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Accountability – How do Canadian Charities Perform?

David Lasby
Research Associate

Don Embulideniya
Research Associate

Media coverage suggests that there is considerable public interest in the practices and performance of Canada's nonprofit and voluntary organizations, particularly registered charities. A number of recent newspaper articles used financial information from the T3010 Registered Charity Information Returns, which registered charities are required to file with the Canada Customs and Revenue Agency (CCRA), to evaluate the performance of specific organizations. Since T3010 information for 2000 and 2001 is available on the CCRA's Web site (http://www.cca-adrc.gc.ca/tax/charities/online_listings/canreg_interim-e.html), it is important for organizations to understand how the financial information contained in their returns might be used by the media and the public to evaluate their performance.

Common Accountability Measures

American "watchdog" organizations, including the American Institute of Philanthropy (AIP), the Better Business Bureau – Wise Giving Alliance, Charity Navigator, and the Charities Review Council of Minnesota (CRC), have developed

various measures of financial efficiency that the media are starting to use to evaluate Canadian charitable organizations (see Table 1). As originally developed, these measures use information from the Form 990 Returns that American 501(c)3 organizations are required to file annually with the Internal Revenue Service, as well as information from

HIGHLIGHTS

- Almost all Canadian charities (96%) meet or exceed common American guidelines for fundraising expenses, devoting 25% or less of their total expenditures to fundraising activities.
- Most Canadian charities (92%) meet or exceed common American guidelines for fundraising efficiency, spending 35 cents or less to raise each dollar donated by the public.
- More than four in five Canadian charities (81%) meet common American guidelines for spending on administration and fundraising, devoting 30% or less of their total expenditures to these activities.
- Almost four in five Canadian charities (79%) meet or exceed common American guidelines for spending on charitable programs, devoting 60% or more of their total expenditures to charitable activities.

audited financial statements and/or annual reports.¹ The most common measures used to evaluate charitable organizations are: the percentage of total expenditures they devote to charitable programs and to fundraising and administration, their efficiency in soliciting donations, and the length of time they could operate using their liquid capital reserves. Each of these measures is presented below.

Program Expense Ratio

All four of the watchdog organizations mentioned above evaluate charities according to the percentage of their total spending that they devote to carrying out their charitable programs. This amount includes programs carried out by the charity itself and disbursements to qualified recipients. The watchdog organizations believe that charities should devote a minimum of 60% to 70% of their total spending to charitable works.

Fundraising and Administrative Expense Ratio

Two of the four watchdog organizations (the Wise Giving Alliance and CRC) evaluate charities according to how much they spend on administration and fundraising. These organizations believe that it is reasonable for charities to devote 30% to 35% of total expenditures to fundraising and administration.

Fundraising Expense Ratio

Charity Navigator evaluates charities on their fundraising expenses only, and believes that devoting 25% or less of total expenditures to fundraising is reasonable.

Fundraising Efficiency

Both Charity Navigator and AIP evaluate charities according to how much they spend to raise each dollar donated by the public. This measure differs from the Fundraising Expense Ratio in that it expresses fundraising costs as a *proportion of the actual funds received*

from the public, rather than as a percentage of the organization's total expenditures. Both watchdog organizations believe that spending 35 cents or less to raise each dollar is reasonable.

Working Capital Ratio

All four watchdog organizations measure the length of time that a charity could continue to operate at its current level using unrestricted net liquid assets. Although all four define this measure in similar ways, they disagree on how it should be used to rate charities. Three of the four watchdogs (AIP, the Wise Giving Alliance, and CRC) believe that this measure addresses the issue of the appropriate use of donated funds, arguing that organizations with capital reserves large enough to support more than two or three years of operations have little business soliciting donations from the public. Charity Navigator views the working capital

Table 1: Acceptable Standards of Performance According to Common Accountability Measures

Measures	Charity Navigator	American Institute of Philanthropy	BBB - Wise Giving Alliance	Charities Review Council of Minnesota
Program Expense Ratio	>=60%	>=60%	>=65%	>=70%
Fundraising and Administrative Expense Ratio	N/A	N/A	<=35%	<=30%
Fundraising Expense Ratio	<=25%	N/A	N/A	N/A
Fundraising Efficiency	<=\$0.35	<=\$0.35	N/A	N/A
Working Capital Ratio	>=3 months	<=3 years	<=3 years	<=2 years

Table 2: Calculating Performance Measures Using T3010 Data

Measures	Formula ²
Program Expense Ratio	Charitable Work and Gifts to Donnees (Line 120 + Line 121) + Total Disbursements (Line 128)
Fundraising and Administrative Expense Ratio	Fundraising Costs and Management and Admin. Costs (Line 123 + Line 122) + Total Disbursements (Line 128)
Fundraising Expense Ratio	Fundraising Costs (Line 123) + Total Disbursements (Line 128)
Fundraising Efficiency	Fundraising Costs (Line 123) + Received and Unreceived Donations and Fundraising [less Received and Unreceived Donations from other charities] (Line 100 + Line 102 + Line 113 - Line 101 - Line 103)
Working Capital Ratio	Cash and Amounts Receivable and Other Investments [less Program Expenses and Other Expenses Payable] (Line 51 + Line 53 + Line 54 - Line 61- Line 63) + Total Disbursements (Line 128)

¹ Form 990 returns are similar to Canada's T3010 Registered Charity Information Returns.

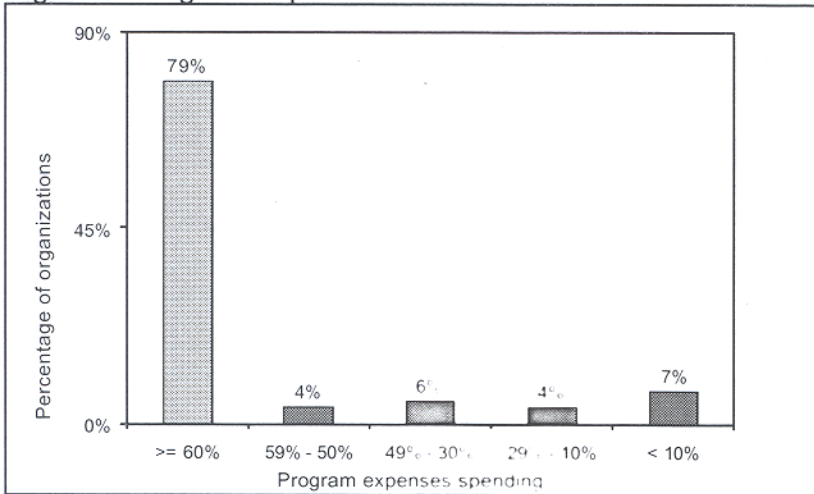
² Electronic copies of the T3010 form can be found in the Charities section of the Canada Customs and Revenue Agency Web site at: <http://www.cca-adr.gc.ca/tax/charities/menu-e.html> under the Forms and Publications link.

ratio as a measure of financial capacity, arguing that healthy charities should have sufficient liquid capital to operate for three months or more, but makes no mention of an upper limit for liquid capital.

How Canadian Charities Perform

To evaluate the performance of Canadian registered charities, we replicated the common performance measures as closely as possible, using information from 1999 T3010 Registered Charity Information Returns (see Table 2). The 1999 T3010 datafile contains information on 73,289 Canadian registered charities. We judged the information for about 70,000 charities to be accurate and complete enough to use in our analyses.³ Measured against most of the standards described above, the majority of Canadian registered charities perform well, although there is room for improvement.

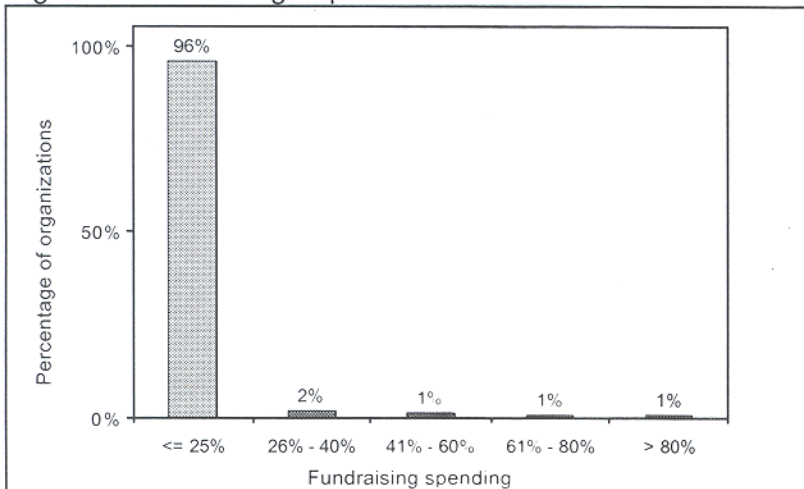
Figure 1: Program Expense Ratio



Program Expense Ratio

Almost four in five charities (79%) met or exceeded the suggested guideline for the program expense ratio, devoting 60% or more of total expenditures to charitable programs (see Figure 1). Of those that did not meet the 60% cut-off, about one-fifth (4% of all charities) narrowly missed the mark, spending between 50% and 60% on charitable programs. It should be noted, however, that about 7% Canadian charities devoted less than 10% of their expenditures to charitable programs.

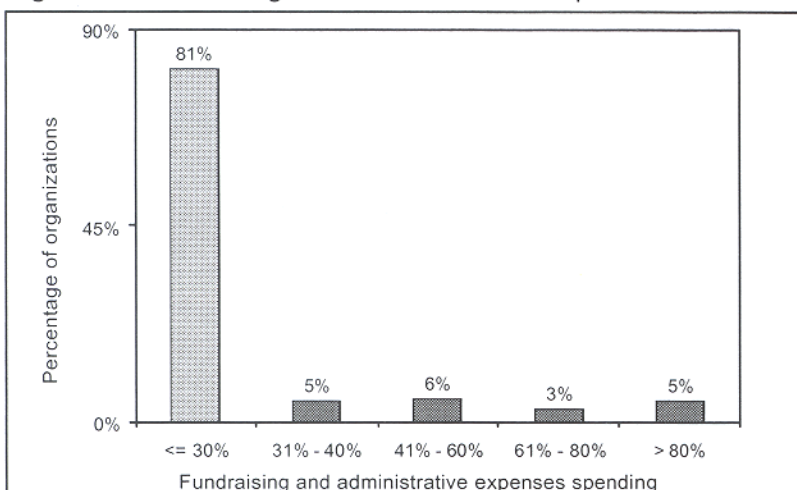
Figure 2: Fundraising Expense Ratio



Fundraising Expense Ratio

Canadian charities performed well against Charity Navigator's fundraising expense ratio (see Figure 2). Virtually all of them (96%) met or exceeded the suggested guideline (25% or less of total expenses devoted to fundraising).

Figure 3: Fundraising and Administrative Expense Ratio



Fundraising and Administrative Expense Ratio

When fundraising and administration are combined as an accountability measure (see

³ The incidence of reporting error on T3010 returns seems to be fairly large. For instance, about one in five organizations (20.2%) filed returns where the reported total expenditures (line 128) do not equal the sum of its reported constituent parts (the sum of lines 120 through 127). Fortunately, the magnitude of most of these errors is usually small – about 4% of organizations filed reports with discrepancies that exceeded 2% of total reported expenditures. Organizations with discrepancies in excess of 2% were not included in our analyses.

Figure 3), only 81% of organizations met the suggested standard (30% or less of total expenses devoted to fundraising and administration).

Fundraising Efficiency

More than nine out of ten Canadian charities (92%) met or exceeded the suggested guideline for fundraising efficiency, spending 35 cents or less to raise each dollar. Again, charities that missed the guideline tended to do so by fairly narrow margins (3% spent between 36 and 50 cents for every dollar), but a few (2%) spent more than 90 cents to raise each dollar (see Figure 4).

Working Capital Ratio

When this measure is used as an assessment of the degree of need for donations, the performance of Canadian charities is good. Almost nine in ten (87%) could not operate longer than three years on their liquid capital holdings, indicating a real need to solicit funds (see Figure 5). More than one in ten (13%) had sufficient liquid capital to operate for more than the recommended three years. However, when the working capital ratio is used as a measure of financial capacity, the performance of Canadian charities is markedly worse. Almost half (45%) of charities did not have sufficient liquid capital reserves to operate for the recommended three months. Collectively, this evidence suggests that organizations are making good use of their monies, but that significant numbers of them may be vulnerable to changes in their funding environment.

Conclusion

Our findings suggest that, on the whole, Canadian registered charities are meeting established American standards for the percentage of expenditures devoted to fundraising and fundraising efficiency, but that there is room for improvement in the

Figure 4: Fundraising Efficiency

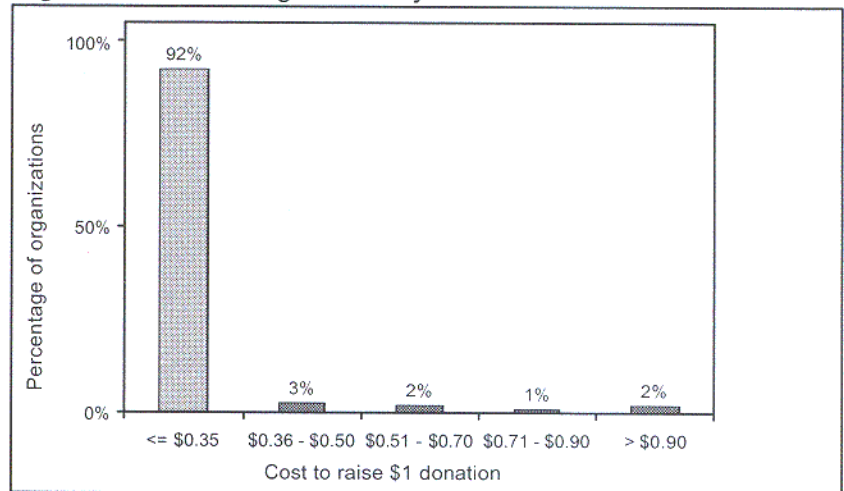
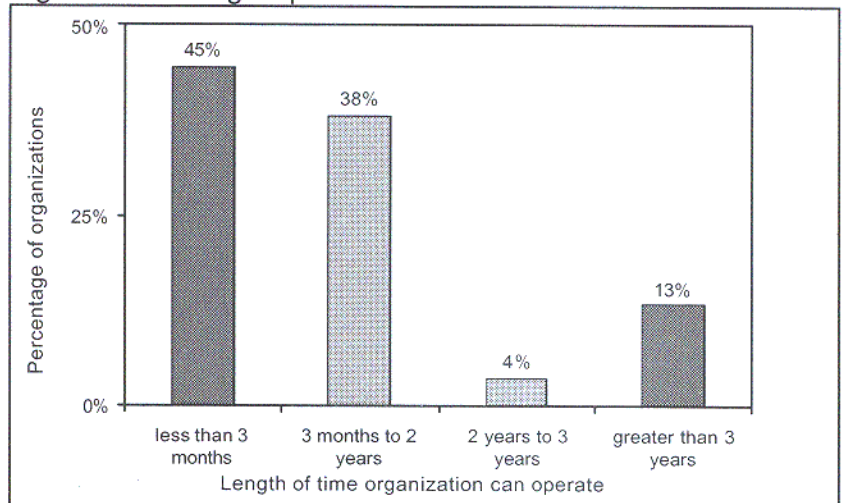


Figure 5: Working Capital Ratio



percentage of expenditures devoted to charitable programs and to administration. Of particular interest are our findings concerning liquid capital reserves. The fact that almost half of all charities lack sufficient liquid capital to sustain their operations for even three months indicates that financial capacity should be a major concern.

It is likely that the measures presented in this Bulletin will increasingly be used by the public to evaluate charities, frequently without the charities being aware of it. Given the ready availability of all of this information online, it is important that Canadian charities know how they perform against these standards, and that they submit accurate and complete information on their T3010 returns.

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