Sustainable Philanthropy

Advising and Representing *Exempt Organization*s and *Donor*s

Donor Care: Vetting *Exempt Organization*s

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Sustainable Philanthropy

Notes and Conventions

This is the first installment of our treatise on the care and nurture of *Donors* and *Exempt Organizations*.

The treatise expresses Steven Roy Management and Cambyses Financial Advisors' "*Sustainable Philanthropy*" approach to *Donors*, *Exempt Organizations*, and their Stakeholders.

Sustainable Philanthropy emphasizes practices, attitudes, and collaborations that foster stable, scalable, survivable, and compliant *Donor*, Organization, and Stakeholder interactions that give birth to perpetual giving, perpetual operations, and perpetual benefits.

The treatise addresses the needs of:

- *Donors,* to facilitate decisions on their path to *Sustainable Philanthropy*.
- *Exempt Organizations*, their *Boards of Directors*, *Executives*, Employees, and Volunteers who nurture their *Donors* and provide *Public Benefits* to their Stakeholders and Constituents.
- Non-Profit Advisors – the Accountants, Attorneys, Financial and Insurance Advisors, Governance Consultants and other professionals who serve the philanthropic community's needs.
- Public Policy Makers and Gatekeepers – In the hope that we shed light on the consequences of your regulatory and legislative actions.

Our ultimate goal is to produce a comprehensive body of authoritative and reliable materials viewed from the perspective of both *Donors* and *Exempt Organizations*. These materials are divided between a, more-or-less, linear main body narrative, and a supporting cast of *<<Technical and Procedural Notes>>*.

The main body narrative provides an overview and introduction to the installment topic: i.e., What the topic involves, where it fits in the philanthropic firmament, how to interpret it, information sources to facilitate interpretation, further study, and action, and digressions about its origin, purpose, and history. To the extent possible, the main body of the treatise is non-technical and provides general coverage of the most likely scenarios Donors, Organizations (and their personnel), and Advisors encounter.

<<Technical and Procedural Notes>> aim at users with a deep-seated need for sophisticated analysis. *<<Technical and Procedural Notes>>* address topics at a foundational level, dissecting rules, vocabulary, precedents, analytics, and exceptions at a level that addresses the needs of representatives who make and effectuate strategic decisions or advise those who make them. *<<Technical and Procedural Notes>>* "read like an operations management, tax, or accounting textbook," because that is exactly what they are intended to be! Note, however, that they are not a substitute for well-grounded professional input!

Each installment covers a single, rather narrow, subject. E.g., This installment covers principles and procedures that *Donors* and their advisors use to evaluate *Donee* organizations. Reading between the lines, this installment also provides a roadmap that organizations can use to make themselves more *Donor* friendly.

To improve readability, we footnote topic sources rather than including them in the narrative. In the main body, we limit analysis and exposition about the footnoted sources to the extent possible. We reserve that, more detailed, exploration our *<<Technical and Procedural Notes>>*.

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We employ several orthographic conventions in our main body and <<*Technical and Procedural Notes*>>.

- Technical terms and terms-of-trade are *Italicized and Capitalized* when we invoke their trade meaning. We define many of these terms on our Definitions page. (Which is not linked to the narrative at this time.)
- **Important Distinctions and Instructions** appear in boldface.
- Headings and direct quotes from outside sources appear in blocked, sans serif typeface (usually Calibri or Calibri Light)
- Active links to collateral sources appear in *Blue Underlined Text*
- Titles and Titled-linked material is italicized and underscored.

***Note to fellow advisors, professionals, and colleagues*:**

We welcome your feedback, constructive comments, and questions... and we will publish them and credit you for them if appropriate. We sometimes miss the obvious your feedback helps remedy that. We view our colleagues as collaborators - not competition. Feel free to use any of our library materials in your own practice - just give us credit (where credit is appropriate) and don't re-publish them without our permission and acknowledgement (that could get nasty).

Apropos that last paragraph: Tell us what you do well - especially if it is a service we don't offer. We generate a "steady trickle" of referrals for other professional services and would be happy to add you to our referral list after we've vetted you and gotten to know you. Contact us by email or phone to start the relationship.

Vetting Exempt Organizations - Overview

These are sad facts –

- Not everyone (or every organization) that claims to be a charity is a charity.
- Some are outright scams.
- Some deliver public goods and services better than others.
- Among those charities that are bona-fide, contributions to some charities do not confer a U.S. income, gift, or estate tax deduction on the *Donor*s.

Before you make a sizable charitable contribution:

- ***Clarify your philanthropic goals, values, and priorities.***
- ***Identify organizations that address those goals, values, and priorities.***
- ***Verify the organizations' bona fides*** (Make sure it really is a charitable organization or church. Determine whether it is qualified to receive deductible charitable contributions).
- ***Determine that the organizations' purposes are congruent with yours***.
- ***Review the organizations' governance, financial, operational, and compliance history***.
- ***Ascertain that the Organization can efficiently absorb and use your contribution.***

For small contributions, the first three and the last admonition are your minimum, sufficient, due diligence.

For large, restricted, or perpetual contributions, Steven Roy Management (SJRM) and Cambyses Financial Advisors (CFA) strongly recommend that you (or your advisors) thoroughly research the *Donee* organization. The balance of this paper and our <<*Technical and Procedural Notes*>> outline how.

Clarify Your Goals, Values, and Priorities

Before you examine any organization's mission or operations, clarify your own motives and goals.

According to the Greek writer Pausanias,[1] "Know Thyself" is the first of three maxims inscribed in the forecourt of the Temple of Apollo at Delphi. By implication, "If you want to know the mysteries of the universe, you must first find answers in yourself."

The phrase plays an important role in

- Socratic and Platonic views of knowledge acquisition, learning, and understanding,
- More recent studies in axiology ("the philosophical study of goodness or value"),[2] and
- Underpins much of our (Steven Roy Management and Cambyses Financial Advisors) approach to *Donor* relations.

[1] Pausanius (110-180 AD), *Description of Greece* – Translation, WHS Jones, 1918
[2] C.f., Works by Rudolph Hermann Lotze (1817-1881), Franz Brentano (1838-1917), George Edward Moore (1873-1958)

What are your values?

Each of us makes a set of assumptions that define our philosophic notion of "goodness" or value. [3] Those notions confer meaning on both an intrinsic and instrumental level. That is, they provide an avenue that distinguishes things that are valued for their own sake (intrinsic) and things that may lead to something of value (instrumental). Systematically, values lie on a continuum from Monist (there is one intrinsic value to which all other values are subordinated) to Pluralist (there are many kinds of value, the most important of which are irreducible to one another).

Within those fundamental frameworks, we each form complex, not necessarily internally consistent, views of the relative values of, e.g., Aesthetic, Ethical, Cultural, Material, Communal, and Spiritual Outlooks. This ranking, in turn guides our perception of, e.g.,

- Beauty, harmony, proportion, aesthetic experience
- Moral disposition, virtue, pleasure, happiness, contentment
- Truth, knowledge, understanding, wisdom, honor, esteem
- Life, health, strength, peace, security
- Love, affection, friendship, cooperation
- Power, achievement, freedom, adventure, novelty

Knowing where you stand within these spectra informs the kinds of organizations and approaches to change about which you are passionate. That knowledge, in turn, informs your choice of philanthropic organizations and approaches.

What kinds of nonprofits do you most want to support, build, and strengthen?

Most often, *Donor*s support organizations that they are familiar with or that work in fields that interest them. Most of the time, this "substance based" approach works out well for both the Organization and the *Donor*. Equally fortunately, there is probably an *Exempt Organization* that addresses almost any substantive topic: from aliens to interstellar dust, and everything in between. If you are at-a-loss to find an organization that covers your interests, there are search tools to find them.

So Far – So Good. But not the whole story.

*Exempt Organization*s have personalities and quirks, just like people. Consider these "style" variations alongside the organization's substance. Organizations may be (among other things):

- Proactive or Reactive
- Agile or Procedural (Rules Oriented)
- Advocacy (Activist), Service and Transformation, or Research and Study oriented

[3] While its antecedents can be found in the works of Socrates, Plato, Immanuel Kant, Jeremy Bentham, and Adam Smith, this discussion relies most heavily on treatises by William Frankena, *Ethics* (Prentice Hall 1973) and M.J. Zimmerman, *Intrinsic vs. Extrinsic Value*, (ed. Zalta E.N. *Stanford Encyclopaedia of Philosophy*, 2018), and *The Nature of Intrinsic Value* (Rowman and Littlefield, Lanham, 2001)

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- Leader or Founder Driven (Charismatic?) or Consensus Seeking

Or any combination and degree of those dimensions. There is no combination of dimensions that is “correct.” Each combination has strengths and weaknesses, creates opportunities or threats (SWOT). You may be very comfortable with some of those, and uneasy about others.

Choose what works for you! When you donate (particularly if you intend the donation to have long-term or perpetual impact), choose an organization whose matrix of substance and style best fits your objectives and nature. Then, consider how your choice and comfort level changes if any of the Organization’s substance or style dimensions change, e.g.,

- How will you feel if the service organization’s constituency and beneficiaries change radically?
- What happens when the charismatic and articulate Executive Director leaves the organization?
- What if some other organization finds the answer to key questions your organization pursues before your organization does?

How likely are these scenarios? Will your enthusiasm remain high? Will you regret your previous support for the organization? Will your contribution be wasted?

What do you want to achieve through your giving, volunteering, skills. and experience?

In *Sustainable Philanthropy*, writing a check or transferring title to property marks the end of courtship and the beginning of the marriage. *Donor*s often supply as much value through mentorship and support as they do through donations. How will you use your unique outlook, experience, and skill set to sustain the organization long after you write the check and the money is spent?

At what level do you wish to make change?

Local, regional, national, international, interstellar?
Impacting predominantly individuals, organizations, networks, policies, or ideas?
General Operating support, Capital Campaigns, Projects, or Endowment?

Identify Organizations that Fulfill your Goals, Values, and Priorities

There are probably as many ways of finding an *Exempt Organization* that shares your values and style as there are *Exempt Organization*s:

The single most popular method? Personal Exposure.

Personal exposure often leads to personal commitment. Typically, you first “attend” the organization’s functions (programs, services, fundraisers, etc.). That builds a sense of what the Organization offers its stakeholders. It allows gradual access to conversations about the organization’s staff or board (their experience, training, and capabilities), systems and policies, physical plant, fundraising techniques, and capacity… All things you need to know to identify the organization's needs, to determine whether to give support, and what support you give.

Sometimes, personal exposure is not enough. If you aim for global impact, personal exposure to your local Free Clinic probably won't provide it – regardless of how committed to the clinic you may be.

Fortunately, there are many avenues and tools to facilitate your search for Organizations that meet your needs.

Talk to people you encounter through your personal charitable activities. Local foundations, Community Organizations, United campaigns.

Talk to experts in your field of interest: other *Donor*s, foundation leaders, researchers, business leaders, government agencies, associations, journalists.

Explore charity reporting websites, e.g., Guidestar, Charity Navigator, CharityWatch, or Givewell Each of those sites (and quite a few others) have search algorithms to expedite your ideation process e.g., search based on your "cause." Several of the sites offer ratings and analysis – though it is sometimes difficult to relate them to your own values.

Once you have a selection of organizations that meet your criteria, pare it down by asking the same questions you asked yourself in the previous segment. Pay particular attention to the Organization's alignment with your mission, value, style, and impact preferences.

Hopefully, after this process, you will identify one or more Organizations that merit further study.[4]

The Organization's Bona Fides: Qualifying Organizations

Several questions demand answers when you vet a charitable organization:[5]

1. Is the organization and the organization's representative legitimate – not a scam or scammer?[6]
2. Does the organization play-by-the-rules? (Who vouches for it? Are they reliable?)
3. Is there any economic incentive to donate to the organization? (Do contributions to the organization qualify for income, gift, or estate tax *Charitable Contribution Deductions*?)

If you know or suspect that the answer to either of the first two questions is, "No," Why give them a donation? Your money and your charity might be better spent elsewhere.

[4] When we (Steven Roy Management or Cambyses Financial Advisors) perform this type of search, we usually limit our detailed analysis to three to six candidates. If we find no "matches" to the *Donor*'s parameters, we reinterview the *Donor*.

[5] This subtopic addresses the "*Qualified Organization*" requirement for *Charitable Contribution Deductions*. For additional information, see the linked material on the IRS webpage: *Exemption Requirements – 501(c)(3) Organizations.* Tax deductibility is an advantage, not a prerequisite, to charitable giving. We focus on it only because (admit it folks) almost every *Donor* is concerned about it – and vetting a recognized *Qualified Organization* is considerably easier than vetting a *Non-Qualified Organization*.

[6] "Charity Scams" are a perennial entry on the IRS's annual "*Dirty Dozen List of Tax Scams*." The FBI reports that *Charity and Disaster Fraud Schemes* are pervasive – and increase dramatically around disasters and epidemics.

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A "No" response to the third question need not be a showstopper. You can give charity to anyone you want – tax incentives need not be a determining factor. It is always nice to have your rich Uncle Sam pick up part of the tab – but sometimes the cause is more important than the tax benefit.[7] [8] Go ahead, make the contribution – Maimonides applauds you![9]

Non-Deductible Transfers to individuals and *Nonqualified Organizations* occur most frequently in familial or social contexts:

- You pay Dave's college tuition.[10]
- You contribute to a co-worker's "broken leg fund."
- You support a cause championed by someone you know.
- You support an overseas charity that has not registered in the U.S.
- You pay a missionary's living and travel expenses – either directly to the missionary, the missionary's vendors, or by giving an earmarked contribution to the congregation.[11]

Though none of these scenarios creates a *Charitable Contribution Deduction*, they may all be worth doing. The tax deduction tail doesn't wag the charitable dog. But, when you choose the alternative route, the public, via the Treasury, will not subsidize your largesse.

With that said, "*Qualified Organizations*" that have applied to the IRS for recognition of their exempt status are much easier to validate than are *Nonqualified Organizations*.

IRC §170(c) describes *Qualified Organizations* that may receive tax-deductible contributions. Most often *Qualified Organizations* are IRC §501(c)(3) charitable organizations, churches and religious organizations, or private foundations "operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals" [12]

[7] From a financial perspective, the charitable contribution deduction reduces the after-tax cost of giving (by approximately your marginal tax rate times the amount you deduct). Stripped of their charitable intent and non-monetary benefits (the "rosy glow of virtue") charitable deductions are a classic case of "spending a dollar to save fifty cents."

[8] Carried to extremes, contributions to individuals or *Nonqualified Organizations* resemble gifts. As such, they may have gift and estate tax consequences. If, your 2021 transfers to any *Donee* exceed $15,000, or your cumulative lifetime taxable transfers to all your *Donees* exceed $11.7 Million, you may face reporting obligations and/or estate and gift tax liability. That discussion is beyond the scope of this piece. See IRC §2503, Treas. Reg. §25.2503-2, and IRC §2010. Pending changes to the lifetime gift and estate tax exclusion-credit that become effective in 2022, and proposed legislation may radically change the estate and gift tax regime.

[9] Maimonides (Moses ben Miamon, 1138-1204) wrote extensively on the nature of charity. Maimonides considered disinterested generosity – anonymous giving to unknown individuals with no expectation of recognition or remuneration – the highest form of charity. Legislation (and the IRS) co-opted the term, narrowed, and altered its meaning – deemphasizing anonymity and elevating lack of recognition and remuneration to primacy. Weirdly, in the Legislature and Service's view, anonymity is suspicious. We usually use the tax definition of *Disinterested Generosity* when we touch upon this subject.

[10] Done correctly, this specific transaction does not create gift or estate tax exposure. You must pay Tuition directly to the institution to qualify for the exception. If "Dave" is your employee, payroll tax issues arise.

[11] There is an extensive body of case law that precludes deductions for contributions that are earmarked for specific individuals – even if they are made through a *Qualified Organization*. (See our discussion of this under "*Donors: Deciding What to Give / Donor-Donee Relations / Consider How Much Control You Retain")*

[12] IRC §501(c)(3)

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Contributions and *Membership Payments* to other *Exempt Organization*s – e.g., to IRC §501(c)(4-6)[13] organizations, do not entitle you to an income or estate-gift tax charitable deduction – though they may qualify for business expense deductions in some contexts.[14]

The easiest way to validate an organization's bona-fides?

Use the IRS's Tax *Exempt Organization* Search function to verify the organization's exempt status.

Using the IRS search tool, you can ascertain that the charity[15]

- is qualified to receive tax deductible contributions,
- which *Adjusted Gross Income* (AGI) limits those contributions are subject to,[16] and (to some extent)
- whether the organization complies with filing requirements.

When you vet an Organization, pay closest attention to the "Publication 78 Data" tab on the Service's Organization search page. While you are on the IRS's search site, retrieve a copy of the Organization's "*Determination Letter*."[17] If you plan to do further research on the Organization, download their last several Information Returns as well.[18]

See our Technical & Procedural Notes for more information regarding the IRS database.

For small donations [19] (or a series of small donations), accessing the IRS *Exempt Organization* Search database may be "enough" proof of an organization's exempt status.

Can you rely on the Service's database?

Contributors may rely on *Determination Letter*s or ruling information provided in the Tax *Exempt Organization* Search (or Exempt Organization BMF Extract) if the letter or ruling states that contributions to the organization are deductible under Sec. 170. That reliance is valid until the date of any public announcement stating that the organization has ceased to qualify as an organization, contributions to which are deductible under Sec. 170. If an organization is listed on the Service's Auto-Revocation List, grants and contributions to

[13] With very rare exceptions, payments (contributions) to IRC §501(c)(7) and §527 organizations do not create either *Charitable Contribution* or business deductions.
[14] IRC §162 as interpreted by IRC §170(f)(18). This discussion is beyond the scope of our current topic.
[15] See *Technical & Procedural Notes* for detailed protocols.
[16] *Qualified Organizations* are subject to a complex array of deduction limitations – based on either corporate taxable income or individuals' *Adjusted Gross Income* (AGI). When you vet an organization, knowing which limit applies is more relevant than the hierarchy and computation of those limits. We reserve the latter topic for another installment.
[17] Determination Letters are available, on a hit-and-miss basis, for most Organizations. Availability depends on how long ago the Organization was granted exemption. Older Organizations' Determination Letters are less likely to be on the IRS database. Eventually, the Service will provide this information for all *Exempt Organization*s, regardless of vintage.
[18] IRS Forms 990, 990EZ, or 990PF and 990T. The IRS site often lags the Organization's compliance filings. This is especially true for COVID affected periods. If the most recent filings are critical, request them from the organization.
[19] You, and your comfort zone, decide where the line between small and large lies. IRS reporting and documentation requirements change when donations exceed $500 (In-Kind), $5,000 (All Donations), or $500,000 (All Donations).

that organization will be deductible by *Donor*s unaware of that status if the contribution is made on or before the organization's name is posted on the list.[20]

Enhanced Due Diligence – State Exemption and Qualification and Private Databases

For somewhat larger (medium?) contributions, Steven Roy Management and Cambyses Financial Advisors suggest a bit more due diligence. That due diligence confirms that the organization is qualified to transact business and seek donations in your state.

Most states require *Exempt Organization*s to register to do business and seek donations in their jurisdictions. In California two agencies share that jurisdiction:[21] The California Secretary of State and the California Registry of Charitable Trusts.

The California Secretary of State Business Search provides incorporation and qualification details – answering the question; "is the organization permitted to do business in California?"

When you search this database, note (at least) the organization's Entity Number (Different from its Federal ID), Registration Date, and Status. If Status is anything except "Active," there may be (are) issues with the Organization's standing. Follow-up is advisable! If you delve a little deeper, you may retrieve the Organization's foundation documents (Articles of Incorporation), a list of current officers, and several key addresses.

The California Registry of Charitable Trusts – Organization Search database includes organizational information, including financial reports, fundraising registrations, and updated registration information (different from that included in the Secretary of State's database).

When you search this database, note (at least) the organization's Charity Number (Different from both its Federal ID and its California Entity Number) and Status. Delving deeper, you may download foundation documents and financial reports (CA Form RRF-1).

California, at least in this respect, is not atypical. Other states maintain similar registration and tracking systems. Most states facilitate public access to basic organization information. The National Association of State Charity Officials' Resource List provides contact information to get you started in your home state(s), as do numerous other sources (Google Search, e.g.: "State Charity Regulators"). No state regulator's database is complete (e.g., NASCO's database doesn't mention the CA Secretary's regulatory role). You may need to do more footwork to identify other state sources.

You may also be able to use public and private databases to review the organization's status, finance, governance, and compliance history –

- Guidestar's Directory of Charities and Nonprofit Organizations and their Charity Search function, or
- Charity Navigator's database

[20] Rev. Proc. 2018-32

[21] Technically, responsibility is divided between three agencies. However, the California Franchise Tax Board does not provide direct public access to *Exempt Organization* information or returns.

provide the broadest reliable coverage. Some private consolidators operate behind a pay wall!

When you conduct identity and qualification research, keep in mind:

- You may not be able to authenticate very small charitable organizations (less than $5,000 annual revenue), or churches and associations of churches (of any size) in the IRS or private database systems. Small organizations, churches, and associations of churches are exempt from Federal exemption-application and annual reporting requirements unless they elect otherwise (IRC §508). However, they often appear in states' databases – e.g., corporate registrations and Statements of Information.

- Public information about new organizations may not be accessible because it hasn't yet been processed.

- Some Organizations operate under a group exemption, and do not report separately. This is common for denominational churches and their associations. You may, or may not, find separate information about group members in the IRS database.

Due Diligence For "Large" or "Unusual" Contributions

"Large" is in the eye of the beholder.

For most routine contributions or grants, it is your call: is more due diligence warranted? The review procedures we outline above and in our <<*Technical and Procedural Notes*>> are necessary and sufficient for most donations; The procedure verifies the organization's existence and exemption. It provides a heuristic impression of the organization's scope and compliance with fundamental requirements.

Additional due diligence is warranted for very large contributions and grants or when you

- Contribute "large" sums to any organization [22]
- Contribute via your *Dispository Plan*,
- Contribute *Restricted Grants,*
- Donate to *Permanent Endowments,*
- Impose *Donor* conditions,
- Anticipate a *quid pro quo*, or
- Retain *Donor* interests

Each of those scenarios raises both organizational "sustainability-survivability" and "efficiency-efficacy" issues. Paraphrased, those considerations address

Sustainability-Survivability: Does the organization comply with fundamental rules-of the road? Will your contribution affect their ability (or willingness) to do so?

[22] Our informal and malleable definition of "large;" "More than the lesser of $10MM or the Organization's annual operating budget." You may have other definitions.

Efficiency-Efficacy: Does your contribution alter the Organization's mission profile. Is that profile congruent with your beliefs and expectations? Can the organization sustain operations at the level your contribution implies?

Due Diligence: Sustainability, Survivability, and Compliance

Data Sources

When you make a charitable contribution for which you expect a charitable deduction:

- Request or download the organization's *Determination Letter* and/or perform a screen capture of their IRS database record. (This is the minimum due diligence requirement for any charitable contribution.)

  Downloading the *Determination Letter* documents your due diligence and the organization's status at the time you researched it. By itself, it is not sufficient documentation for the *Charitable Contribution Deduction*.

  If you donate more than $250 in any one transaction or receive a *Quid Pro Quo* for any contribution over $75, additional substantiation-documentation is required. You share responsibility for that documentation with the Exempt Organization to which you made your contribution. We discuss the extent and substance of that requirement in <<*Organizational Perspectives, Operations and Management I, Compliance and Reporting*>>.

  For large Charitable Donations refer (as you see fit) to the Organization's

- *IRS Form 1023 Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code* [23]
- One or more annual reports: IRS Form 990, 990EZ, 990N, or 990PF, audited or reviewed financial statements, and 990-T[24] (CFA and SJRM usually finds three years to be sufficient).
- Governing instruments (Articles of Incorporation and Bylaws)
- Statement(s) of Good Standing and/or Statement(s) of Information for relevant states.
- Charity solicitation permit/documents for relevant states.
- Conflict of Interest policies (and similar governance documentation)
- Gift Acceptance Policy
- Endowment Terms and Investment Policy (if applicable)

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[23] Small organizations may file IRS Form 1023-EZ, Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code. Organizations that qualify under other IRC Sections (e.g., IRC 501(c)(4-25), with some exceptions) use IRS Form 1024 Application for Recognition of Exemption Under Section 501(a) Almost every state requires an equivalent (not quite identical) exemption application. E.g., California Franchise Tax Board Form 3500 Exemption Application

[24] With the exception of the 990N, a 990 series return includes the organization's reviewed or audited financial statements (if any) and a book-tax reconciliation, if applicable. Most states require attest (review or audit) if the Organization's annual receipts exceed a threshold – commonly $500,000 or $750,000. *Grantors* (including State and Federal Agencies) often impose similar requirements (triggered by different thresholds) for the *Grantor's* project funding or the organization as a whole. Small organizations (less than $50,000 annual receipts) may file IRS Form 990N – an electronic return that contains almost no useful organizational information. There is, technically speaking, no physical 990N return. Organizations sometimes print the submission receipt, but there is precious little information there.

- Recent solicitation and program literature.

Once you have obtained background information – what do you do with it? Cambyses Financial Advisors and Steven Roy Management maintain a detailed protocol and tools for vetting potential *Donees*. The protocol is too lengthy to include in its entirety here – but here are some of the highlights.[25]

Identify, Qualify, and Verify The Organization's Exempt Status:

Primary Sources: Federal and State registration and Private Database compilations.

Download materials from Federal, State, and Private Databases or request, obtain, and verify the materials directly from the Organization.[26] If deductibility matters, pay particular attention to the Status Code in the IRS's Tax *Exempt Organization* Search function.

If the Organization fails your identity, qualification, or exemption test, consider it a sign that additional research is necessary. When you conduct that research, keep in mind:

- You may not be able to authenticate very small charitable organizations (less than $5,000 annual revenue), or churches and associations of churches (of any size) in the IRS or private database systems. Small organizations, churches, and associations of churches are exempt from Federal exemption-application and annual reporting requirements unless they elect otherwise (IRC §508). However, they often appear in states' databases – e.g., corporate registrations and Statements of Information.

- Public information about new organizations may not be accessible because it hasn't yet been processed.

- Some Organizations operate under a group exemption, and do not report separately. This is common for denominational churches and their associations. You may, or may not, find separate information about group members in the IRS database.

Mission or Purpose:

Primary Sources: IRS Form 1023 (or 1024), Parts IV and VIII; IRS Form 990, Part I, Line 1 and/or Schedule O [27]; Organization Statements, Promotional Documents, and their website

Questions that need answers:

- Are the organization's stated beliefs, goals, and purposes congruent with your own?

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[25] See, <<Technical and Procedural Notes – Protocol>>
[26] *Qualified Organizations* must provide copies of their Form 1023 (or 1024), and several most recent Form 990s. Many organizations post the information on their own website. They may also fulfill this obligation by referring you to an archive that compiles the data (e.g., GuideStar), or to a state repository. Organizations may charge a reasonable copying fee for hard copies of the documents. If an organization refuses to provide this information, consider that a red flag.
[27] References to IRS Forms 1023, 990, and 990-T are to the 2020 form and schedules.

- Have the organization's beliefs, goals, and purposes evolved since they were first documented on Form 1023 (1024)?

Purpose and congruence analysis is, by its nature, subjective. You are the best judge of congruence – pay close attention to how the organization answers to your questions. Before you examine the organization's mission, clarify your own motives and goals:

- What are your values?
- What kinds of nonprofits do you most want to support, build, and strengthen?
- What do you want to achieve through your giving, volunteering, and your skills and experience?
- At what level do you wish to make change (individuals, organizations, networks, policies, or ideas)?

Nuances:

An ever-changing organizational mission statement may indicate mission creep, lack of commitment to stated objectives, or a rapidly evolving business context. Collateral research is needed to identify the cause.

Form 1023 (1024) and 990 mission and activity descriptions often address tax qualification criteria rather than the organization's long-term intentions. A series-sequence of the organization's post-exemption statements may be a more useful guide to their intentions than their initial registration or their tax information documents.

Activities:

Primary Sources: IRS Form 1023, Parts IV, VI, and VIII; IRS Form 990, Part III and/or Schedule O; Organization's program literature):

Questions that need answers:

- Are the Organization's projects and activities consistent with its stated mission or purpose?
- Do the Organization's projects and activities serve a broad public constituency?
- Do the organization's projects and activities confer extraordinary benefits on anyone, particularly persons associated with the organization?
- Are the Organization's administration and fundraising expenditures proportionate to their program expenditures?
- Does the organization engage in political activity that compromises its exempt status?
- Do you believe the organization's activities address their priorities efficiently and effectively?

This part of your analysis embraces 1) your perceptions of the organization's activities, 2) your assessment of the organization's ability to carry out the activity your donation will fund, and 3) the second prong of the IRS's exemption framework: The Operation's Test.

When you review an organization's activities, you cannot ignore the IRS framework entirely (it determines the organization's survival as an exempt entity able to accept deductible charitable contributions). Recognize, however, that your analytical aims and the Service's differ:

- The IRS views the organizations' activities through the lens of the Code and Regulations' exempt qualification and regulatory criteria.
- You (probably) view the organization's activities through your perception that they are "right for the situation," and delivered efficiently and efficaciously.

"Cui Bono?"[28] is relevant to both viewpoints. You may want to go beyond that to ask: "How beneficial is it, really?" and "Is there a better way?"

The Service's position is, at one and the same time, extremely broad, ambiguous, and succinct to the point of terse:

> "An organization will be regarded as *operated exclusively* for one or more exempt purposes only if it engages primarily in activities that accomplish exempt purposes specified in section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities does not further an exempt purpose."[29]

You don't need to be Noam Chomsky or S.I. Hayakawa[30] to spot the issues this definition raises. Specifically, the lack of precision inherent in the terms "exclusive," "primarily," and "insubstantial." It has been left to the Courts, IRS policy and the Service's regulatory authority to provide meaning to the concepts.

Notwithstanding that attention, it is sometimes difficult to walk-back-the-cat on the Service's determinations. We can suggest avenues of inquiry:

- Does the organization generate or rely on "Earned Income" from services or goods they provide?[31]

  If so, how closely do the Organization's activities mirror commercial operations in the same field? The more the Organization's operations resemble commercial enterprises, the more likely the Service will treat them as non-exempt "primarily commercial" activities.

- Do the Organization's activities serve a public need, or do members, officers, and insiders reap most of the benefit from those activities?

  This is (probably) the most common reason that the Service denies, revokes, or reclassifies Organizations' exempt status. As we observe in the <<*Technical and Procedural Notes*>>, the

[28] "To whom is it a benefit?" A favorite among crime novelists and screenwriters – the concept remains useful outside that fictional context. First attributed to ancient attorney Lucius Cassius (by Cicero in *Pro Roscio Amerino).* Industrial sociologist Peter Blau used the term to differentiate organizations by whether they benefit owners, members, specific others, or general society. C.f. Blau, Peter, *Formal Organizations: A Comparative Approach*, Stanford Business Classics (1962). We use the phrase consistent with Blau's insight.

[29] Treas. Reg. §1.501(c)(3)-1(c)(1), quoted without attribution on https://www.irs.gov/charities-non-profits/charitable-organizations/operational-test-internal-revenue-code-section-501c3

[30] Noam Chomsky (now 92 years old) is sometimes called "the father of modern linguistics." He has authored more than 150 books on linguistics, war, politics, and mass media. S.I. Hayakawa (1906-1992), a linguist, psychologist, and semanticist, authored "*Language in Thought and Action,*" possibly the most popular and accessible treatise on general semantics ever written. Hayakawa served as President of San Francisco State University during student uprisings in 1968 through1969 and was a one-term Senator from California from 1977 to 1983.

[31] Reference: IRS Form 990, Part VIII, Lines 2, 6, and 7; If the Organization files a Form 990T, it merits special attention.

Service's determinations are fraught with subjectivity and frequently confusing. That, however, is not a reason to avoid asking yourself some of the same questions.

- Does the organization elide the distinction between how activities are accomplished, and their (charitable or exempt) purposes?

  Common example: Publishing information is not automatically either Educational or Religious. Publishing, by itself, is not an exempt purpose. Education and Religious instruction are.

- Is the Organization an activist: Do the organization's activities have overtly political ramifications? Does the organization devote an inordinate amount of money or time to those activities? Do they endorse or support candidates for office who share their views?

  Primary Source: IRS Form 990, Schedule C

  Observation: Almost everything charities or churches do has some political ramification; this inquiry is a question of degree and kind – not a yes or no proposition. Within limits, lobbying and political education are acceptable. Direct support or opposition to candidates is prohibited for IRC §501(c)(3) organizations.[32] It is quite common for organizations to engage in advocacy and "political education" that "bends without breaking" the distinction between advocacy, intervention, and lobbying. In fact, the Service has provided extensive resources to facilitate that tight-rope act.[33]

Here, we applied the Operational Test's criteria to the Organization's activities. Many of the issues we discussed have correlates when you evaluate the Organization's Governance, Finance, and Compliance efforts. We cover some of those issues and overlaps below.

Governance:

Primary Sources: IRS Form 1023 Parts V and VI; IRS Form 990, Parts VI and VII)
Organization documents: Articles, Bylaws, Corporate Minutes, Policy Statements and Protocols

It is often observed that "a fish rots from the head."[34]

When Organizations Fail, Leadership is often the root cause.

Before you provide substantial funding to an organization, determine whether the Organization's leadership helps or hinders its survivability, scalability, and sustainability. Many dynamic and charismatic Executive Directors and their staff have been undermined by lethargic or ineffectual Boards of Directors; and vice-versa. [35]

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[32] Reference: Particularly, IRS Form 990, Part IV, Lines 3 and 4, and IRS Form 990, Schedule C: For more detailed information regarding restrictions on lobbying and campaign participation, see our publication: *Electioneering and Lobbying by Exempt {IRC §501(c)(3)} Organizations: Principles, Guidelines, and Sources for Administrators and Directors*

[33] Revenue Ruling 2007-41

[34] The phrase is variously attributed or claimed. One of the earliest English language citations comes from Sir James Porter's *Observations on the religion, law, government, and manners of the Turks*, 1768.

[35] Hyperactive and "Helicopter" Boards are often just as bad, if not worse. Good Boards can also be undermined by weak, ineffective, or narcissistic officers, directors, or employees.

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When you (or your advisor) consider Governance issues, focus on fundamentals:

- Accountability and Ethics,
- Conflict of Interest,
- Investment Oversight
- Risk Management,
- Activity and Outcome-Performance Measurement,

For each of those fundamentals, ask:

- Does the Organization have established (written) policies and protocols that promote best efforts and practices around the issue? (Ask the Organization to share them with you.)
- Are the Organization's deliberations, decisions, and actions undertaken with deference to those policies and protocols?
- Are the Organization's deliberations, decisions, and actions documented, reviewed, and assessed? (Ask the Organization to share the assessments with you.)
- Does the Organization publicly disclose its deliberations, decisions, actions, and assessments (to the extent required and/or prudent)?

Written protocols, procedures, and standards, their use and application, and periodic reassessment are the core of governance assessments. Does the organization document:

- Accountability and Ethics

    - Articles, Bylaws, and Amendments
    - Accounting and Internal Controls Manual
    - Budgetary Planning, Approvals and Reviews (Generic and Project Specific)
    - Financial Report, Audit, and Review Criteria (Including Board Acceptance Protocols)
    - Document Retention and Destruction Policy
    - Code of Ethics and Professional Responsibilities
    - Diversity and Inclusion Plan and Training
    - Personnel Policies and Procedures (Including Standards re: Inclusion and Diversity)
    - Job Descriptions, Responsibilities, and Qualifications
    - Compensation Reviews and Authorizations
    - Board and Committee Minutes
    - Board Training and Orientation Program
    - Periodic ESG Analysis and Plan of Action

- Conflict of Interest

    - Conflict of Interest Policy
    - Whistleblower Policy
    - Annual Conflict Review (Documented in Board Minutes)

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- Investment Oversight
  - Investment Policy Statement
  - Investment Performance Review
  - Advisor, Custodian, and Consultant Review (Service, Ethics, and Investment Performance)
  - Gift Acceptance Policy
  - Joint Venture Policy
- Risk Management
  - Insurance Coverage – General Liability, Property, and Auto
  - Insurance Coverage – Officers and Directors
  - Indemnity and Hold Harmless Agreements
  - Disaster Recovery Plan
  - Cyber Security Plan
  - Regularly Maintained Accounting Including Ledgers, Subledgers, and Reports
- Activities and Outcome-Performance Measurement
  - Do Program Descriptions and Grant Applications include assessment criteria and an assessment schedule?
  - Program Outcomes and Assessments

Your concerns may encompass some or all dimensions of organizational governance. You may also be interested in things that didn't make our list.

The protocols we (and others) recommend that you review range the spectrum from "mandatory for legal or compliance purposes" through "recommended best practices" and "nice to have" to "not relevant to your organization." Further, each of those documents and protocols includes detail that covers the same spectrum. You may require counsel (legal, tax, accounting, insurance, property, etc.) to interpret meanings and to provide perspective or guidelines.

For more information on specific documents, their content, and its interpretation see our <<*Technical and Procedural Notes*>>

Finance:

Primary Sources:

IRS Form 990, Parts VIII through XII;
IRS Form 990, Schedules A, B, C, D, G, I, J, L, and M;
Organization Financial Statements, and
Notes to the Financial Statements (if those statements are Reviewed or Audited)
Comparative statistics from several sources

Accounting and Internal Controls Manual
Budgetary Planning, Approvals and Reviews (Generic and Project Specific)

With a few wrinkles, vetting an *Exempt Organization*'s financials is similar to vetting a commercial organization's financials. Broadly, review:

- The Audit Opinion Letter (If present):

  Ideally, the auditor's opinion is unqualified (the statements present fairly, the company's financial condition, position, and operations). This gives reasonable assurance that the statements are reliable and comparable to other organization's – in concept, at least.[36]

  Qualified opinions indicate relatively minor deviations from Generally Accepted Accounting Principles or minor audit Scope Limitations. The importance of any qualification depends on how you intend to use the reports.

  Adverse Opinions and Disclaimers of Opinion indicate significant departures from Generally Accepted Accounting Principles or significant audit Scope Limitations. Pay particular attention to Disclaimers! They often indicate significant Audit Scope limitations, material doubt about the company's going-concern status and uncertainties about the company itself.

- Are the organization's financial metrics within "healthy ranges?"

  Sources:
  Statement of Position (Balance Sheet), or IRS Form 990, Part X;
  Statement of Operations (Income Statement), or IRS Form 990, Parts VIII and IX; and
  Summarized IRS Form 990, Part I, Lines 8-22;
  Statement of Cash Flows (Financial Statements; No equivalent presentation on Form 990); and
  Statement of Functional Expenses IRS Form 990, Part IX;

  Not-for-profit (NFP) and for-profit long-term financial metrics (e.g., Solvency, Liquidity, Profitability, Return on Assets, Debt and Encumbrances) and their interpretation are similar. However, when analyzing NFP Statements and organizational resources, pay close attention to assets and income streams that are impaired by *Donor* restrictions. Generally, those assets are not available or convertible for use in current operations.

- Revenues and Funding

  Primary Sources: Statement of Revenue IRS Form 990, Part VIII: IRS Form 990, Part VIII; Form 990, Schedule A; Form 990, Schedule B; and Form 990, Schedule O

  Critical Issue:Do organizational revenues come from a diversified range of activities and sources?

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[36] An unqualified opinion is not, however an indication that "nothing is wrong." In particular, Generally Accepted Auditing Standards criteria are not designed to detect any but the most blatant frauds.

Most viable organizations receive the bulk of their support from contributed and program service (earned) income. Review several years of the organization's Form 990, Part VIII to identify significant variations in their revenue composition from year to year.

Ideally, there will be only minimal entries in Part VIII, Column C. If the Organization reports significant amounts of Unrelated Business Revenue, correlate the reported income with the Organization's IRS Form 990-T.

Be aware of several nonprofit tax and accounting conventions that affect your interpretation of the organization's income stream:

Membership Organizations and Organizations that provide episodic or "seasonal" services (e.g., most not-for-profit theatres) usually *Defer Income* from those services until the activity is actually executed (e.g., as the theatre's "season" progresses). Notes to the Financial Statements typically report the Organization's accounting method, the beginning and ending deferrals, and the amount of revenue recognized. The IRS follows similar principles: it departs from its general Constructive Receipt doctrine in recognition of the *Exempt Organization*'s fiduciary responsibility to its patrons. If the Organization does not defer pre-production program expenses, it becomes difficult to unravel its true balance sheet exposure and project performance without assistance from the Organization's personnel.

Organizations that rely heavily on volunteer services do not report the value of those services for tax purposes. Many Organizations do not even track them.[37]

Subject to a number of restrictions, reviewed or audited financial statements may include both a revenue and expense item related to volunteer services from a limited range of professions and circumstances.[38] This practice creates discrepancies between the Organization's IRS Form 990 and their audited or reviewed financial statements.

*Exempt Organization*s' accounting and reporting practices with respect to "In-Kind" donations vary substantially. Most such contributions are valued and recorded based on their *Fair Market Values*, but there seems to be a wide spectrum of opinion regarding what those values are. Further, inventory and collectibles may, or may not, be recorded to the financial statement

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[37] Earlier versions of Form 990 included an optional memo entry for the value of volunteer services. The current Form 990 requests only an estimated number of volunteers. (IRS Form 990, Part I, Line 6)

Exception 1: Organizations that operate thrift stores often track volunteer hours to substantiate the Organization's exemption from UBIT. These Organizations usually do not report those hours, or their value, for either tax or financial reporting purposes.

Exception 2: Organizations that maintain significant lobbying and advocacy programs and have not made the simplified reporting election under IRC §501(h) must track and report volunteer hours to substantiate their qualification under the "volunteer services" exception for lobbying activities. See our publication: *Electioneering and Lobbying by Exempt {IRC §501(c)(3)} Organizations: Principles, Guidelines, and Sources for Administrators and Directors* Organizations report campaign and lobbying expenses on IRS Form 990, Schedule C.

[38] See FASB 116 and 117. The value of volunteer labor is included in attested financial statements if the labor a) creates or enhances a nonfinancial asset, or b) The service requires specialized skills; is provided by individuals with those skills; AND the services would typically need to be purchased if not provided by volunteer donation. *Examples include services provided by doctors, lawyers, accountants, teachers, carpenters, and other craftsmen, professionals, or skilled persons acting in their skilled capacity.*

balance sheet (Statement of Position). A careful reading of the Notes to the Financial Statements may be necessary.

- Support Test

  Primary Source: IRS Form 990, Schedules A and B

  We (Steven Roy Management and Cambyses Financial Advisors) treat this verification as part of our revenue analysis. The support test considers the breadth and depth of an *Exempt Organization*'s public financial support. The test determines whether the organization is publicly supported (allowing *Donor* access to the most liberal charitable deduction rules) or private (subjecting *Donor*s to the most restrictive charitable deduction rules).

  Support Test computations can be messy – you may need to consult the Organization's tax representative to answer the basic questions:

  - Does the Organization satisfy the Support Test (IRS Form 990, Schedule A)
  - Will your contribution cause the Organization to fail the Support Test?
  - If so, do any of the statutory or customary exceptions apply?

- Expense Distribution and Allocation

  Primary Source: Statement of Functional Expenses IRS Form 990, Part IX

  Critical Question: Are program activities an organizational priority?

  There are no hard-and-fast rules-of-thumb in this arena (despite many assertions to the contrary).[39] There are, however, some obvious clues - If 60% of the organization's expenditures are for fund-raising, the organization probably isn't doing much else.

  Caution: Many organizations - particularly small, unaudited organizations - allocate expenses in a way that "looks good" on Form 990. When in doubt, ask how they allocate costs, joint costs and ambiguous indirect expense items. That inquiry may tell you a great deal about the organization and its values.

  Critical Question: Are expenditures for entertainment, travel, executive salary, and benefits, within reasonable bounds?

  High expenses in these categories – particularly if they are allocated to Administrative or Fundraising – may indicate that the organization is being exploited for personal benefit.

[39] Bear Pet Peeve: The most often repeated formula: 80-90% program expenditures, 10-20% Administration and Fundraising Expenditure is, simply and bluntly, idiotic. It is a recipe for organizational failure. It leaves little or no room for organizational growth, scaling, or stability. It habitually underestimates the basic cost of doing business. Nevertheless, it is enshrined in many grantors' thinking – and often included grant criteria and requirements.

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Supplement this analysis by referring to the Organization's IRS Form 990, Part VII - Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees, Section B. Independent Contractors, and Form 990, Schedules J and L. Be alert for compensation that is paid to insiders or their companies for non-program related expenses.
Grants and Stipends

If entries are present on Part IX lines 1-3 or 21, review IRS Form 990, Schedule B.[40] As with compensation, be alert to grants made to insiders, their companies, or their "favorite charities" for non-program related expenses.

Compliance:

Primary Sources: IRS Form 990, Parts IV or V, AND their State Return Equivalent

Compliance analysis focuses on a single question: Does the Organization file required federal and state tax returns and compliance documents on a timely and complete basis?

Often, that question can be answered by reviewing the Organization's IRS Form 990, Parts IV and V.

IRS Form 990, Part IV is structured so that a "Yes" answer indicates a federal return filing requirement. A quick scan of the return usually reveals whether the schedule is present and complete.

Qualified Organizations, almost without exception, file:

- *IRS Form 990, Schedule A: Public Charity Status and Public Support* They most often check Part I, Box 10. Parts II and III of the Schedule reveal "Support Test" information that may be critical if you make large contributions to the Organization.

- *IRS Form 990, Schedule B: Schedule of Contributors* Recent rule changes allow some Organizations to redact this information from their public disclosures.

The presence of some schedules may point to management and governance issues you (or your advisors) should examine more closely:

- *IRS Form 990, Schedule J: Compensation Information* conveys information about Directors, Trustees, Key Employees, and Highest Compensated Employees' compensation and how the Organization determines it.

- *IRS Form 990, Schedule L: Transactions with Interested Persons* provide information on financial transactions or arrangements between the organization and *Disqualified Persons* and other interested persons under IRC §4958.

[40] There are no rules-of-thumb in this arena (despite many assertions to the contrary). There are some obvious clues --- e.g., If 60% of the organization's expenditures support fund-raising, they probably aren't doing much else. A caution: Many organizations allocate expenses in a way that "looks best" on the Form 990. When in doubt, ask how they allocate joint costs and ambiguous items. That inquiry may tell you a great deal about the organization and its values.

Many Organizations also file:

- *IRS Form 990, Schedule C: Political Campaign and Lobbying Activity*
- *IRS Form 990, Schedule D: Supplemental Financial Statements* to report *Donor* advised funds, conservation easements, certain art and museum collections, escrow accounts and custodial arrangements, endowment funds, and supplemental financial information.
- *IRS Form 990, Schedule G: Supplemental Information Regarding Fundraising or Gaming Activities*
- *IRS Form 990, Schedule I: Grants and Other Assistance to Organizations, Governments, and Individuals in the United States*, and/or
- *IRS Form 990, Schedule M: Non-Cash Contributions*

You may find it difficult to directly verify the Organization's responses in IRS Form 990, Part V. Reporting, in this context, often reveals personal private information (about employees and contractors) that the Organization is reluctant (or prohibited) to reveal.

Due Diligence: Efficacy and Efficiency

How you measure and perceive organizational efficacy and efficiency depends, in the end, on your goals as a *Donor*. An effective organization delivers expected results on issues that matter to you: hopefully – on time and with reasonable financial cost and personnel commitment.

This requires that you have a strong conception of what you want the organization to achieve, and measurable benchmarks that define success. It also requires that the organization accept and commit to achieving those goals.

Thus, the first criterion for evaluating organizational effectiveness: ***You and the organization share a clear and defined vision of the projects or organization's mission and purpose.*** For large projects, writing a check is not enough. You will work closely with the organization to define these purposes and goals.[41]

Effective organizations have the ability to deliver on their vision.[42] They can perform the essential functions required to fulfill their objectives: They

1. Communicate their vision and mission,
2. Engage and seek stakeholders' (including those who use their services) input to serve their target community appropriately,

[41] This principle is sometimes paraphrased; "If you don't know where you are going, how will you know when you get there." This paradigm was starkly exposed in President George W. Bush's "Mission Accomplished" speech from the aircraft carrier USS Abraham Lincoln on May 1, 2003: "In the battle of Iraq, the United States and our allies have prevailed." The war in Iraq continued for several years thereafter. Indeed, it is arguably continuing to this day, 18 years after our victory declaration.
[42] The phrase "If wishes were horses, then beggars would ride," comes to mind here.

3. Achieve results and track impact against a few key measures,
4. Manage an active and informed governance structure,
5. Secure resources appropriate to the Organization's and its stakeholders' needs,
6. Plan for the future, and
7. Making it part of the organization's culture to evolve programs and operations as it learns from stakeholders.[43]

Effective organizations have strong, written policies, protocols, and procedures that define finance, governance, and program development. They apply them rigorously but flexibly.

We touched on some elements of finance and governance above (*Due Diligence: Sustainability, Survivability, and Compliance*). Key criteria for evaluating the Organization's program and organizational development include:

- The Organization has, and uses, a strategic plan. They review and adjust the plan as necessary.
- Key staff refer to the strategic plan when they talk to you.
- The Organization seeks, welcomes, and can document regular client-beneficiary input for organizational program improvement.
- Other organizations doing similar work speak highly of the organization.
- The Organization's Staff can articulate key accomplishments, lessons learned, and future directions.
- The organization is recognized as an institution; it is not identified solely with one or two individuals who work there.
- The organization documents and demonstrates measurable outcomes.

Effective Organizations attract and retain Effective People.

Effective organizations are critically dependent on dedicated, qualified, skilled, and talented Board members, Staff, and Volunteers. An organization that lacks the resources and know-how to recruit and train them suffers accordingly! People are key to the organization's performance – get to know them before you make a substantial commitment.[44] Support organizations that support their Board, Staff, and Volunteers.

Effective Organizations mobilize and motivate others.

Effective Organizations mobilize, engage, and motivate volunteers, other nonprofits, businesses, and government agencies to bring about long-term change. They build awareness and support from key audiences and bring more people and resources to the table to effectuate change. Prerequisites to that include:

- Staff that is skilled at working with government or advocating for change
- Willingness to partner with businesses and other not-for-profit organizations to stretch their influence
- Capacity to inspire and engage volunteers and constituents/members as passionate partners and spokespersons

[43] Extracted from "*How Effective Nonprofits Work*" United Philanthropy Forum
[44] Bear's Pet Peeve: Classic financial metrics, e.g., the 80:20 rule-of-thumb ratio of program expenses to administrative and fundraising expenses, tells only a small part of a much bigger story. Recruiting, training, retaining, and supporting board, staff, and volunteers requires a substantial investment that may not be consistent with rule-of-thumb presuppositions.

- Willingness to regard other *Exempt Organization*s as allies not competitors and to partner with them as appropriate
- Commitment to sharing leadership responsibilities with staff, volunteers, and constituents/members to empower more people for more impact.

Share your expertise and abilities: relieve the organization from some of its burden!

There are few, if any, organizations that meet all the criteria of Effective Organizations.

Many nonprofits suffer cash flow problems; have poorly developed finance, management, and fundraising systems; and inadequately trained board and staff who lack essential skills.

New or younger organization whose work you admire will not yet have all the appropriate practices, procedures, and policies.

If you are open to strengthening organizations aligned with your goals, opportunities emerge for the organization and for you as a *Donor*.

Theory and practice:

There are literally dozens of treatises and articles that consider organizational effectiveness. Here are a few we have found most useful:

Practical Applications:

How Effective Nonprofits Work, United Philanthropy Forum; Marcia Festen and Marianne Philbin. GivingGreaterChicago & New Ventures in Philanthropy

Forces for Good, The Six Practices of High-Impact Nonprofits; Leslie Crutchfield and Heather McLeod Grant. Jossey-Bass, 2008.

Nonprofit Lifecycles: Stage-Based Wisdom for Nonprofit Capacity; Susan Kenny Stevens. Stagewise Enterprises, Inc., 2001.

Efficient Organization Theory:

Managing stakeholder relationships and nonprofit organization effectiveness. Balser, D., & McClusky, J. (2005); Nonprofit Management and Leadership, 15(3), 295-315.
The Source: Twelve Principles of Governance that power exceptional boards. BoardSource. (2005):

Nonprofit Organizational Effectiveness: Practical Implications of Research on an Elusive Concept. An Occasional Paper Issued by the Midwest Center for Nonprofit Leadership, Herman, R. D., & Renz, D. O. (2002)

The nonprofit board's role in planning and evaluation. *Book Seven of the BoardSource Governance Series*; Yankey, J. A., & McClellan, A. (2003).

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