

THE CHALLENGE

Maria wants to donate \$500 to an environmental charity but is torn between two organizations: EcoAction (82% to programs, local focus, limited impact data) and Green Planet Alliance (75% to programs, global policy focus, detailed impact reports). She also received a suspicious phone call from "Children's Cancer Relief Fund" requesting an immediate credit card donation. How should she evaluate these organizations and protect herself from fraud?

How can you ensure your charitable donations have maximum positive impact while avoiding fraudulent organizations?

Learning Objectives

- Understand the importance of researching charitable organizations before donating.
- Evaluate transparency and financial health of nonprofit organizations.
- Apply the PACED decision-making model to compare charitable organizations.
- Use charity evaluation tools to assess organization effectiveness.
- Identify red flags that may indicate fraudulent charities.

CORE CONCEPTS

Term	Definition
Transparency	The extent to which an organization provides clear information about operations, finances, and impact.
Program Expense Ratio	Percentage of funds that go directly to programs vs. administrative and fundraising costs.
Form 990	IRS tax form nonprofits file annually; provides financial information and executive compensation.
PACED Model	Decision framework: Problem, Alternatives, Criteria, Evaluate, Decide.
Administrative Costs	Expenses for management and operations (not direct program services).

Background: Not all charities operate with equal effectiveness. Some allocate large portions to administrative costs, while others may be outright scams. Charity evaluation tools (Charity Navigator, GuideStar, BBB Wise Giving Alliance, CharityWatch) help you research organizations before donating. Red flags include pressure for

immediate donations, names similar to well-known organizations, lack of financial transparency, and inability to provide tax ID numbers.

APPLY IT

PART A: CHARITY EVALUATION TOOLS

Match each evaluation tool with its primary function.

Evaluation Tool	Primary Function
Charity Navigator	Star ratings based on financial health, accountability, transparency
GuideStar	Access to nonprofit Form 990 tax documents
BBB Wise Giving Alliance	Evaluates against 20 accountability standards
CharityWatch	Grades based on financial efficiency, highlights concerns

PART B: PACED DECISION-MAKING

Apply the PACED model to Maria's decision between EcoAction and Green Planet Alliance.

Comparison Data

Factor	EcoAction	Green Planet Alliance
Program Expense Ratio	82%	75%
Focus Area	Local river cleanup	Global policy & education
Impact Measurement	Limited data	Detailed reports
Years Operating	15 years	8 years
Financial Health	Strong	Moderate

1. Using PACED, which organization would YOU choose and why? (There's no single right answer.)

PART C: RED FLAGS IDENTIFICATION

2. List FOUR red flags that should make you suspicious of a charitable organization.

Hint: Consider: pressure tactics, information availability, name similarity to known organizations, and verifiable tax-exempt status.

CHECK YOUR UNDERSTANDING

1. What does a "program expense ratio" measure?

- ☐ A. How much an organization spends on fundraising
- ☐ B. The percentage of funds going directly to programs vs. overhead
- ☐ C. Executive compensation levels
- ☐ D. Total annual revenue growth

2. Which is NOT a legitimate reason to be suspicious of a charity?

- ☐ A. They pressure you for immediate donations
- ☐ B. Their name is similar to a well-known organization
- ☐ C. They have been operating for only 3 years
- ☐ D. They cannot provide proof of tax-exempt status

3. What information can you find in a nonprofit's Form 990?

4. Why might a charity with 75% program expense ratio still be a good choice over one with 85%?

5. Reflection: You receive a phone call asking for an immediate donation to "American Cancer Fund." What steps would you take before deciding whether to donate?
