February 01, 2014 11:00 PM

Hale House not so hearty as its deficits mount

THERESA AGOVINO

Patrick McMullan

Hale House Chairman Zachary Carter resigned to become the city's corporation counsel.

For sale: an opportunity to help keep a once legendary, then scandal-marred, now financially troubled charity afloat. Just buy Hale House's townhouse for the asking price of $2.5 million.

Hale House has been selling off or mortgaging its real estate holdings to help it survive for about a decade. The charity's effort to sell its brownstone at 152 W. 122nd St. is just the latest example. It put the townhouse up for sale last year following a $418,248 operating loss for the fiscal year ended June 30, 2012. Even if the townhouse fetches its asking price, the charity will clear less than $1 million. That's because Hale House took out a $1.6 million mortgage on it in 2007 to fund its programs. In fiscal 2007, it had an operating loss of $1.5 million. In the past 10 years, Hale House has sold and or mortgaged at least two brownstones, a plot of land and two buildings. In 2012, it got $625,000 for a plot of land and $4.4 million for two buildings. However, the buildings were mortgaged and half of the $2.6

million their sales netted was immediately earmarked to pay off debts. The properties have been a lifeline because the charity, which now runs a homeless shelter and children's educational programs, hasn't generated enough revenue to cover its expenses for at least seven years (some data are missing from public records). For the year ended June 30, 2012, the charity and its affiliates reported a deficit of $4.9 million, slightly higher than the deficit of $4.3 million a year earlier. "We have been fortunate to have the assets to sell while we work on our strategy," said Annie Murphy, Hale House's executive director. "Selling the properties is part of the plan to move forward." Some of the properties were acquired when Lorraine Hale ran the organization founded by her mother, Clara Hale, in her home in 1969. The elder Ms. Hale, whom some compared to Mother Teresa for starting the organization to care for crack-addicted and AIDS-infected babies, died in 1992. In 2001, Lorraine Hale and her husband, Jesse DeVore, were indicted for stealing more than $700,000 from the charity and pleaded guilty to two felony counts the following year. Immediately following the scandal, the donations to the charity dropped by 84%, to $979,436.

Changing focus

Corporate lawyer and former federal prosecutor Zachary Carter was appointed Hale House's chairman to clean up the mess. He recently resigned his post at the charity to become the city's corporation counsel. Hale House has a contract to run a homeless shelter for the city, so continuing as chair would have been a conflict of interest, explained Mr. Carter.

As Mr. Carter worked to repair Hale House's image, the organization struggled to win back donors. Ms. Murphy said the effort to attract donations was hampered by other issues, such as shifting the charity's focus as the crack and AIDS epidemics waned. The program that took care of the babies ended in 2008. Hale House started housing homeless families in 2004 and providing child care and education services in 2006. The organization needed to learn to run those new programs effectively, Ms. Murphy said. Then the recession hit, casting a pall over almost all charity fundraising. Others just don't believe Hale House executives' explanations for the organization's problems. Ken Berger, president of watchdog group Charity Navigator, said that the recession hit all charities, and not all of them have such troubled finances. Hale House received a one-star rating from Charity Navigator, putting it in the lowest 12% of the organizations that are rated. "These are hard times, but the vast majority of charities are doing much better than Hale House," he said. "Hale House has been financially struggling for years. It is teetering on the edge, and we don't know if they'll be there tomorrow." Randolph McLaughlin, Hale House's new chairman and one-time interim director, insists it will be. "I didn't become chairman of Hale House to close it," he said. "We have a legacy to uphold."

Little oversight

He didn't rule out the possibility of a merger. One of Hale House's problems is its size. It provides educational and day-care services for about 45 children. Their families pay for the services, though there are discounts and scholarships. City vouchers are accepted.

Hale House's shelter provides homes for 19 families, while a typical establishment with a city contract would serve about 75 families, according to a spokeswoman for the city's Department of Homeless Services. She said the department doesn't examine the charity's overall finances but looks at only whether the money it spends is being properly utilized. A spokesman for the city didn't return a call or email about Hale House's overall finances. This year, the city has paid Hale House $596,157 for its services. Hale House gets most of its money through donations and grants, and they have been hard to find. Donations and grants jumped 2%, to $1.1 million, for the year ended June 30, 2012, from the year-earlier period. But that's still less than half of the $2.6 million it received for the year ended June 30, 2009, when many charities were grappling with the recession. Ms. Murphy, who has worked at Hale House for more than 11 years and became director in 2010, said the organization has been revamping its fundraising. For example, it no longer uses an expensive outside vendor to send out mailings. It has stopped having fancy galas in favor of smaller fundraising events. Ms. Murphy earned $107,120 in the year ended June 30, 2012. She added that Hale House's budget has been falling over recent years as it becomes more efficient. There have been some layoffs **and restructuring, with full-time staffers falling to 55 from 60 a few years ago. "It's been difficult," she said, "but we are moving in the right direction."**