

The INVESTMENT LETTER

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How Making a Charitable Contribution Can Land You in Jail!

By now, you've heard about the Varsity Blues college admissions scandal where dozens of parents – some famous – have been implicated in a scheme where bribes helped them secure admission for their children to certain elite colleges and universities. These parents allegedly sent money to Key Worldwide Foundation (KWF), once a 501(c)(3) non-profit, which, in turn, allegedly used those payments to bribe admissions testing officials, athletics staff, and coaches at universities. The criminal charges now pending claim that the people receiving the bribes then facilitated cheating on entrance exams and the designation of Varsity Blues children as athletic recruits, in sports they didn't even play.

Beyond the unfair edge that these wealthy parents received in getting their children into elite schools, they even attempted to deduct the payments from their personal taxes – all of the payments – first, because KWF was a public charity, and, second, because KWF sent illegal letters to parents stating that they had not received anything in return for their “donations”.

This got me thinking.

While it seems as though the parents donating to KWF were not actively trying to make the world a better place (beyond illegally earning

their kids spots in elite college programs), there are real charities out there, worthy of your donations.

How do we distinguish between worthy and fraudulent charities?

As we saw in the KWF scandal, just because a charity has achieved 501(c)(3) status does not mean that it is a valid charity. This just means they have filed a Form 990 with the IRS, which is fairly easy to do. Upon request, and for a reasonable fee, charities must send you a copy of their Form 990 and a copy of their Annual report. Note that this requirement does not extend to churches and private charities.

However, even if you had requested KWF's Form 990 filing, you would have seen activity that seemed appropriate for an organization whose mission was to “provide education that would normally be unattainable to underprivileged students” by making “contributions to major athletic university programs.”

Now that it appears that KWF was a scam to provide unfair advantages to children of the wealthy, what is the best way to evaluate a charity? As a service that we have offered to our clients for decades, we offer this advice:



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Look at the Charity's Record

Better Business Bureau Wise Giving Alliance – The Better Business Bureau Wise Giving Alliance (BBB WGA) offers free reports on about 1,300 national charities. In these reports, the BBB WGA evaluates charities against its Standards for Charity Accountability Guide. Some BBBs in the US and Canada offer similar services for local charities.

Charity Navigator – Since 2001, Charity Navigator has examined the financials of tens of thousands of non-profits and provides an “unbiased, objective, numbers-based rating system” where they assess thousands of charities across the country on their financial health and their accountability and transparency.

CharityWatch – CharityWatch bills itself as a non-profit charity watchdog that tracks each dollar donated to non-profits in order to provide donors with the information they need to make informed giving decisions. By scrutinizing the financial records of some 600 major American charities, CharityWatch has developed a letter-grade system and other statistics that provide insights into the percentage of your donations that actually make it to the charity's worthwhile cause, the expenses it incurs in raising each \$100, and the size of its asset reserves.

Guidestar – Guidestar proudly describes itself as the Yelp, Zillow, and LexisNexis of non-profits. Providing information on 2.7 million non-profits, Guidestar boasts some 26 million searches a year of its database, which provides comprehensive data on non-profits. In Guidestar's database, you can find nonprofits' mission statements, demographic information, financials, and operational data.

The IRS – We all know that the IRS collects revenues that fund the US Government. You can also use its Tax Exempt Organization Search to determine if a charity is eligible to receive your tax-deductible charitable contribution.

The FTC – The Federal Trade Commission offers a free charity checklist online that you can use to research and interact with charities. This set of 16 checkpoints includes advice like checking a charity's trustworthiness, keeping a record of any donations made, and never wiring money to someone claiming to represent a charity.

NASCO – The National Association of State Charity Officials includes state charity regulators and assistant attorneys general who have joined together to cooperate across state lines in regulating charities at the state level. Use NASCO's website to determine if a charity or fundraiser is registered in your state.

Ask Us at Investment Counsel

If you don't know where to start, or just want to ask for the advice of someone who is experienced at researching charities, give us a call. At Investment Counsel, we have reviewed charities for our clients for decades. We will ensure that the charity is valid, registered, and has a solid record of helping its cause. We'll also tell you how efficient they are with the money you plan to donate, and whether they're properly registered with the authorities. We stand ready to help and hope you will call upon our experience as you decide whether to trust the charity with your money.

What to Do if You Suspect Fraud

The IRS accepts reports from individuals

regarding suspected violations of tax laws, including suspected misconduct or wrongdoing by an exempt organization.

The FTC accepts complaints from people who suspect they have fallen victim to a charity scam. When you file a complaint with the FTC, those complaints are used to identify patterns of abuse and fraud and could lead to investigations or prosecution of those involved.

While the Varsity Blues college admissions

scandal trudges on across the headlines of this month and beyond, we are sure to hear more about Key Worldwide Foundation, the fake charity at the center of this story. The abuse of a tax-exempt organization imperils the efforts of the many valid charities that do the good work that our world requires. We can each do our part to repair and protect this system by properly confirming charities are what they appear before sending them our money. ■

INVESTMENT COUNSEL NEWS



We've Moved!

We are pleased to announce that we have relocated our main office to picturesque Petoskey, Michigan. Although our address has changed, you can count on the same unparalleled service you have come to expect from Investment Counsel. Chris Walker will be manning our Petoskey office, while Dorothy Barrick will remain available in the Grand Blanc, Michigan area.

Investment Counsel
320 Howard Street, Suite 200
Petoskey, MI 49770
(800) 689-7897

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