Assessing Financial Health: A Donor’s Perspective

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# Where will they look for info?

<table>
<thead>
<tr>
<th>Information</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>NEW</em></td>
<td></td>
</tr>
<tr>
<td>State Single Audit</td>
<td></td>
</tr>
<tr>
<td>Management Letter</td>
<td></td>
</tr>
<tr>
<td>Form 990 – Tax Return</td>
<td><a href="http://www.guidestar.org">www.guidestar.org</a></td>
</tr>
<tr>
<td>IRS Status</td>
<td><a href="http://www.irs.gov/Charities-&amp;-Non-Profits/Exempt-O">http://www.irs.gov/Charities-&amp;-Non-Profits/Exempt-O</a> rganizations-Select-Check</td>
</tr>
<tr>
<td>CT Charitable Registration</td>
<td><a href="https://www.elicense.ct.gov/">https://www.elicense.ct.gov/</a></td>
</tr>
<tr>
<td>Corporate Status</td>
<td><a href="http://www.concord-sots.ct.gov/CONCORD/">http://www.concord-sots.ct.gov/CONCORD/</a></td>
</tr>
</tbody>
</table>
Charity Navigator

• Assist donors evaluate public charities (501(c)(3)) organizations
  – Contributions > $500k and total revenue > $1million
  – At least 7 years of 990’s available (not 990EZ)
  – U.S. based
  – Must have fundraising expenses
Charity Navigator (continued)

- Classify charities by 9 broad categories
  - Animals; Arts, Culture and Humanities; Education; Environment; Health; Human Services; International; Public Benefit; Religion
  - Each category is broken into several “Causes”

- They rate charities on a scale of 1 to 10 in two broad categories: *Financial Health* and *Accountability & Transparency*

- Information comes from 990 and organization website
Charity Navigator
Indicators of Financial Health

• Four (4) Financial Efficiency Performance Metrics – Indicators of how well an organization manages its day-to-day finances.

• Three (3) Financial Capacity Performance Metrics – How well an organization has sustained programs and services over time and whether it can continue to do so.
## Charity Navigator

### Financial Efficiency

<table>
<thead>
<tr>
<th>Performance Metric</th>
<th>10</th>
<th>7.5</th>
<th>5</th>
<th>2.5</th>
<th>0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Expenses (%)</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>&lt;33.33</td>
</tr>
<tr>
<td>Administrative Expenses (%)</td>
<td>0 - 15</td>
<td>15 - 20</td>
<td>20 - 25</td>
<td>25 - 30</td>
<td>&gt;30</td>
</tr>
<tr>
<td>Fundraising Expenses (%)</td>
<td>0 - 10</td>
<td>10 - 15</td>
<td>15 - 20</td>
<td>20 - 25</td>
<td>&gt;25</td>
</tr>
<tr>
<td>Fundraising Efficiency (%)</td>
<td>0 - 10</td>
<td>10 - 20</td>
<td>20 - 35</td>
<td>35 - 100</td>
<td>&gt;100</td>
</tr>
</tbody>
</table>

Notes:
1. Ratings represent “general guidelines”. The metrics are adjusted for organizations classified within certain causes.
2. According to Charity Navigator, 7 out of 10 charities spend at least 75% of their expenses on program services and 9 out of 10 spend at least 65%.
3. Program expenditure percentage is reduced by recurring deficits as a percentage of total expenses.
## Charity Navigator
### Financial Capacity

<table>
<thead>
<tr>
<th>Performance Metric</th>
<th>10</th>
<th>7.5</th>
<th>5</th>
<th>2.5</th>
<th>0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Revenue Growth (%)</td>
<td>&gt;= 7</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>&lt; (-3)</td>
</tr>
<tr>
<td>Program Expense Growth (%)</td>
<td>&gt;= 5</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>&lt; (-3)</td>
</tr>
<tr>
<td>Working Capital Ratio</td>
<td>&gt; 1.0</td>
<td>0.5 - 1</td>
<td>0.25-0.5</td>
<td>0 - 0.25</td>
<td>&lt; 0</td>
</tr>
</tbody>
</table>

**Notes:**
1. Primary Revenue Growth and Program Expense Growth are different for each “Cause”. The above metrics represent the typical ranges for the scores indicated.
2. The Working Capital ratings represent “general guidelines”. The metrics are adjusted for organizations classified within certain causes.
BEYOND CHARITY NAVIGATOR
Revenue Reliability

- Diversified revenue sources
- Ability to generate recurring dollars
- Ability to predict income with certainty
Operating Surplus

- Type of surplus – restricted/unrestricted
- Full Cost coverage
  - Covering principal payments on debt
  - Covering maintenance of long term assets
Net Assets

- Unrestricted or temporarily restricted verses permanently restricted
- Net investment in PP&E
Financial Statements

- Type of audit opinion
- Concentrations noted
- Commitments in the future
- Going Concern considerations
- Unrecorded liabilities
- Litigation
- Subsequent events
Form 990 Warnings

• Are there issues with compliance?
• Are the board members independent?
• Has there been any significant diversions of assets?
• Are there concerns on who is being paid large sums of money?
• Are there large disposals of assets?
Financial Leadership

• Executive Officer
• Financial Officer
• Auditor
Financial Processes

- Management letter
- Best practices from Form 990
  - Governing body reviewing the form
  - Conflict of interest policy and enforcement
  - Whistleblower policy
  - Document destruction policy
  - Setting compensation
  - Policies and procedures to protect the nonprofit in activities with others
MAXIMIZING YOUR ASSESSMENT: STEPS YOU SHOULD TAKE NOW!
Financial Statements

• Always Review Draft of Statements
  – Wording is subjective – suggest changes
  – Allocations between programs
  – Level of detail provided

• Always Review Drafts of Management Letter
  – Wording is subjective – suggest changes
  – Appropriate level of comments?
Form 990

- Overview
- Programs (part 3)
- Required Schedules (part 4)
- Filing and tax Compliance (part 5)
- Governance (part 6)
- Compensation (part 7)
- Financial Summary (part 1)
Protecting the Donor’s Donation

- Comprehensive Control Responsibilities
  - Establishing the Tone at the Top
  - Risk Assessment (what could go wrong)
  - Control Procedures (how to protect yourself)
  - Information and Communication (sharing)
  - Continuous monitoring (for effectiveness)
QUESTIONS?