

How Charities Can Position Themselves Ahead of the Impact Ratings Curve

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According to recent surveys conducted by [Give.org](https://www.give.org), 60% of respondents rate the importance of trusting a charity before donating as essential. While 33% of donors rate charity impact information as being very important to their giving, another 50% admit to not fully knowing what this means.

Among the many words that tens of thousands of charitable organizations use on their websites, on IRS Form 990 (the 990) filings, in Candid (formerly GuideStar) profiles and elsewhere to demonstrate to donors that their contributions are well-spent are: measurement, effectiveness, goals, activities, efficacy, achievements, benefits, costs, output, outcome, change, results and impact. It is no wonder donors can become confused. So, let's try to gain some definitional clarity.

Results and Accomplishments

Most donors want their donations to produce results – but the characterization of “results” varies considerably. In 2010, the Stanford Social Innovation Review published “Getting Results: Outputs, Outcomes and Impact,” a framework that remains relevant today:

- **Outputs:** Activities performed by the nonprofit (e.g., the meals served by a soup kitchen are outputs).
- **Outcomes:** Observed effects of the outputs of the beneficiaries of the nonprofit (e.g., the degree to which the meals served by the soup kitchen reduce hunger in the population served by the soup kitchen).
- **Impact:** The degree to which the outcomes observed by a nonprofit are attributable to its activities (e.g., is reduced hunger solely attributable to the soup kitchen or is some other external effect also involved, such as an improved economy or new school lunch program?).

Generally, outputs are relatively easy to measure and are closely connected to financial data reported on the 990. Outcomes are more difficult to measure while Impact is very difficult to measure and goes well beyond financial data reported on the 990.

Nonprofits, grant makers and government partners are increasingly focusing on “outcomes” and “impact” rather than “outputs,” according to the National Council of Nonprofits. However, the 990 and instructions for Part III, Statement of Program Service Accomplishments, have not yet evolved to incorporate this shift.

A program service, as defined by the IRS, is an activity of an organization that accomplishes its exempt purpose. All organizations must describe their accomplishments for each of their three largest program services, as measured by total expenses incurred before the consideration of donated goods and/or in-kind services per the 990 instructions:

- Describe program service accomplishments through specific measurements (such as clients served, days of care provided, number of sessions or events held, or publications issued).
- Describe the activity's objective, for both this time period and the longer-term goal, if the output is intangible, such as in a research activity.
- Give reasonable estimates for any statistical information if exact figures aren't readily available and indicate that this information is estimated.

Candid Ratings: Seals of Transparency

On the other hand, Candid (GuideStar) has and continues to modify its rating levels. They receive IRS data and then charities can claim and manage their profiles, which are inclusive of their missions,

programs, strategies, etc. by disclosing a range of information in order to possibly improve their Candid Seals of Transparency (Bronze, Silver, Gold and Platinum).

The Platinum level was significantly realigned in 2021 to closely pair Outcome, Impact and Strategic Information with related metrics:

1. Charities are able to upload a strategic plan or else complete [Charting Impact](#) framework-related questions.
2. Charities determine and report several years' worth of relevant metrics including:
 - a. Inputs: What you invest (money, food, volunteer and staff time),
 - b. Outputs: What you do (serve meals, nutrition counseling),
 - c. Outcomes: What changes as a result (reduced hunger).

Of the approximately 325,000 filers of 990s that Candid rates, about 41,000 entities have provided sufficient information to merit the Bronze level or higher and roughly 9,000 (or 2.8%) meet the minimum requirements for the highest Platinum Seal level.

Charity Navigator: Encompass Rating System

Charity Navigator is provoking substantial evolution with the roll out of their Encompass Rating System. The Encompass Rating System is currently generating ratings on nearly 180,000 charities. After beginning 2022 using two ratings systems, Charity Navigator has plans to end the year with just one. As part of the Encompass System roll out, Charity Navigator acquired ImpactMatters.org and is leading the charge on generating impact ratings on charitable organizations. They have initially done so by calculating impact ratios (defined as benefits vs. costs) based on the 990, Part III Statement of Program Service Accomplishments, data for a small group of Encompass-rated charities.

The Impact & Results rollout has started, and there is a long way to go. To position at the front end of the Impact ratings curve, charities need to begin to identify and make information about outcomes and impact publicly available on places such as their website, the 990 (Part III), and the Candid Seal of Transparency.

The Time is Now

There is a risk in complacency, and here is why: a nonprofit receives a total of 0 out of 100 points if Charity Navigator is unable to find sufficient information to estimate the impact. Impact scores receive a 50% weight, so a charity would no longer be eligible for the "Give with Confidence" designation. Obviously, this can affect the amount of funding an organization receives. The good news is that organizations have control over the information upon which a third-party score is derived.

More Precise Scoring

There are many elements an organization can address which will not only help with scoring but strengthen their organization as well. A reevaluation of the allocation of functional expenses could be beneficial as the amounts expended through programs, management, general and fundraising provide insight as to an organization's focus. Often the allocation of certain expenses, such as salaries, is not always accurate. Rather than using management's estimate, a more precise breakdown and allocation may be beneficial. Some other examples of important financial data that may affect an organization's third-party score include:

1. Current assets and current liabilities (indicate the organization's ability to pay obligations in a timely manner),
2. Total liabilities and net assets without donor restrictions (indicate how much the organization is relying on funding from others, such as loans, payables and obligated funds),
3. The aging of receivables and accounts payable (can indicate potential cash flow issues),

4. Reliance on source(s) of income (provides an awareness of the risk of a major reduction in revenue if a significant source of income is reduced or stopped),
5. Change in net assets without donor restrictions and total net assets without donor restrictions (an indicator for planning and building reserves and valuable for analysis of trends).

Non-Data Driven Score Enhancement

Non-financial data reported on the 990 is an important component of the Encompass scoring framework. For example, the 990, Part IV, Checklist of Required Schedules, contains 38 questions, some with more than one part. Often, it would benefit an organization to answer a question differently if circumstances allowed. For instance: Question 13 asks, “Did the organization have a written whistleblower policy?” For some organizations, this policy may not be required, but a “No” answer, could lead to a three-point Encompass score deduction. Adopting a whistleblower policy, although perhaps not required, would be an opportunity to strengthen the organization while making a positive impact on third party scoring. The same thought process can be applied to other questions on the 990, and with minimal effort, improve Finance and Accountability scores.

Furthermore, programmatic information on the 990 is a substantial component in the determination of Impact Results scores. Rather than submit the same description year-to-year, consider having both the program director and marketing director review and update the narrative before filing the 990. Organizations that have a low rating or prepare the 990 internally should consider working with a proficient tax professional specializing in tax-exempt organizations. A specialist is familiar with the most appropriate responses to questions and can help identify areas for improvement to answer questions in a more favorable way.

Upward Bound

Rethinking the 990 and the information it includes provides organizations the opportunity to proactively position their messaging to explain the link between the activities they have traditionally reported, to the Outcomes that are intrinsic to their mission. This allows organizations to be ahead of the Impact Ratings curve and provides for a possible funding advantage that is likely to increasingly accrue.

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