do their part too. While many are doing a great job of being transparent, some are doing as little as possible. At the very least, large charities need to publish detailed annual reports and post their full audited financial statements online.

We feel that providing the public with high-quality easy-to-access data benefits everyone—except, of course, those charities that have something to hide. Pertinent information presented in a useful manner can save donors a lot of time too. My uncle Art in Buffalo spent years weeding out bad charities from his list. He looked at their finances, read appeals with a critical eye, and phoned and wrote when he had concerns. If a charity didn't respond with credible answers, he stopped giving. Now he's at the point where he feels confident that all the charities he gives to are doing good work, and he's proud to support them. We hope our ratings will help you feel more confident about the charities you support too. ■ M

Research by Emma Marshall and Jacqueline Nelson

JOIN THE DEBATE ONLINE

What do you think of the MoneySense Charity 100? How do you pick a charity to donate to? Join the discussion on our website MoneySense.ca/charities

Your insurance CHECKLIST

- ✓ **Safeguard your assets**
 - Business Property Insurance offers basic customized protection for your property, contents and other items against loss, damage or theft.
- ✓ **Minimize risks and prevent losses**
 - Talk to an agent about implementing a customized Loss Prevention Program.
- ✓ **Consider Employee Benefit Plans**
 - Our new, affordable product for firms with even less than 5 employees offers group benefits, pooled purchasing power and reduced premium rates.
- ✓ **Check out our Specialized Packages**
 - For Skilled Trades, Retail, Office, Apartment Owners, Restaurants and the Hospitality Industry, and even special events.
- ✓ **Consider Business Life & Health Insurance**
 - Key Person Insurance helps you continue to operate your business if a key person, partner or shareholder passes away.
- ✓ **Be insured for Business Interruption**
 - Loss of income and extra expenses coverage if your business is not able to function because of an insured loss.
- ✓ **Ensure protection against Crime and Fidelity**
 - For criminal occurrences including staff dishonesty, forged cheques or loss of money or securities on your premises.
- ✓ **Be covered for Liability**
 - If found legally responsible for injuries caused to another person or damage to their property, or your product causes injury or damage to a third party.
- ✓ **Meet The Co-operators Agent**
 - For a free no-obligations needs analysis to customize a coverage plan that's specific to your business.

Empowering the Small Business Community

Beyond serving clients, we are actively involved in empowering the co-operative movement, at the provincial, national, and international levels. Our members also contribute their efforts to projects that enable us to give back to the community, impact change and lead to sustainable development.

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