

Issue Brief

Investing in Religion, Education, Health and the Arts

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Almost two-thirds of all charitable contributions in the United States, totaling \$158 billion, went to religious, education, health and arts organizations in 2004, and this does not include contributions to international charities working in these areas. This slice of the philanthropic pie is growing steadily, and, following the 2002-2003 economic recession, some of America's best-funded institutions in these sectors are nearing their 2000 income records.

Even with contributions on the rise again, the need for private resources and the opportunities to use them well in religion, education, health and the arts

are enormous. But these are also areas where giving can be heavily influenced by affective

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and non-strategic considerations. Loyalty to one's alma mater or church, memory of a family member or friend who succumbed to a particular disease, the opportunity to make a significant contribution to the quality of life in one's community through support of theater, dance or studio arts – all factor heavily in giving decisions, and they should. But philanthropists are beginning to recognize the risk that these generous impulses can sometimes cloud judgment and overshadow warning signs about the effectiveness of the charities in question.

TRENDS

Growth in Giving

Because philanthropic support for these sectors is heavily influenced by affective and emotional considerations, giving has tracked the economy and donor resources closer than other sectors such as time sensitive disaster relief or public policy advocacy. People give whenever they can. With the economic recovery in 2004, giving in these areas has rebounded.

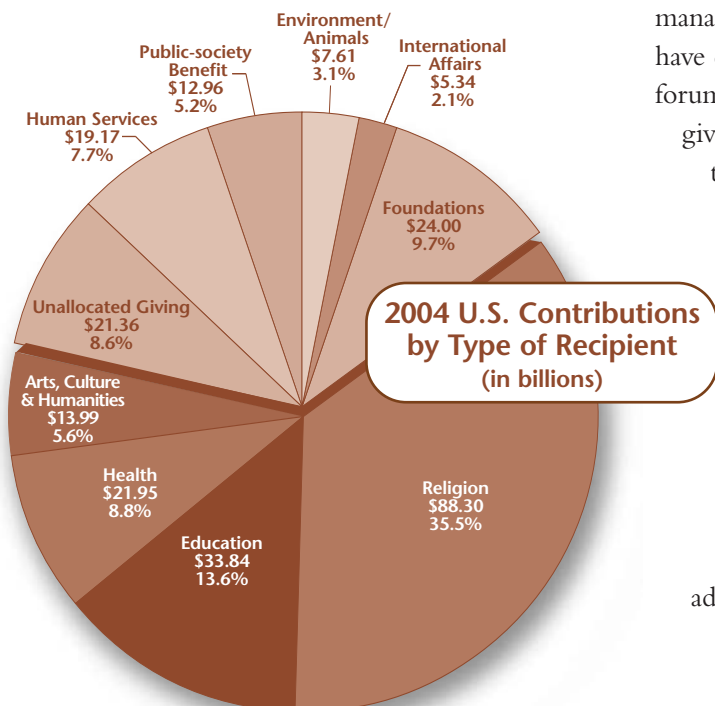
- **Arts and culture.** Donations to arts groups grew 3.9 percent in 2004.¹
- **Education.** Educational institutions received an estimated \$33.8 billion last year, a 2.7 percent rise. The gain followed three straight years of declines.
- **Health.** Giving to health organizations and causes increased by 2.3 percent in 2004.
- **Religion.** In 2004 gifts to churches and other religious organizations increased by 1.7 percent. This represents 35.5 percent of the total estimated giving for 2004, the biggest share of donations to a single cause.

Strategic Philanthropy

While some donors have implicit faith in the management of the organizations that have played an important role in their own lives, private philanthropists are increasingly strategic in their giving choices and more diligent about evaluating and monitoring the organizations they support, and with good reason. They understand that America's non-profit institutions, largely unregulated in their governance and without clear national standards for independent evaluation, are often left on their own to find and fix financial, management or other problems. Charity watchdog groups play a role, albeit a limited one, as do internal whistleblowers and the occasional investigative reporter. But ultimately, it is the responsibility of the donor alone to become informed about any charity he or she wishes to support.

CHALLENGES

Most schools, hospitals, museums and other charities are well run and deliver strong returns on philanthropic investments. Nevertheless, under increasing scrutiny from donors, watchdog groups and the government alike, a number of management, governance and financial issues have come to light. Independent Sector, a forum for charities, foundations, and corporate giving programs, has urged nonprofit groups to adopt clear conflict-of-interest policies, and has recommended that the federal government require groups with \$2-million or more in annual revenue to get an outside audit of their financial operations.² According to Forbes magazine, the IRS audited only one in 149 charities last year, compared with one in 50 in 1995. The Senate Finance Committee has been considering tightening giving rules and the IRS has been adding staff members to examine charities



and foundations as well as donors for gifts of anything other than cash and trade securities.

In Massachusetts telemarketers hired by non-profit organizations keep an average of 71 cents of every dollar they raise; in New York the average is 66 cents.³ Loans by charities to members of their Boards are not uncommon. In New York, state officials recently ordered officers and directors of three dozen charities to repay a total of \$1.3 million in loans they had received from the charities on whose board they served.⁴

Excessive compensation for nonprofit leaders has also drawn the attention and concern of donors, the IRS and the Congress. **St. Paul's School** in New Hampshire is being audited by the IRS after a review by the New Hampshire attorney general because its rector received over a half a million dollars in compensation and benefits, including deferred compensation. **American University**, in Washington, DC, is facing similar donor and public scrutiny following the departure of its President, who allegedly spent school resources on personal expenses such as overseas family travel and his son's wedding.

Governance and management concerns, including excessive overhead rates, inadequate protection of the privacy and reputation of donors, and other practices that jeopardize the good name of the organization itself, are making the headlines and creating justifiable concern and confusion. A donor whose foundation recently gave \$25 million to Houston's **St. Luke's Episcopal Hospital** to name a medical tower is now facing protests from doctors who complain that he made much of his money by representing plaintiffs in groundless medical liability cases.

SHORTCOMINGS AT LEADING CHARITIES

Even well-known and well-established charities can fall short on many accountability standards.⁵ According to the Better Business Bureau's Wise Giving Alliance:

- **B'nai B'rith International** spends less than 65 percent of its funds on program activities.
- **Christopher Reeve Paralysis Foundation** does not have a board of directors that provides adequate oversight of the charity's operations and staff or an accessible annual report that includes financial information such as net assets, income, and expenses.
- **Goodwill Industries International** has neither a board policy for assessing the organization's performance and effectiveness at least every two years, nor a board-approved annual budget for its current fiscal year that outlines expenses for fund raising.
- **Human Rights Watch** does not include in its financial statements a breakdown that shows what portion of expenses is dedicated to program activities; nor an accessible annual report that includes financial information on net assets.
- **The Multiple Sclerosis Foundation, Focus on the Family**, and the **American Breast Cancer Foundation** are among the many organizations that did not respond in a timely way to independent evaluator requests for information about their finances, programs or governance structures.

Philanthropists are beginning to recognize important management warning signs and are becoming more demanding of the charities they support

NEW CONCERNS IN PRIORITY PHILANTHROPY SECTORS

While many of the challenges faced by large non-profit institutions are applicable across sectors, there are some concerns that are specific to four areas of major interest to many philanthropists.

Religion

Recent financial defaults by several religious organizations and the continuing fallout from the sexual abuse scandal in the Catholic Church have caused many donors to take a second look at their giving to religious organizations. The growing role of religion in public life has threatened to make religious participation a partisan issue, and a vocal minority of donors has expressed concern that the social action agenda of religious groups may eclipse spirituality considerations. Because many religious organizations rely on volunteer labor and may not have access to a national organization to assist with management or financial oversight, financial and management considerations are looming larger in donors' minds as they contemplate charitable giving in religion.

Education

A host of issues confront donors to education – bricks and mortar versus programs; higher education versus basic or informal education; international or domestic; giving focused on a particular group (e.g., girls, Native Americans) or on the general population. When giving for infrastructure, it is very important to understand how the institution plans to pay for operations and maintenance. Most education giving goes to higher education; two startling new trends in this area are (1) the growth of gifts from non-alumni and (2) the increasing percentage of overall giving to higher education coming from a very few top donors. The percentage of funds coming from realized bequests is now more than 25% and, given the demographics of the US, is likely

to rise. Giving to education in this environment is causing many donors to examine carefully where their donations can have the biggest impact, which may not necessarily be as part of a major university capital fund drive.

Health

One of the most interesting trends in health care philanthropy has been the conversion of non-profit health organizations to for-profit agencies, and the creation of new health foundations. In 2003 alone, 174 new health foundations were thus created, with combined assets of \$18.3 billion. In a related trend, increasing questions have been raised about the non-profit status of a number of hospitals, which have been asked to document their charitable activities. If tax exemption is a major donor consideration, being aware of these trends is especially critical. Funding research or advocacy organizations has become attractive to philanthropists seeking a longer-term or more systemic impact from their investment.

Arts & Humanities

Giving in the arts and humanities, more than almost any other area, is community focused. Business support for the arts is clearly seen as a community service; it is equally true that arts organizations have important economic impacts on the community. Donation of art work is one of the few ways that donors can make meaningful in-kind donations. And arts organizations vary in their need for contributions depending on their size and ability to charge for tickets. Mid-level and small theaters, for example, are more dependent on donations than are larger theaters which can charge more for tickets. Focusing support on arts programs that expand accessibility to targeted communities (e.g., urban poor, youth) is a unique opportunity for donors to impact multiple philanthropy objectives at once.

Donor Considerations

Let sentiment *and* strategy be your guide

In the areas of arts, religion, health or education, donors most often give to those groups that have had or continue to have a direct impact on their lives. While those organizations are not necessarily the most effective or efficient, having a personal window into how the organization operates and where it needs the most assistance are critical components of an effective philanthropy strategy. Donors should take advantage of their personal connection and insight to ensure they are comfortable with the organization's goals and operations.

Know the organization well

Even if you have been giving to an organization for many years and have the utmost trust in its management and programs, take advantage of the opportunity to learn all you can about its work. While you are likely to become even more dedicated to the organization and proud of your support, you may also uncover some surprises.

- Examine a charity's newsletters and annual report. An annual report will describe the agency's mission and its goals and objectives for the previous year and how they were met.
- Review the agency's current and projected budgets.
- Know the basics: what is the charity's overhead rate; how much does it spend on fundraising and on its programs; are its salaries for senior staff in line with other organizations of similar size; is there an engaged Board – some of this information can be found by requesting and reviewing the groups tax report (the "990 Form").

- Get to know other long-time donors and mid-level program staff. These people are likely to have surprising insights into the accomplishments and challenges of the organization.

Structure your gift to match your goal

- An unrestricted gift helps support the entire operation, including the administrative functions that are necessary to "keep the lights on," but only a portion of the gift supports program activities.
- A restricted gift allows a donor to direct giving to a particular program or issue, but some charities will only accept restricted gifts above a specific dollar amount.
- A challenge grant can often be an effective tool to increase revenues, but a donor must work closely with the charity's fundraisers to make sure that the terms of the challenge are clear.
- Gifts in kind are often very satisfying and tax-efficient for the donor but can be problematic for the charity unless the item has been specifically solicited. Furthermore, tax breaks for land, art, and other noncash gifts are now being called into question by legislators.

Notes

1 These statistics are drawn from the Giving USA 2005, published by the Giving USA Foundation

2 Chronicle of Philanthropy, February 3, 2005. See also "Curbing Bad Habits," by Ian Wilhelm and Brad Wolverson, Chronicle of Philanthropy, July 21, 2005

3 The Chronicle of Philanthropy, January 20, 2005

4 The Chronicle of Philanthropy, January 6, 2005

5 These examples are drawn from the reports of the Better Business Bureau's Wise Giving Alliance

The background of the entire page is a sepia-toned historical map of the Atlantic Ocean. The map shows the outlines of North and South America, with the word 'NOVA' visible on the North American continent. The words 'OCEANUS' and 'ATLANTICUS' are partially visible across the ocean. In the lower right quadrant, there are two detailed illustrations of three-masted sailing ships with full sails, representing the Age of Discovery. The map's grid lines and various geographical labels are faintly visible throughout the background.

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