EVALUATE AN ORGANIZATION

ONE PERCENT FOUNDATION

Innovative mission. Beautiful website. Lots of revenue. It can be easy to be impressed by a nonprofit, so how do you determine if an organization is actually doing what it set out to do - and does it well? The process of examining an organization before deciding whether or not it is worthy of your donation is called **due diligence** and we're going to guide you through performing this important step.

IMPACT

Impact can be defined in broad statistics: 200 youth enrolled, 5,500 meals served, 72 puppies rescued, but what do the numbers mean in the context of the organization? This is when we call in the Theory of Change model. *This framework is a cause and effect statement used to articulate how an organization's intended impact, or mission, is achievable given organizational and financial resources.*

Not all nonprofits use the theory of change framework, so it might take a little bit of detective work to find all of the pieces. Here are five basic questions to answer about an organization and where to check their websites to find the information:

Why: Why does the organization exist? (see *Vision or History*)

Needs: What does the organization want its impact to be? (see *Mission*)

What: What does the organization do to achieve its mission? (see *Programs* or *Activities*)

So What: What are the short-term and long-term impacts? (see *Goals* or *Outcomes*)

Who: Who is on the organization's staff? What is the board composition? (see *About Us* or *People*)

Once you've pieced together this information, you can analyze how it all fits together. Here are important questions to ask yourself about an organization:

Impact Analysis questions:
1. Does the organization have a clearly defined vision?
2. Does it seem like the organization's actions will achieve its vision?
3. Is the organization realistic about their ambitions given its resources?
4. Does the organization's leadership and team seem equipped to achieve their mission?
5. Does the organization's staff and board reflect their constituents?

Are you thinking, "Wow this is really cool! I'd love to read about organizations with unique theories of change!"? Read this!

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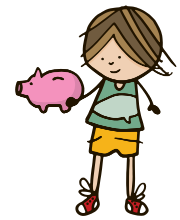
FINANCIAL HEALTH



The best way to check out an organization's financial health is to use publicly available 990 data. The 990 is the tax form each 501(c)(3) organization (whose annual receipts exceed $25,000 per year) is required by law to complete each year. It highlights sources and amounts of revenue, expenses, and the names and titles of key personnel. If you are are awarding over $5,000, you might want to ask for more information, such as audits, internal documents and budgets, but we'll start by helping you make sense of information from the 990.

You can find organizations' 990s here!

Here are several **questions that you can answer with this 990 data**:

1. ***How much debt does an organization have?*** Look at page 11 of the 990. How do liabilities (debt) compare to assets (what the organization owns)? Are liabilities 50% or more of assets? If so, does there appear to be a reason why this is the case? There are many reasons why an organization might have debt, including undertaking a large capital project, building a new website, or hiring new staff members.

2. ***What is the organization's adaptive capacity?*** Liquidity is a measure of how many months an organization could operate if no more resources came in the door. Similar to your savings account, liquidity allows organizations to expand in a responsible way or adapt to unexpected events. At liquidity of 3 months or greater, organizations have room to adapt and think strategically about the long-term. If an organization does not have 3 months liquidity, it's not the end of the world! Approximately 50% of organizations in the U.S. are currently in this position and it can be an indicator that the organization is going through a growth phase.

   To calculate liquidity, look at pages 10 and 11 of the 990.
   Months of Liquid Net Assets=[Unrestricted Net Assets (Line 27 on page 11)-Land Building and Equipment Less Accumulated Depreciation (Line 10c on page 11)-Secured mortgages and notes payable (line 23 on page 11)]/[Total Expenses(line 25 on page 10)/12]

3. ***How does an organization bring in its money?*** The 990 categorizes revenue into several categories. While there is no perfect mix of income (such as federal grants, foundation grants, corporate giving, private donations), looking at the revenue composition can help the donor understand how an organization sustains itself

4. ***How does the organization's revenue, expenses, and liquidity compare to its peers?*** You can pull 990 information for peer organizations and manually compare them, or you can use Financial SCAN, a fee-based tool that will do this automatically.

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What questions should you AVOID using as an indication of financial health?

- ***Is the nonprofit spending the right amount on programs or overhead?*** There is a common misconception that an organization should spend as little as possible on overhead as compared to programs. However, this ratio is a poor indicator of organizational success. Dan Pallotta makes an excellent case against overhead/ program ratios in this TED Talk and a coalition of folks at GuideStar, Charity Navigator, and BBB Wise Giving Alliance started a campaign to end the Overhead Myth.
- ***Does the organization have the "right" amount of earned or contributed revenue?*** There is no right or wrong combination of earned and contributed revenue that applies in all sectors. A sustainable revenue mix will depend on several factors, including the logic model of a nonprofit, the community served, and the dynamics of the programs they offer.
- ***Does the organization have an endowment?*** Simply having an endowment does not make an organization financially stable and whether an organization has one should not factor into your assessment of their financial health. Endowments are permanently restricted funds that the organization can never touch and can only use the interest for operations. Several articles have come out recently talking about the dangers of endowments.

A warning from the wise: Completing a financial analysis will clarify the **business needs** of a nonprofit, but will not tell you whether the organization is doing good work, therefore do not make a grant decision solely based on an organization's financial health.

TIMELINE

1. Gather all information you have about the organization (nomination, website, 990)
2. Find the organization's theory of change or piece it together yourself
3. Answer the Impact Analysis questions
4. Complete a Financial Health analysis
5. Complete the Assessment Form

WOOT WOOT!

You've evaluated an organization.