



CHARITYWATCH: THE CRITERIA

CharityWatch analysts perform in-depth evaluations of complex charity financial reporting:

- audited financial statements
- tax forms,
- annual reports,
- state filings
- other documents

Once our analysis of a charity is complete and any required adjustments are made, we perform two end calculations, and then assign the charity a letter grade efficiency rating on an A+ to F scale.

The letter grade ratings represent the opinion of CharityWatch and are based solely on financial efficiency measurements.

The results of these end calculations include:

1. **Program %** reflects the percent of total expenses a charity spent on its programs in the year analyzed. For example, a Program % of 80% means that the charity spent 80% of its expenses on charitable programs. The remaining 20% was spent on overhead, which includes fundraising, and management & general.
2. **Cost to Raise \$100** reflects how much it cost the charity to bring in each \$100 of cash donations from the public in the year analyzed. For example, a Cost to Raise \$100 of \$20 means that the charity spent \$20 on fundraising for each \$100 of cash donations it received.
3. **Treatment of Inkind/Donated Goods & Services:** CharityWatch "follows the cash" and generally excludes in-kind goods and services from Program % and Cost to Raise \$100
4. **Treatment of Direct Mail, Telemarketing, and Other "Joint Cost" Solicitation Expenses:** we adjust such solicitation expenses out of reported program expenses and add them to fundraising prior to calculating a charity's efficiency ratios and letter grade rating
5. **Treatment of High Assets:** deduct points for excess of 3 years of annual budget in assets;
Asset calculation subtracts out:
 - * Equity in Land, Buildings, and Equipment used in operations
 - * Construction in Progress
 - * Permanently Restricted Funds
 - * Accounts Receivable due in greater than five years
 - * Assets that a charity is prohibited by an outside party from using
 - * Do not subtract out Cash, Investments, Temporarily Restricted, Board-Restricted, and other funds that the charity could use at their discretion
 - * Review audit notes for information which shows other restrictions related to assets

CharityWatch considers a charity to be highly efficient when our end calculations produce a Program % of 75% or greater and a Cost to Raise \$100 of \$25 or less. See our [Top-Rated](#) charities page for our list of highly efficient charities that have also met our benchmarks for governance and transparency.



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Scale:

These ratios reflect the results of the two end calculations CharityWatch analysts make for Program % and Cost to Raise \$100 after our in-depth financial analysis is complete and any necessary adjustments are made to a charity's reported figures.

Program %	Cost to Raise \$100	Efficiency Rating
90-100%	\$0 - 4	A+
80 - 89%	\$5 - 11	A
75 - 79%	\$12 - 15	A-
72 - 74%	\$16 - 19	B+
68 - 71%	\$20 - 26	B
65 - 67%	\$27 - 30	B-
61 - 64%	\$31 - 33	C+
56 - 60%	\$34 - 37	C
50 - 55%	\$38 - 40	C-
36 - 49%	\$41 - 59	D
0 - 35%	\$60 - 100	F

A range = Excellent

B range = Good

C range = Satisfactory / Average

D = Unsatisfactory / Poor

F = Failing

CHARITY NAVIGATOR: THE CRITERIA

Score based on a two-dimensional rating system

1. Financial Health (<https://www.charitynavigator.org/index.cfm?bay=content.view&cpid=48>)
 - a. Perfect score = 100
 - b. Calculated as 7 scores below plus 30 points for total of max 100
 - c. Seven performance metrics:
 - i. Program Expense Percentage (10 pts)
 - ii. Administrative Expense Percentage (10 pts)
 - iii. Fundraising Expense Percentage (10 pts)
 - iv. Fundraising Efficiency (10 pts)
 - v. Program Expenses Growth (10 pts)
 - vi. Working Capital Ratio (10 pts)
 - vii. Liabilities to Assets Ratio (10 pts)

2. Accountability & Transparency
 - a. Perfect score = 100
 - b. Seventeen metrics
 - i. 12 based on Form 990 data:
 1. Independent Board (15 pts)
 2. Material Diversion of Assets (7 or 15 pts)
 3. Audited Financials Prepared by Independent Accountant with and Audit Oversight Committee (7 or 15 pts)
 4. Loan(s) to or from Related Parties (4 pts)
 5. Documents Board Meeting Minutes (4 pts)
 6. Provided Copy of Form 990 to Organization's Governing Body in Advance of Filing (4 pts)
 7. Conflict of Interest Policy (4 pts)
 8. Whistleblower Policy (4 pts)
 9. Records Retention and Destruction Policy (4 pts)
 10. CEO Listed with Salary (4 pts)
 11. Process for Determining CEO Compensation (4 pts)
 12. Board Listed/Board Members Not Compensated (4 pts)
 - ii. 5 based on review of charity's website
 1. Board members listed (4 pts)
 2. Key staff listed (3 pts)
 3. Audited financials (4 pts)
 4. Form 990 (3 pts)
 5. Privacy policy (3 or 4 pts)

3. Overall score calculation and description: Uses a complex formula; refer to: <https://www.charitynavigator.org/index.cfm?bay=content.view&cpid=1287>

CHARITY NAVIGATOR: THE CRITERIA

There are three main things to look at when evaluating a charity:

1. Examine the charity's financial health

- **Program Expenses:** The majority of charities listed on our site - seven out of ten non profits - spend at least 75% of their expenses directly on their programs. That means the organization should spend no more than 25% of their total expenses on administrative overhead and fundraising costs combined. To determine the percentage going to programs for the charity you are reviewing, scroll to page 10 (Statement of Functional Expenses), find Line 25 (total functional expenses). Divide column B (program services) by column A (total expenses) then multiply by 100.
- **Growth of Program Expenses:** Determine if the charity you are considering supporting is expanding or shrinking over time. You can quickly do this by comparing the Total Program Expenses- page 10, line 25B of the current year with the prior year(s). Charities that are shrinking are very likely cutting the very programs that you want to support.
- **Types of Support:** Take a look at lines 1a through 1g (on page 9, "Statement of Revenue") to learn about a charity's funding sources. Some charities rely heavily on membership dues (line 1b), or government support (line 1e) while others survive almost solely on individual contributions and fundraisers (line 1f; 1c) and still others depend on program service revenue (line 2g). Having multiple sources of revenue can be beneficial for a charity. For example, if an organization experiences a drop in donations from individuals, then it can draw from other revenue sources.
- **Executive Pay:** [Our research](#) shows that the average CEO compensation is in the low to mid six figures among [the charities that we rate](#). On page 7 of the Form 990 (Compensation of Officers, Directors, etc.) organizations are required to report the CEO's pay and any current officers making over \$100,000 annually. As you examine salaries, keep in mind that a variety of factors impact pay including geographic location, size of the organization, and type of work performed.
- **Professional Fundraisers:** You can determine if a charity uses professional fundraisers by examining the charity's Form 990 in Part I, line 16a, column b and in Schedule G (which offers a more detailed breakdown). Use of professional fundraisers in and of itself is not necessarily a bad thing. Professional fundraisers can be more efficient and effective at raising funds for the charity than staff or volunteers would be and some of the costs spent on these third party companies are funds that would also have to be spent on staff, equipment, and technology if the campaign were entirely managed in-house as well. However, if the charity is spending a lot on outside fundraising firms with little going towards its charitable mission, then you may want to look for another charity to support.
- **Fundraising Costs Allocated to Program Costs:** Joint costs, reported in Part IX, line 26, refer to activities that combine educational campaigns with fundraising. For example, a direct mailing's primary purpose may be fundraising but there may also be a portion of the mailing dedicated to public education, such as a public safety organization printing tips to prevent crime in your neighborhood. Not all nonprofits that engage in advocacy, education and awareness choose to use this accounting methodology, which requires substantial documentation and impact on audited financials varies depending on the charity's activities. Charity Navigator strongly encourages nonprofits that use joint cost allocation of public education and fundraising costs to be very transparent in this accounting application. You can see the amount of joint costs that are included in a nonprofit's program expenses by reviewing page 10 line 26B.

2. Check for evidence of the charity's commitment to accountability and transparency

- **Website:** The best charities are transparent and accountable to the public. You should be able to see evidence of this in the information they provide on their web site. Can you readily find information about the charity's staff and Board of Directors? Did the charity publish its financial information such as its most recently filed Form 990 or audit?
- **Respecting Donors:** Find out if a charity has a [donor privacy policy](#). If you can't find the privacy policy on the organization's website, ask to see it in writing. You should have the option to request that your name and address not be shared with other organizations, if you wish.
- **Read the news:** Check the charity's recent media coverage through Google news or another similar service.
- **Form 990:** Look at pages 3-6 to see if the charity is committed to best practices. For example, does it have a conflict of interest policy? Does it have a whistleblower policy? Does it have a process for setting the CEO's pay?

3. Investigate the charity's results

Use our [recommended list of questions](#) to learn about a charity's accomplishments, goals and challenges by reviewing its website and/or talking with staff. They should be able to tell you about the quality and depth of their results as well as their capacity to continue to get these results, not just the number of activities or people served. This is critical step, after all, the charity's ability to bring about long lasting and meaningful change in the lives of people and communities should be the key reason for your financial investment.

WISE GIVING ALLIANCE: THE CRITERIA

For each of our 20 Standards, we assign one of the following findings:



Standard is Met



Standard is Not Met



Unable to Verify

We then put each of those findings in a single report for a charity

GOVERNANCE AND OVERSIGHT

Standards 1 - 5

The governing board has the ultimate oversight authority for any charitable organization. This section of the standard seeks to ensure that the volunteer board is active, independent and free of self-dealing. To meet these standards, the organization shall have:

1

Board Oversight - A board of directors that provides adequate oversight of the charity's operations and its staff. Indication of adequate oversight includes, but is not limited to, regularly scheduled appraisals of the CEO's performance, evidence of disbursement controls such as board approval of the budget, fund raising practices, establishment of a conflict of interest policy, and establishment of accounting procedures sufficient to safeguard charity finances.

2

Board Size - A board of directors with a minimum of five voting members.

3

Board Meetings - A minimum of three evenly spaced meetings per year of the full governing body with a majority in attendance, with face-to-face participation. A conference call of the full board can substitute for one of the three meetings of the governing body. For all meetings, alternative modes of participation are acceptable for those with physical disabilities.

4

Board Compensation - Not more than one or 10% (whichever is greater) directly or indirectly compensated person(s) serving as voting member(s) of the board. Compensated members shall not serve as the board's chair or treasurer.

5

Conflict of Interest - No transaction(s) in which any board or staff members have material conflicting interests with the charity resulting from any relationship or business affiliation. Factors that will be considered when concluding whether or not a related party transaction constitutes a conflict of interest and if such a conflict is material, include, but are not limited to: any arm's length procedures established by the charity; the size of the transaction relative to like expenses of the charity; whether the interested party participated in the board vote on the transaction; if competitive bids were sought and whether the transaction is one-time, recurring or ongoing.

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MEASURING EFFECTIVENESS

Standards 6 - 7

An organization should regularly assess its effectiveness in achieving its mission. This section seeks to ensure that an organization has defined, measurable goals and objectives in place and a defined process in place to evaluate the success and impact of its program(s) in fulfilling the goals and objectives of the organization and that also identifies ways to address any deficiencies. To meet these standards, a charitable organization shall:

6

Effectiveness Policy - Have a board policy of assessing, no less than every two years, the organization's performance and effectiveness and of determining future actions required to achieve its mission.

7

Effectiveness Report - Submit to the organization's governing body, for its approval, a written report that outlines the results of the aforementioned performance and effectiveness assessment and recommendations for future actions.

FINANCES

Standards 8 - 14

This section of the standards seeks to ensure that the charity spends its funds honestly, prudently and in accordance with statements made in fund raising appeals. To meet these standards, the charitable organization shall:

8

Program Expenses - Spend at least 65% of its total expenses on program activities.

9

Fund Raising Expenses - Spend no more than 35% of related contributions on fund raising. Related contributions include donations, legacies, and other gifts received as a result of fund raising efforts.

10

Accumulating Funds - Avoid accumulating funds that could be used for current program activities. To meet this standard, the charity's unrestricted net assets available for use should not be more than three times the size of the past year's expenses or three times the size of the current year's budget, whichever is higher.

11

Audit Report - Make available to all, on request, complete annual financial statements prepared in accordance with generally accepted accounting principles. When total annual gross income exceeds \$500,000, these statements should be audited in accordance with generally accepted auditing standards. For charities whose annual gross income is less than \$500,000, a review by a certified public accountant is sufficient to meet this standard. For charities whose annual gross income is less than \$250,000, an internally produced, complete financial statement is sufficient to meet this standard.

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12

Detailed Expense Breakdown - Include in the financial statements a breakdown of expenses (e.g., salaries, travel, postage, etc.) that shows what portion of these expenses was allocated to program, fund raising, and administrative activities. If the charity has more than one major program category, the schedule should provide a breakdown for each category.

13

Accurate Expense Reporting - Accurately report the charity's expenses, including any joint cost allocations, in its financial statements. For example, audited or unaudited statements which inaccurately claim zero fund raising expenses or otherwise understate the amount a charity spends on fund raising, and/or overstate the amount it spends on programs will not meet this standard.

14

Budget Plan - Have a board-approved annual budget for its current fiscal year, outlining projected expenses for major program activities, fund raising, and administration.

FUND RAISING AND INFORMATIONAL MATERIALS

Standards 15 - 20

A fund raising appeal is often the only contact a donor has with a charity and may be the sole impetus for giving. This section of the standards seeks to ensure that a charity's representations to the public are accurate, complete and respectful. To meet these standards, the charitable organization shall:

15

Accurate Materials - Have solicitations and informational materials, distributed by any means, that are accurate, truthful and not misleading, both in whole and in part. Appeals that omit a clear description of program(s) for which contributions are sought will not meet this standard. A charity should also be able to substantiate that the timing and nature of its expenditures are in accordance with what is stated, expressed, or implied in the charity's solicitations.

16

Annual Report - Have an annual report available to all, on request, that includes: a) the organization's mission statement, b) a summary of the past year's program service accomplishments, c) a roster of the officers and members of the board of directors, and d) financial information that includes (i) total income in the past fiscal year, (ii) expenses in the same program, fund raising and administrative categories as in the financial statements, and (iii) ending net assets.

17

Website Disclosures - Include on any charity websites that solicit contributions, the same information that is recommended for annual reports, as well as the mailing address of the charity and electronic access to its most recent IRS Form 990.

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18

Donor Privacy - Address privacy concerns of donors by: a) providing in written appeals, at least annually, a means (e.g., such as a check off box) for both new and continuing donors to inform the charity if they do not want their name and address shared outside the organization, and b) providing a clear, prominent and easily accessible privacy policy on any of its websites that tells visitors (i) what information, if any, is being collected about them by the charity and how this information will be used, (ii) how to contact the charity to review personal information collected and request corrections, (iii) how to inform the charity (e.g., a check off box) that the visitor does not wish his/her personal information to be shared outside the organization, and (iv) what security measures the charity has in place to protect personal information.

19

Cause Marketing Disclosures - Clearly disclose how the charity benefits from the sale of products or services (i.e., cause-related marketing) that state or imply that a charity will benefit from a consumer sale or transaction. Such promotions should disclose, at the point of solicitation: a) the actual or anticipated portion of the purchase price that will benefit the charity (e.g., 5 cents will be contributed to abc charity for every xyz company product sold), b) the duration of the campaign (e.g., the month of October), and c) any maximum or guaranteed minimum contribution amount (e.g., up to a maximum of \$200,000).

20

Complaints - Respond promptly to and act on complaints brought to its attention by the BBB Wise Giving Alliance and/or BBBs about fund raising practices, privacy policy violations and/or other issues.