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Show me the Money - Why financial metrics are not all they are cracked up to be when evaluating a charity

Calgary, AB - *What donors should consider when choosing a charity for their holiday giving*

As we near the time of year that charity rating reports come out, and people's pocketbooks open. In the wake of the WE Charity scandal perhaps it is time we start asking questions beyond the financial metrics. What does it mean to evaluate an organization based on impact?

Know the facts about charity financial reporting:

1. An audited financial statement does not a transparent charity make. In fact, most charities **do not require** audited financial statements, in large part because the cost to have one done far exceeds the overall operating income of a charity by percentage. Most donors won't want to spend what it takes to have an in-depth financial audit done on a charity each year. So ask yourself, is it important to have audited financial statements or financials that are reviewed by the board and signed off by a third party? The former is thousands of dollars and the latter is hundreds of dollars.
2. Annual filings are just that... annual. Charities have up to 6 months after their year-end to file, which means that you are looking at a document that may be 18 months old at the time. If you really want to have an understanding of a charity's financial snapshot ask them for an updated quarterly statement. Then make sure you ask what is restricted and what is unrestricted in their operating capital. As much as we'd like to think that charities have access to donor capital, in North America the majority of funds that are directed to organizations are tied to a specific program or project thereby actually limiting the financial resources they have at their disposal. A healthy financial statement is one that has more working capital than restricted funds.
3. The cost of raising a dollar differs by type of agency, complexity of the issue being addressed, jurisdiction in which the organization operates and the programs are implemented amongst a whole host of other things. To put a blanket ratio on the cost of raising a dollar is the same as expecting that the marketing costs of a McDonalds is equivalent to that of your mom and pop burger joint. Different market, different demographic, and different quality even though the product might be the same.

So then, where does impact come in?

Impact can be measured one of three ways:

1. Depth of change within a system;
2. Depth of change within an individual end-user;
3. Depth of change within an organization's operations.

As a donor you have to decide what type of impact is important for you to feel that your philanthropic funds have been put to good use. Once you have decided the type of impact you want to generate then you have to look at organizations in the context of their marketplace.

What is a charitable marketplace?

You may not have considered the fact that charities operate in a market. Unlike for-profit companies who feel market pressures based on supply-demand-access to resources pressures, charities' market pressures react to access to donor

capital, government grants and social needs within our communities. One of the interesting things that have come out of COVID is the fact that the charitable sector is actually having a market correction. As donor dollars have gone down and demand for services have gone up, organizations are looking at ways of streamlining and in some cases merging with like-minded agencies.

Examples of charity markets:

- Housing
- Food security
- Arts & Entertainment

Within each of these markets are sub-industries. Let's use housing as our example:

On the surface one could say that housing is about putting roofs over a head. So temporary shelters meet that surface demand. However, if there is not enough affordable housing in a community than those temporary shelters become less temporary. In fact, they then become an integral part of putting roofs over heads.

One could ask, how do we end up with a homeless population to begin with? In a country with as many resources as Canada, one could surmise that homelessness shouldn't be an insurmountable problem. Which leads us to the next industry within housing, healthcare.

A person who is chronically homeless typically suffers from some sort of mental illness. As a result of healthcare cuts and shifts in health spending priorities we have exacerbated the temporary housing problem because chronically homeless people need more than just a roof over their heads. If there is limited access to healthcare then a person will never be able to sustain housing for themselves.

Let's assume we live in a community that has adequate temporary housing in an environment that has enough affordable housing and healthcare security. We then need to ask who are the types of clients that are not part of the chronically homeless that are drawing down on services? Women leaving abusive relationships; teenagers couch surfing because of poor family relationships; young adults who have aged out of the Foster system, and as a result have not been adequately prepared for life without supports; veterans coming back from service who have employable skills but no civilian work experience; a New Canadian who lacks the network to move beyond low-paying work to gain practical work experience for Canadian employers... As you can see the face of homelessness isn't just someone who can't afford housing.

So when you think about your charitable giving and you only look at the dollars without understanding the way that the charity works within the sector you may think you are getting bang for your buck because their overhead is low and they can buy supplies in bulk to help people. But sometimes your charitable dollars are not actually addressing a problem, sometimes those very dollars are justifying and enabling the status quo.

This holiday season, when considering your philanthropy budget, also consider the effect you want to have on your community and if supporting an organization is just kicking the ball down the field, or if you are actually moving the dial on the issue.

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For more information:

We have also posted information about what you need to know about [evaluating the charity evaluators](#) and a [60'ish Seconds of Philanthropy video](#) on the charity overhead question.

About Karma & Cents:

Karma & Cents™ was founded by Gena Rotstein and Richard Ouellette. They each bring a unique perspective to the social enterprise philanthropy industry. Gena grew up in a family business and part of a larger enterprising family. She has over 20 years of philanthropy management experience with a Masters in Non-Profit Management and Jewish Communal Service from Brandeis University and as a certified Family Enterprise Advisor through the University of Alberta. She also has received certification from 2164 in Next Gen philanthropy, is a member of the Purposeful Planning Institute and part of Canada's Pro-Bono Marketplace.

Richard is a serial entrepreneur having started and successfully exited from a number of companies in the technology and environment industries. Throughout his career, Richard has been involved in starting or growing non-profits that focus on technology, science and engineering in jurisdictions in BC, Alberta, and NWT.

Both Gena and Richard are part of what Jay Hughes calls, the Rising Generation – that demographic who are part of the growing body of inheritors who are looking at their wealth from a social and financial perspective. They bring their combined life and businesses experiences of working with families, managing charities and non-profits and growing businesses into the conversation.

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