Score Better
Demystifying Charity Navigator Ratings

Charity Navigator

A Special Presentation for Armanino Clients

armanino
Poll

How have you used Charity Navigator before?

A) I use it regularly
B) I used it occasionally
C) I have never used it
D) I have never heard of it.. am I at the right webinar?
About Charity Navigator

Our mission: Make impactful giving easier for all

We help more people turn their values, passions, and beliefs into meaningful change and impact.

- We provide the data, ratings, and advice that cut through the noise
- We support donors to make informed choices that turn intent into action
- We partner with nonprofits to define strategic objectives that matter to donors

There are more ways not just to believe, but to act.
# Who uses Charity Navigator?

<table>
<thead>
<tr>
<th><strong>Small Individual Donors</strong></th>
<th><strong>Foundations and Grant Makers</strong></th>
<th><strong>Institutional DAFs</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Every day donors who want to make sure they are giving to an effective, impactful &amp; trustworthy organization</td>
<td>Foundations of all sizes use as an initial due diligence screen</td>
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<tr>
<td>&quot;I will not donate to a charity unless they receive a 3 or 4 star on Charity Navigator&quot;</td>
<td>&quot;We use Charity Navigator as an initial screening tool when reviewing applications- if they are not a 3 or 4 star charity, they don’t move on&quot;</td>
<td></td>
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<tr>
<td>- Debbie who gives $5-10K per year</td>
<td>- Foundation Program Officer</td>
<td></td>
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<tr>
<td></td>
<td>&quot;I provide giving recommendations to high net worth individuals. A lot of my research is on Charity Navigator&quot;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- DAF advisor</td>
<td></td>
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</tbody>
</table>
Who is rated?

- Any 501(c)(3) organization that has filed 3 consecutive years of IRS Form 990
- Must be the full 990, not a 990-N, or 990-PF
- ~177,000 organization are rated
Poll

Is your organization scored on Charity Navigator?

☐ Yes
☐ No
☐ I need to check

Go to charitynavigator.org and search for your organization
The basics of our ratings
Providing guidance through beacons

Our Encompass Rating System provides a comprehensive analysis of charity performance across four key domains, which we call "beacons."

Impact & Results
Find out how much benefit the charity’s program(s) achieve relative to the cost required to run it.

Accountability & Finance
Find out if the charity is accountable, transparent, and financially efficient and sustainable.

Leadership & Adaptability
Find out if the charity has the leadership capacity, strategic plan, and ability to adapt or respond to changing circumstances in order to better achieve its mission.

Culture & Community
Find out if the charity implements practices that strengthen its overall organizational health and is responsive to its beneficiaries.

Our ratings are informed through close collaboration with our Nonprofit Expert Group and Consultative Council of Nonprofit Leaders.
Understanding a Charity Rating: What does it mean?

This is a four-star charity with a 93% overall rating:
They have earned two beacons:
- Accountability & Finance
- Leadership & Adaptability
These individual beacon scores are combined* to create the aggregate score.

This is a three-star charity with a 87% overall rating:
They have earned four beacons:
- Accountability & Finance
- Leadership & Adaptability
- Impact & Results
- Culture & Community
These individual beacon scores are combined* to create the aggregate score.

*We use a weighted average of beacon scores to create the overall numeric score.

Pro-Tip: Our donors say that they would rather donate to a “complete” rating that one with just 1 or 2 beacons, even if it is a lower overall score.
Where do we get our data?

**IRS**
IRS provides data via regular data transfer

**Charities**
Staff at charities share information about the organizations they represent

**Data partners**
Partners share data that they have collected about nonprofits

Charities can access update their ratings and profiles by visiting charitynavigator.org/portal.
Accountability & Finance (32.5%)

You can see the metrics on the nonprofit’s profile page.

All metrics refer to the items on your Form 990 or website and are considered best practices in the field.

Pro Tip:

Review your 990 carefully prior to submission to make sure you are accurately representing your organization’s financial information, policies and practices.

You can upload your PDF 990 on our portal!
Two Parts of the Accountability & Finance Score

Accountability (up to 17 metrics*)

Governance
- Board independence, policies and practices

Policies
- Policies around COI, whistle blowers, CEO compensation

Transparency
- Key staff, board and financials on the website

Finance (Up to 7 metrics)

All
- Program Expense Ratio (All)
- Liabilities to Assets (all)

>$1 million and 40% funded by individual donors
- Working Capital Ratio
- Fundraising Efficiency
- Admin Expense Ratio, Fundraising Expense Ratio and Program Expense Growth

* Note: The accountability metrics vary by size
More on Financial Metrics

**Average Program Expense Percentage =**
- Average Program Expenses \div Average Total Expenses
- (When Calculating Using Form 990) = Average of Part IX line 25B \div Average of Part IX line 25A

**Liabilities to Assets Ratio =**
- Total Liabilities \div Total Assets
- (When Calculating Using Form 990) = Part X line 26 \div Part X line 16

**Working Capital Ratio =**
- Working Capital \div Average Total Expenses.
- (When Calculating Using Form 990) = (Part X line 27 + Part X line 28) \div Average of Part IX line 25A

**Average Fundraising Efficiency =**
- Average Fundraising Expenses \div Average Total Contributions
- (When Calculating Using Form 990) = Average of Part IX line 25D \div Average of Part VIII line 1h

Financial Metrics are the average of 3 990s
Passing thresholds vary by cause and size
Governance

- Governance metrics are taken from:
  - Part I: Summary
  - Part IV: Checklist of Required Schedules
  - Part VI: Section A Governing Body and Management, Section B Policies
  - Part XII: Financial Statements and Reporting

- Most common reason an organization is scored poorly:
  - Board is not majority independent
  - Didn't indicate an Audit
  - Didn't indicate a COI or a whistleblower policy

Section A. Governing Body and Management

1. The number of voting members of the governing body is at the end of the tax year.
2. Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?
3. Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors, trustees, or key employees to a management company or other person?
4. Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?
5. Did the organization become aware during the year of a significant diversion of the organization's assets?
6. Did the organization have members or stockholders?
7a. Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?
7b. Are any governance decisions of the organization (e.g. subject to approval by) members, stockholders, or persons other than the governing body?
8a. Did the organization operate consistently, document the meetings held or written actions undertaken during the year by the following:
   - Section A Governing Body?
8b. Each committee with authority to act on behalf of the governing body?
8c. Any other officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address?

Section B. Policies

- The organization is required to file policies not required by the Internal Revenue Code.

- Policy 10a: Did the organization have local chapters, branches, or affiliates?
  - Yes: 10a. If "No," go to line 13.
  - No: go to line 13.

- Policy 11a: Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?
  - No: go to line 13.

- Policy 12a: Did the organization have a written conflict of interest policy?
  - No: go to line 13.

- Policy 13a: Did the organization have a written whistleblower policy?
  - No: go to line 13.

- Policy 14a: Did the organization have a written document retention and destruction policy?
  - No: go to line 13.

- Policy 15a: Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the determination and decision?
  - Yes: 15a. If "No," go to line 13a.
  - No: go to line 13a.

- Policy 16a: Did the organization's CEO, executive director, or top management official?
  - Yes: 16a. If "No," go to line 13a.
  - No: go to line 13a.

- Policy 17a: Did the other officers of the organization?
  - Yes: 17a. If "No," go to line 13a.
  - No: go to line 13a.
Deep Dive on Leadership & Adaptability (7.5%)

- Measured by a quick text and multiple choice-based survey in the Nonprofit Portal.
- Full credit for completion at this point.
- Earning this beacon can add 1-2 additional points to your score.

Pro Tip:
Create a Nonprofit Portal Account at charitynavigator.org/portal to earn beacons.
Deep Dive on Culture & Community (10%)

- Scored based on the completion of the **How We Listen and Equity Strategies Survey** in Candid profile
- Organizations receive full credit for completing the **How We Listen survey**
- Score for **Equity Strategies** depends on the number of practices checked (more is better)
- Earning this beacon can add 1-2 additional points to your score

Pro Tip:

You can navigate right to Candid from the Culture & Community tab of the nonprofit portal [www.charitynavigator.org/portal](http://www.charitynavigator.org/portal)
More on Culture & Community

Equity Strategies Checklist

- Asks about 14 questions on adoption of best practices in equity
  - Data related question about capturing and analyzing data staff and beneficiaries demographic data
  - Policies related questions about board and staff diversity, inclusive leadership, & ongoing equity

Constituent Feedback

Sample questions:
- Does your organization collect feedback?
- How is your organization collecting feedback?
- How is your organization using feedback from the people you serve?
- Which of the following feedback practices does your organization routinely carry out?

Both are collected on Candid
Deep Dive on Impact & Results (50%)

Impact & Results
- Score calculated based on nonprofit submitted data on program outcomes and program expenses
- Created measure of cost effectiveness. Possible scores are Highly Cost Effective, Cost Effective, and Not Cost effective.
- Earning this beacon can potentially dramatically affect points to your score
- Limited eligibility at this time (Program areas to the left). No deduction if you are not eligible.
- Data is submitted via our Nonprofit portal

Pro Tip:
If you are eligible for an Impact & Results score, review the data elements and their definitions in the questionnaire prior to submitting your information in the portal.
www.charitynavigator.org/portal
Submitting I&R data

Example: Reforestation

Asks for outcomes and timeframes + Program costs
Weighting of beacons will depend on the number earned

Earning additional beacons is not mandatory at this time; however, they can bolster overall ratings in the unified system and increase visibility on our platform. Weighting of beacons depends on how many and which ones. To see all of the permutations, visit https://www.charitynavigator.org/encompass
## Scoring

Eligible charities receive a zero to four-star star rating — this is determined by the weighted sum of the organization's individual beacon scores (0-100).

<table>
<thead>
<tr>
<th>Rating</th>
<th>Score</th>
<th>Assessment</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>☜ ☞ ☞ ☞</td>
<td>90+</td>
<td>Great</td>
<td>Exceeds or meets best practices and industry standards across almost all areas. Likely to be a highly-effective charity.</td>
</tr>
<tr>
<td>☜ ☞ ☞ ☞</td>
<td>75 - 89</td>
<td>Good</td>
<td>Exceeds or meets best practices and industry standards across some areas.</td>
</tr>
<tr>
<td>☜ ☞ ☞</td>
<td>60 - 74</td>
<td>Needs improvement</td>
<td>Meets or nearly meets industry standards in a few areas and underperforms most charities.</td>
</tr>
<tr>
<td>☜ ☞ ☞</td>
<td>50 - 59</td>
<td>Poor</td>
<td>Fails to meet industry standards in most areas and underperforms almost all charities.</td>
</tr>
<tr>
<td>☜ ☞ ☞ ☞ ☞</td>
<td>&lt; 50</td>
<td>Very poor</td>
<td>Performs below industry standards and well underperforms nearly all charities.</td>
</tr>
</tbody>
</table>
How can you maximize your rating on Charity Navigator?

**Step 1: Review your Accountability & Finance**

If your organization is new to Charity Navigator, it is likely that the only score you have is based on your Accountability & Finance Beacon Score. Review that section of your score to find areas you can improve.

**Step 2: Create a Nonprofit Portal Account & Submit additional data**

You can earn additional beacons by submitting data via our nonprofit portal. Earn your Leadership & Adaptability Beacon & (when eligible) your Impact & Results Beacon.

- Upload your 990
- Complete your Leadership and Adaptability Survey
- Check for Impact & Results Eligibility

**Step 3: Complete your Candid Profile**

Earn your Culture & Community Beacon by completing your Candid Profile.
Is this worth it? Yes

Charity Navigator prioritizes 3-4 stars with two or more beacons in our search and on our Curated Lists.

Our internal analysis shows that:
- Organizations receive ~ an additional $250 per year for every beacon they complete.
- Being on a Where to Give Now lists translates to as much as $20,000.
- Being on the Perfect Charities list results in ~$4000 additional donations per year.

Researcher Jennifer Mayo found “an increase in a charity’s rating from 3- to the highest 4-star rating is associated with a 6% rise in contributions, with larger effects among smaller charities.”
Source: Navigating the Notches: Charity Responses to Ratings (2021)
Get started by going to the Nonprofit Portal

www.charitynavigator.org/portal

1. Create a **Nonprofit Portal** account
2. Complete any necessary steps to earn additional beacons
3. If your organization is three or four-stars, **download your ratings toolkit**
4. **Brag** about your rating to donors on your website and on social media
Thank you!
Case Study: Hope for Haiti