

**ATTORNEY GENERAL'S SUMMARY
OF CHARITABLE SOLICITATIONS
BY COMMERCIAL FUNDRAISERS**

**SUPPLEMENTAL REPORT: DONATIONS
OF PERSONAL PROPERTY
(THRIFT STORES, VEHICLE DONATION PROGRAMS, ETC.)
(Government Code § 12599)**



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Year Ending 2002

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INTRODUCTION

Californians each year provide generous support to a wide array of charities, either directly or through commercial fundraisers who are hired to solicit donations on behalf of the charity. This supplemental report on commercial fundraising activities covers the donation of used personal property to charities and the resale of property by for-profit thrift stores, including the donation and resale of vehicles for the benefit of charity. In issuing the report, Attorney General Bill Lockyer seeks to provide information that may be used to critically evaluate charitable solicitation of used personal property.

By law, commercial fundraisers are required to register and file annual financial disclosure reports with the Attorney General's Registry of Charitable Trusts. The data here cover activities for 2002 that were reported by commercial fundraisers in 2003.

Charities are encouraged to work with currently registered paid solicitors, have a written contract with terms important to the organization, and monitor commercial solicitations and all expenses associated with the charity's commercial fundraising activities. Donors and potential donors are encouraged to resist high-pressure tactics, to ask for written information about the charity for which a solicitation is being made, including the nonprofit's name, address and telephone number, and how their donation will be distributed.

Historical figures show that a campaign conducted by a commercial fundraiser returns, on average, less than 50 percent of the contributions to the charity. The rest is retained by the commercial fundraiser as a fundraising fee. This summary reflects the results of solicitation by commercial fundraisers in 2002, as stated in reports they are required to file with the Attorney General.

On the attached Vehicle Donation Activities chart, the "Average Percent to Charity" shown for this and past years was obtained by taking the percentage of contributions returned to charity for each solicitation campaign, adding the individual percentages together, and dividing by the number of campaigns, thus obtaining the "percent to charity" for the average campaign. A second table shows overall revenue raised and overall revenue to charity. Calculation of the percentage of charitable contributions going to charity using these overall figures is skewed by a few individual campaigns with revenue figures that are very high in comparison to most campaigns. Because these overall figures do not yield a "percent to charity" that is reflective of the average campaign, they have not been used in calculating the "Average Percent to Charity."

THRIFT STORES

For-profit thrift stores selling used clothing or other donated goods for charity must file annual financial reports with the Attorney General's Registry of Charitable Trusts. Thrift stores, which handle what is known as "salvageable personal property" under state law, may be operated directly by a charity or by for-profit vendors, who are considered to be commercial fundraisers if they receive a management fee or commission from the charity or purchase a majority of their goods from charities or social welfare organizations at negotiated prices (Government Code Section 12599).

For-profit thrift store revenue and expenditure reports are available for public review on the Attorney General's website (<http://ag.ca.gov/charities/>), at the Attorney General's Registry of Charitable Trusts in Sacramento, or at the reporting charity's principal office.

Charities that operate their own thrift stores incur overhead and other expenses of a retail store. After thrift store expenses are paid, the charities use their earnings for such things as management expenses and charitable program services. On the other hand, charities that solicit used items and sell them to for-profit vendors do not incur the expenses of operating retail stores. Charities that sell used goods to for-profit vendors may or may not earn more money than do charities that operate their own thrift stores. There are advantages and disadvantages to both types of operations.

This report contains specific information about charities that sell used items to for-profit vendors. There are two types of arrangements: vendors that receive management fees or commissions from the charities, and vendors that purchase the goods from the charities at negotiated prices. Each is reported separately. The data is taken directly from reports filed by commercial fundraisers and has not been verified independently by the Attorney General's Office.

For-profit thrift store operators that purchased goods from charities reported total revenue of approximately **\$26.14** million for the reporting period 2002. The average percent that was paid to charitable organizations was **15.69%**. These figures represent a decrease in total revenue from 2001 of approximately **28.56** million (**52.2%**) and a decrease in the percent paid to charitable organizations of **2.71%**.

For the same period, for-profit thrift store operators that were paid a fee or commission by charities reported total revenue of over **\$20.43** million. Of that, the average percent that was paid to charitable organizations was **15.83%**. These figures represent an increase in total revenue from 2001 of **12.93** million (**172%**) and a decrease of **4.29%** in the average percent paid to charitable organizations.

VEHICLE DONATION PROGRAMS

In California, the solicitation of vehicle donations to charity has increased during recent years. These solicitations result primarily in the donation of automobiles, and are administered both by charities in-house and by commercial fundraisers who contract with charities to solicit on

their behalf.

According to the financial statements filed by the commercial fundraisers who solicit vehicle donations and were registered with the Attorney General's Registry of Charitable Trusts in 2002, such donations resulted in approximately **\$45.69** million in gross proceeds. The average percent that was distributed to the charities was **41.57%**. The remaining funds were retained by the fundraisers for payment of expenses and fees. These figures represent an increase in gross proceeds of approximately **\$2.21** million (**5%**) and an increase in the average percent to charity of **4.81%**, compared to the figures for calendar year 2001.

The vehicle donation process usually begins when a donor responds to an advertising campaign. In the initial phone conversation, the donor will be asked questions about the vehicle. Usually the vehicle is accepted, unless the cost of towing exceeds the value of the vehicle.

Donors are responsible for notifying the Department of Motor Vehicles of the transfer of registration. Failure to transfer registration has subjected many donors to subsequent penalties and expenses for donated vehicles, most often accrued parking violations.

After the vehicle is picked up from the donor, the fundraiser either arranges for resale of the vehicle to the public or sells it to a parts wholesaler, depending on the condition of the vehicle. A significant problem for purchasers of donated vehicles is the reliability of the resellers in warranting the condition of the vehicles. The majority of vehicles donated to charity are not in good condition. Unscrupulous resellers have sold vehicles that fail to operate soon after they are driven out of the sellers' lots. Because donated vehicles do not need to pass vehicle emissions tests at the time of donation, purchasers of donated vehicles should insist that they receive valid smog certificates from the reseller at time of purchase.

Donors of vehicles usually claim tax deductions for their donations. Advertising campaigns for vehicle donations sometimes explicitly promise "maximum tax donation" and "highest value." The actual amount that can be deducted is determined by the IRS, not the solicitor. According to the IRS, a taxpayer may deduct the fair market value of the donated vehicle. The IRS imposes further reporting and documentation requirements on donations of property. The Attorney General's Office has received complaints about tax deduction promises made by fundraisers and their subsequent failure to provide documentation to donors. Donors are ultimately responsible for the deduction taken and may not rely on the representations contained in solicitations to support their income tax deductions.

California law requires a nonprofit organization engaged in any solicitation or sales solicitation for charitable purposes, or a commercial fundraiser, to provide a donor of a motor vehicle, aircraft or vessel with a receipt within 90 days from date of donation (Business & Professions Code section 22930). The receipt must describe the donated property in terms of its model, age, condition, and level of use (including, but not limited to, the mileage, in the case of a vehicle), and whether a visual inspection by the nonprofit organization or commercial fundraiser, or a representative of the nonprofit organization or commercial fundraiser, indicated that there were any readily apparent defects that would materially reduce the value of the property. If the

donated property is sold prior to the issuance of the receipt, the receipt shall also include all of the following: (1) the date the property was sold; (2) if the property was sold to a dismantler, the amount paid to the nonprofit organization or commercial fundraiser for the property; and (3) if the property was altered subsequent to the donation and the alteration affected the value of the property, a statement that the property was altered and whether the alteration increased or decreased the value of the property.

The purpose of this report is not to discourage vehicle donations but to present some of the problems associated with vehicle donations and practical information, both for donors of vehicles and the purchasers of the vehicles.

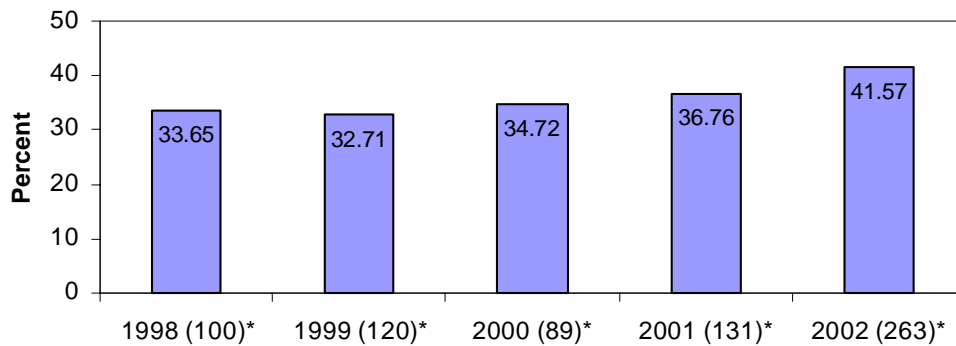
SPECIFIC FINDINGS

- Table #1 Thrift Store Operations - Goods Purchased from Charity.**
Lists each charitable organization that solicited donations of used clothing and merchandise (“salvageable personal property”) and sold the property to a for-profit thrift store. The for-profit thrift store operator is also listed. Each charitable organization is ranked by the percentage of money that actually went to the charity, i.e., from a high of **32.04%** to a low of **.37%**.
- Table #2 Thrift Store Operations - Management Fee/Commission**
Lists each charitable organization that solicited donations of used clothing and merchandise and paid a management fee or commission to a for-profit thrift store operator. The for-profit thrift store operator is also listed. Each charitable organization is ranked by the percentage of total revenue that actually went to the charity, i.e., from a high of **34.33%** to a low of **1.30%**.
- Table #3 Vehicle Donation Operations**
Lists each charitable organization that solicited vehicles and paid a management fee or commission to a for-profit reseller. Each charitable organization is ranked by the percentage of total revenue that actually went to the charity, i.e., from a high of **100%** to a low of **0%**.
- Table #4 Vehicle Donation Operations - Incomplete Reports**
Lists commercial fundraisers that operate vehicle donation programs that registered in 2002 and submitted financial reports that are not acceptable for filing. Financial reports must be signed by the commercial fundraiser and also by two officers of the charity. In most cases the financial reports listed in this table are unacceptable because they have not been signed by the officers of the charities.

Note: Some charities may be listed more than once. Each listing shows a separate for-profit thrift store or vehicle reseller operation.

Commercial Fundraisers Vehicle Donation Activities 1998-2002

Average Percent to Charity



*Note: Number of campaigns

Revenue to Charity

