

# Comprehensive Charity Evaluation Guide

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**PFL Academy - Chapter 14.2: Checking Out Charitable Groups**

## Introduction

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This guide provides a systematic approach to researching and evaluating charitable organizations. By following these steps, you can make informed decisions about which organizations to support with your time, money, or other resources.

### Why Evaluate Charities?

Thorough evaluation ensures your donations have the greatest possible impact, aligns your giving with your values, and helps you avoid fraudulent or ineffective organizations.

## Step 1: Define Your Charitable Priorities

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Before researching specific organizations, clarify your personal giving priorities:

### Values Assessment

1. What causes or issues are most important to you?
2. Do you prefer to support local, national, or international efforts?
3. Are you more interested in immediate relief or long-term solutions?
4. How important is it that the organization aligns with your religious, political, or social values?

## Initial Criteria Development

Based on your values, develop initial criteria for evaluating organizations:

- Mission alignment with your priorities
- Geographic focus
- Approach to problem-solving
- Organizational structure and philosophy

## Step 2: Research Potential Organizations

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### Finding Organizations

- Use charity directories like Charity Navigator, GuideStar, or GiveWell
- Search by cause area or geographic region
- Consider recommendations from trusted sources
- Look for organizations addressing your priority issues

### Initial Information Gathering

For each potential organization, gather basic information:

- Full legal name and tax ID number (EIN)
- Mission statement and program descriptions
- Year founded and organizational history
- Leadership structure and key staff
- Size (annual budget, number of employees)

# Step 3: Evaluate Financial Health and Transparency

## Financial Metrics

Analyze these key financial indicators:

Metric	Calculation	What It Measures	General Guidelines
Program Expense Ratio	$\text{Program Expenses} \div \text{Total Expenses}$	Percentage of spending that goes directly to programs	70% or higher is generally good
Fundraising Efficiency	$\text{Fundraising Expenses} \div \text{Total Contributions}$	Cost to raise \$1 in donations	\$0.35 or less to raise \$1 is efficient
Working Capital Ratio	$\text{Liquid Assets} \div \text{Annual Expenses}$	Months of operations that could be sustained without new income	3-6 months is typically healthy
Administrative Expense Ratio	$\text{Administrative Expenses} \div \text{Total Expenses}$	Percentage spent on overhead and management	Less than 15% is often considered efficient

### Important Note:

Financial metrics alone don't tell the whole story. Context matters! Newer organizations, those working in challenging environments, or those with complex missions may have different expense patterns. Always consider these metrics alongside effectiveness and impact.

## Transparency Indicators

Assess organizational transparency by checking for:

- Publicly available financial statements and annual reports
- Clearly identified board members and key staff
- Detailed information about programs and their outcomes
- Accessible and complete Form 990 tax filings
- Willingness to answer questions about operations and finances
- Clear explanation of how donations are used

## Step 4: Assess Program Effectiveness and Impact

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### Outcome Measurement

Effective organizations can demonstrate their impact. Look for:

- Clear, measurable goals for programs
- Specific outcomes and results, not just activities
- External evaluations or studies of effectiveness
- Evidence-based approaches to achieving their mission
- Thoughtful metrics that go beyond simple outputs (e.g., number of people served) to measure actual change

### Questions to Consider

- Does the organization clearly articulate what success looks like?
- Can they provide specific examples of their impact?
- Do they acknowledge challenges and lessons learned?
- How do they compare to other organizations addressing the same issue?
- Is their approach backed by research or best practices in the field?

## Step 5: Verify Legitimacy and Identify Red Flags

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### Legitimacy Verification

- Confirm tax-exempt status through the IRS Tax Exempt Organization Search
- Check state charity registration (requirements vary by state)
- Verify accreditation with the BBB Wise Giving Alliance or other oversight bodies
- Look for independent reviews or ratings from charity evaluators

### Red Flag Checklist

- ☐ Pressure tactics for immediate donations
- ☐ Unwillingness to provide detailed information about programs or finances
- ☐ Name similar to well-known organizations but slightly different
- ☐ No verifiable physical address or contact information
- ☐ No information about leadership or governance structure
- ☐ Lack of specific program descriptions or measurable outcomes
- ☐ Inability to provide tax ID number or proof of tax-exempt status
- ☐ Excessive administrative or fundraising costs without explanation
- ☐ Dramatic financial fluctuations without clear reasons
- ☐ Recent scandals, lawsuits, or regulatory actions

## Step 6: Make Your Decision Using the PACED Model

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The PACED decision-making model provides a structured approach to comparing charitable organizations:

PACED Step	Application to Charity Evaluation
Problem	Define the cause or issue you want to support with your charitable giving.
Alternatives	Identify multiple charitable organizations addressing your chosen cause.
Criteria	Establish what matters most to you (financial health, program effectiveness, etc.).
Evaluate	Compare each organization against your criteria using the research steps above.
Decide	Choose the organization(s) that best align with your priorities and values.

## Decision Worksheet

For each organization you're considering, summarize your findings:

1. **Organization Name:** \_\_\_\_\_
2. **Mission Alignment:** (How well does it match your priorities?)
3. **Financial Health:** (Program ratio, fundraising efficiency, etc.)
4. **Transparency:** (Availability of information)
5. **Impact:** (Evidence of effectiveness)
6. **Legitimacy:** (Verification results, any red flags)
7. **Overall Assessment:** (Would you support this organization?)

## Step 7: Ongoing Monitoring and Engagement

After making your donation, continue to evaluate the organization:

- Sign up for newsletters and annual reports
- Review updated financial information yearly
- Track program outcomes and organizational changes
- Stay informed about developments in the cause area
- Consider deepening your engagement through volunteering or advocacy

**Beyond Money:**

Remember that charitable support can include more than financial donations. Consider volunteering, offering professional skills, advocacy work, in-kind donations, or raising awareness about the cause.

## Additional Resources

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### Charity Evaluation Tools

- Charity Navigator ([charitynavigator.org](http://charitynavigator.org))
- GuideStar by Candid ([guidestar.org](http://guidestar.org))
- BBB Wise Giving Alliance ([give.org](http://give.org))
- CharityWatch ([charitywatch.org](http://charitywatch.org))
- GiveWell ([givewell.org](http://givewell.org))

### Verification Resources

- IRS Tax Exempt Organization Search: [apps.irs.gov/app/eos/](http://apps.irs.gov/app/eos/)
- State Charity Registration Databases: [nasconet.org/resources/state-government/](http://nasconet.org/resources/state-government/)
- Federal Trade Commission Charity Resources: [consumer.ftc.gov](http://consumer.ftc.gov)

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