



## Charity Selection Guide

The goal of 100+ Women Who Care about Tucson is to make an impact in the Tucson Metropolitan community. When considering a charity to nominate, we encourage you to focus on how the charity is making a difference in our local community. Ask yourself, what is the organization doing to make our society a better place? Also consider how many people, animals, etc. can be helped and how much will those lives will be improved by a \$5,000 - \$25,000 donation. Note: Our quarterly donation is based on current membership numbers.

There are many ways to evaluate the effectiveness of non-profits – governance, accountability, transparency, leadership and oversight, results and effectiveness, financial data and efficiency. In most cases, you will be able to find measurements of this information on the charity’s website and/or Guide Star ([www.guidestar.org](http://www.guidestar.org)).

You can also ask the charity itself for information about its work and finances. Charities are required to make their IRS Form 990 available on request during regular business hours or on the Internet.

If a charity is reluctant to send you their IRS Form 990 or other information about its work such as an annual report or year-end financial statements that may be an organization you do not want to support. 501(c)3 charities enjoy two big public benefits: their income is tax exempt and donations to them are tax deductible. As a result, charities have an obligation to be accountable to the public.

### **Governance, Accountability and Transparency**

First, reputable charities will demonstrate ethical practices and share data about their performance with the public. Transparent charities willingly share information about their goals, strategies, management systems and governance processes. Second, they also manage towards results and know how much it costs to achieve those results. It is important for organizations to understand the cost of achieving their missions.

Accountability and transparency measurements can be gleaned from a review of the charity's website. Is the following information on the charity's website?

- Board members listed: Publishing this information enables donors and other stakeholders to ascertain the makeup of the charity's governing body.
- Key staff listed: It is important for donors and other stakeholders to know who runs the organization on a day-to-day basis.
- Audited financials and IRS Form 990 for the most recent year: It is important for donors to have easy access to this financial report to help determine if the organization is managing its financial resources well.

## **Leadership & Oversight**

A minimum of five (5) voting members is the standard size for a board of directors. The board should be providing adequate oversight of the charity's operations and its staff. A minimum of three (3) board meetings with face-to-face participation should be held throughout the year.

**Board Listed/Board Members Not Compensated:** The IRS requires that any compensation paid to members of the charity's governing body be listed on the IRS Form 990. Furthermore, all members of the governing body need to be listed whether or not they are compensated. It is not unusual for some members of the board to have compensation listed. The executive director or CEO of the organization frequently has a seat on the board, for instance, and is compensated for being a full time staff member. However, it is rare for a charity to compensate individuals only for serving on its Board of Directors. Although this sort of board compensation is not illegal, it is not considered a best practice.

## **Measuring Results/Effectiveness**

How effective is the organization in achieving its mission? Does the organization have:

- defined, measurable goals and objectives in place;
- a defined process in place to evaluate the success and impact of its program(s); and
- a strategic plan in place to fulfill the goals and objectives of the organization and mechanisms to identify ways to address any deficiencies?

## **Financial Data and Efficiency**

The real impact of a charity is reflected in what that charity can do with its budget. There are no magic rules that apply to all nonprofits. Type and size of organization, sources of revenue, and the length of time an organization has existed are just a few of the factors to consider. However, you can get an idea of a charity's financial efficiency and health by looking at the IRS Form 990.

Charities that are financially efficient spend less money to raise more. Their fundraising efforts stay in line with the scope of the programs and services they provide. They keep administrative costs within reasonable limits. They devote the majority of their spending to the programs and services they exist to provide to the community.

As do organizations in other sectors, charities must grow over time if they are to sustain their programs and services. For charities, growth means first, increasing their primary revenue, which includes contributions from corporations, foundations, individuals, and government grants; program service revenue, contracts and fees; and revenue from membership dues and fees. Second, growth means growing their programs and services. Organizations that demonstrate consistent annual growth in both primary revenue and program expenses are able to outpace inflation and thus sustain their programs year to year. These organizations also supply givers with greater confidence by maintaining broad public support for their programs.

It is helpful to look at the last three (3) years of IRS Form 990s to see what direction a charity is trending. Please visit this resource for help in reading and understanding the IRS Form 990 – [Highlights of IRS Form 990](#).

Small tax-exempt charities (those normally with annual gross receipts up to \$50,000) may be required to file an annual electronic notice, Form 990-N (e-Postcard), and are not required to file IRS Form 990 or 990-E. In this instance, you will request the organizations year-end financial statements to review.

Here is an overview of the financial benchmarks you can find on the IRS Form 990.

### **Total Revenue**

This figure will give you some idea of the size of the organization's operation. It will also layout the variety of sources that the charity receives funds from (i.e., grants, individual donations, fees for service/programs, membership dues, etc.). An examination of an organization's sources of revenue relative to total revenue can be useful. This will help to identify opportunities to diversify revenue streams and assess potential areas of risk, such as if a large portion of funding is coming from only one source.

### **Net Assets**

This number provides some indication of the level of resources the charity has to help support its activities in the future. Very generally it might be expected that a charity with a small amount of net assets at the end of the year would be quite dependent on a reliable and timely receipt of income in the ensuing period to be able to continue activities. Likewise, in a very general sense, it might be expected that a charity with a large amount of net assets at the end of the year, relative to its expenditures for the year being reported on, would begin the next period in a strong financial position and be able to endure a time of income shortfalls and still continue its activities.

### **Total Functional Expenses**

This figure gives you the dimension of an organization's activities throughout the year and may better reflect their day-to-day financial position.

### **Program Expenses**

Charities exist to provide programs and services. They fulfill the expectations of givers when they allocate most of their budgets to providing programs. Charities fail givers' expectations when their spending on programs is insufficient. To evaluate a charity's program expenses, we divide its program expenses by its total functional expenses. Charity Z spends \$2.5 million on program expenses, compared with its overall operating budget of \$3.5 million. Thus, Charity Z spends 71.4% on program expenses.

Charity Navigator indicates that charities should be spending at least two-thirds (66%) of their budget on program expenses. Those that are not, may not be living up to their missions.

## **Administrative and Fundraising Expenses**

A common benchmark is not more than 35% on administration and fundraising combined.

### *Administrative Expenses*

As with organizations in any sector, charities have overhead, administrative staff and associated costs. Effective charities must recruit, develop, and retain talented people. Successful charities will make investments in training, planning, evaluation, and internal systems— as well as their efforts to raise money so they can operate their programs. These expenses allow a charity to sustain itself or to improve itself. At the same time, they ensure these administrative expenses remain reasonable and in line with the organization's total functional expenses.

Here again, we calculate a charity's administrative expenses by comparing them to its total functional expenses. Charity Z spends \$700,000 on administrative expenses, compared with \$3.5 million in total functional expenses. Thus, Charity Z spends 20% on administrative expenses.

Salaries - Another interesting piece of information you can find on the IRS Form 990 is how much the charity pays its five top employees. You will find this on Form 990, Part V11, section A.

Something to keep in mind, while overhead can help identify cases of fraud or gross mismanagement and serve as a part of an organization's dashboard of financial management metrics, it tells us nothing about the results of the organization's work (i.e. how well they accomplish their mission).

### *Fundraising Expenses*

Charities spend money to raise money, but they do not exist to raise money. Givers support charities for their programs and services, not for their ability to raise money. Charities should ensure that fundraising expenses stay in line with the charity's total functional expenses. Fundraising expenses can include campaign printing, publicity, mailing, and staffing and costs incurred in soliciting donations, memberships, and grants.

Charity Navigator evaluates a charity's spending on fundraising by comparing it with the charity's overall spending. That is, they divide a charity's fundraising expenses by its total functional expenses. Charity Z, which spends \$300,000 on fundraising and \$3.5 million in expenses overall, spends 8.6% on fundraising.

A red flag is when a charity's fundraising expenses equals or exceeds what it spends on its services. But there is a very important caveat when you examine this information: there are very legitimate reasons why some charities will have relatively higher fundraising and administrative costs. It may be new. It may have a cause that does not have wide appeal, which makes it harder for it to raise money. It may not get a lot of large grants from foundations or corporations, which means it has to rely on small contributions from individuals, which cost more to raise. Also, fundraising is the one thing that has the potential to multiply the amount of money available for the cause.

In summary, we've all heard the myth that charities should spend as little as possible on overhead items. The theory is that the less money charities spend on fundraising and administrative costs, the more money there is available for the cause. However, the true measure of a nonprofit's effectiveness is how well it performs its mission. There are times when charities need to be rewarded for their big goals and big accomplishments (even if that comes with big expenses). The people and communities served by charities don't need low overhead, they need high performance.

We encourage you to look at the whole picture when selecting a charity to nominate for 100+ Women Who Care Tucson.

Sources: Charity Navigator, Guide Star