

NON-PROFIT NEWS

Charity watchdog changes rating system

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Nonprofit watchdog Charity Navigator has unveiled a more in-depth rating system as part of a plan to move beyond evaluating charities solely on their financial performance. The new system will place equal weight on a charity's governance and openness about its operations as it does on financial information.

As a result of the ratings change, fully half the charities evaluated (more than 2,700) received new star ratings. Donors can now determine which charities have "best practices" that minimize the chance of unethical activities and whether they freely share basic information about their organization to their donors and other stakeholders, along with the traditional Charity Navigator matrices.

Charity Navigator's evaluations of a charity's financial health examine how a charity manages its finances day to day and how financially well-positioned it is to sustain its programs. The new Accountability & Transparency dimension will track metrics such as whether the charity used an objective process to determine its CEO's salary, whether it has an effective governance structure and whether it has a whistleblower policy.

As a result of the new scoring system:

- Half of the nearly 5,500 charities received new star ratings
- 30% of the charities' star ratings improved
- 19% of the charities' star ratings decreased
- With the bar set higher, the total number of 4-star charities decreased by 20%.
- At the same time, charities with ratings of 3 stars (good) or better increased by 8%.



Ken Berger, Charity Navigator's president, said the new system would give donors a clearer picture of how charities are managed and nudge nonprofits toward improving their governance practices.



Facebook updates could give non-profits better visibility

Facebook is making big changes in how it organizes and displays information about people who create profiles on the site. And nonprofits stand to benefit from the new format.

Until now, Facebook, by far the world's largest social network, has organized information on a person's profile pages in reverse chronological order. When a charity supporter posted a status update or a volunteer "liked" a posting or shared content from elsewhere online, that item was displayed at the top of the profiles. As soon as other items went up, though, the charity reference would get lost on the page.

But Facebook recently said it will roll out a different format that will rely heavily on algorithms to decide what gets the most attention on a profile page. The change will also provide smoother integration with applications like Causes, a fund-raising tool many charities use.



"Charities now are charged 26% less, on average, than businesses..."

Low Postage for Non-Profits Preserved

Fund raisers and nonprofit leaders breathed a sigh of relief recently when four senators introduced a new bill that would, in effect, preserve low postage rates for charities.

The measure has bipartisan sponsors: Republicans Scott P. Brown of Massachusetts and Susan M. Collins of Maine, plus Thomas R. Carper, a Delaware Democrat, and Joseph Lieberman, independent of Connecticut.

Because of that broad reach, lobbyists say the measure has better chances than another bill that Sen. John McCain, the Arizona Republican, proposed to phase out nonprofit postage rates. Similar legislation was introduced in the House by Rep. Darrell Issa, a California Republican. All of the bills are primarily designed to deal with the postal service's deficits.

Charities now are charged 26 percent less, on average, than businesses when they send fund-raising appeals and other mass mailings to donors.

If the bills by Mr. McCain and Mr. Issa were passed, the implications for charities could be harsh.

For example, the American Lung Association has estimated that postage for its direct-mail appeals, which raise some \$31-million annually, would nearly double, to \$12-million over the next few years under Mr. Issa's proposal.

Lobbyists for nonprofit mailers say they don't expect any action to be taken soon.

Volunteer Value Increases

The 2010 estimate for the value of a volunteer hour reached \$21.36, an increase from \$20.85 per hour in 2009, according to Independent Sector, a national advocacy organization in Washington, D.C. The valuation of volunteer time provides one way to measure the impact millions of individuals make with each hour they dedicate to make a difference, according to Independent Sector.

The highest value of volunteer time in 2009 was \$32.79 in Washington, D.C. The lowest was Montana at \$14.89. The rate was \$11.31 in Puerto Rico and \$15.88 in the Virgin Islands, according to Independent Sector. Ohio ranks in the middle at \$18.54.





Form 990 – Friend, not Foe

Many non-profit leaders regard the federal Form 990 to be an additional paperwork burden that has become increasingly complex and requiring more resources than ever to complete. However, as many of you know, I am a strong advocate for using Form 990 to tell the organization's story, present its many accomplishments and serve as a marketing tool.

Following is a sample of the opportunities for a positive image to emerge from Form 990:

--- Page 1, Description of mission or significant activities. Consider a comprehensive but succinct statement that describes your significant programs, activities and accomplishments.

--- Page 2, Line 1, Mission Description. This may be an ideal place for your mission, vision and values statement as long as it is different from what was provided on Page 1.

--- Page 2, Line 4, Programs. Many organizations lump all of these programs into one section. I suggest listing all of your major programs individually, identifying their accomplishments and outcomes. A word of warning, this approach will also require you to allocate programming costs to each of these activities

--- Part VI, Governance, Management and Disclosure. Family or Business Relationships. If you have them, be sure to describe them in Schedule O. If there are too many, consider the impact this will have on a reader. Documentation of board meetings: A must. Not having minutes is a sure sign of poor governance.

--- Part VIII, Statement of Revenue. Program service revenue: Consider breaking out your programming revenues into major components instead of lumping together.

--- Part IX, Statement of Functional Expenses. This is perhaps one of the most important schedules on Form 990. This schedule demonstrates the "efficiency" of an Organization with regard to how much of each dollar goes toward programming, administration and fundraising. If total programming expense is 85% of total expenses than an Organization can advertise that 85 cents of every dollar is spent on the accomplishment of programming objectives. It goes without saying that typically donors would prefer more of their dollars go toward program accomplishments than toward administering the Organization or raising additional funds. Allocating direct programming costs is usually straightforward. It is the allocation of indirect costs that benefit multiple programs or administration and fundraising that often present the challenge. Organizations can use an array of methodologies to allocate such costs such as square footage and time studies.

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IMPORTANCE OF INTERNAL CONTROLS

There has been an elevated importance placed on effective internal control and whistleblower policies since Enron, MCI Worldcom and the creation of Sarbanes-Oxley. But has it made a difference? Consider the following:

- In the past 12 years, the percentage of fraud cases found by internal controls has grown by 25%.
- In 1996, just 2% of fraud was found by external audit, 18% by internal audit or controls, 30% by tips and 50% by accident.
- By 2008 the percentages had changed to the following: 9% was found by external audit, 25% by internal audit or controls, 46% by tips and 20% by accident.

ABOUT OUR ORGANIZATION...

Crum, Buchanan & Associates is a full-service Certified Public Accounting Firm. The firm has a specialty non-profit group headed by Kevin Crum, CPA. This group serves non-profit organizations throughout Northeast Ohio including those in social services, healthcare, performing and visual arts, housing, religious organizations, political organizations, member organizations, business associations and many others. The firm provides a full-range of services to the non-profit sector including tax, audit (including A-133 and HUD), application for exemption, accounting, payroll services, internal control evaluations and consulting. We bring value to an organization across a broad range of areas from our extensive experience in the non-profit industry.