



Implementation Guide

BBB Wise Giving Alliance

Standards for Charity Accountability

IMPLEMENTATION GUIDE

BBB WISE GIVING ALLIANCE STANDARDS FOR CHARITY ACCOUNTABILITY

Introduction

This Implementation Guide has been prepared to help you understand the BBB Wise Giving Alliance Standards for Charity Accountability and how the Alliance will apply them in evaluating charities. For each of the twenty standards, there are three key sections:

Effective Date – This is the date on which the Alliance will begin using that standard in its evaluations. Most standards are effective on March 3, 2003, and will be applied to evaluations prepared from that day on. Several standards, however, may require changes that take time for charities to put in place, such as scheduling additional board meetings or instituting new board procedures, adding to websites or addressing privacy concerns. March 3, 2004, a year from the general effective date, has been set for those standards. For Standard 7, which requires charities to produce a written report on self-assessment, March 3, 2005 is the effective date.

Information Needed from Charity to Determine Compliance –This section specifies the basic information or items that charities will need to provide for an Alliance review. Please note that at times, the Alliance may need to request additional items. The Alliance’s questionnaire form, when completed by the charity, will furnish much of the necessary information. Separate items that will be required include the following. Items marked with asterisk (*) need to be only provided once unless they are later changed:

GOVERNANCE

- Articles of incorporation*
- Bylaws*
- Conflict of Interest policy*
- Board roster, with officers specified

EFFECTIVENESS

- Written board policy on performance and effectiveness assessment (Standard 6)

FINANCES

- Financial statements as required by Standards 11 and 12
- IRS Form 990 or 990EZ, if applicable
- Tax exempt status determination letter*
- Budget for the current fiscal year

SOLICITATIONS AND INFORMATIONAL MATERIALS

- Sample solicitation and informational materials, as described under Standard 15
- Annual report (Standard 16)
- Sample written appeals that offer opportunity to donors to state their wishes regarding use of their names and addresses (if charity shares donor names) (Standard 18)
- Copies of promotional materials related to cause-related marketing, if charity engages in such sales or transactions (Standard 19)
- Evidence, such as copies of letters, that charity has responded to complaints (if such complaints have been brought to its attention by the Alliance and/or a local BBB) (Standard 20)

Application --This section describes the criteria and procedures the Alliance will use in evaluating the information it receives. The content is of various types, depending on the nature of the standard: definitions of words used in the standard; a detailed description of how a ratio will be calculated; points that will be considered in evaluating materials or a situation; tips on possible approaches a charity may take in handling a particular requirement; or factors likely to prompt further Alliance scrutiny.

Finally, there is an index to help you locate references to particular requirements or items related to the standards.

This is our first Implementation Guide for the new standards. We do not expect it to be the last. As we hear from charities about areas in which they would like more guidance, and as we review the information that comes to us, we are certain to find that revision is needed. We solicit your comments and suggestions.

STANDARDS FOR CHARITY ACCOUNTABILITY

GOVERNANCE AND OVERSIGHT

The governing board has the ultimate oversight authority for any charitable organization. This section of the standard seeks to ensure that the volunteer board is active, independent and free of self-dealing. To meet these standards, the organization shall have:

Standard 1:

A board of directors that provides adequate oversight of the charity's operations and its staff. Indication of adequate oversight includes, but is not limited to, regularly scheduled appraisals of the CEO's performance; evidence of disbursement controls such as board approval of the budget and fund raising practices; establishment of a conflict of interest policy; and establishment of accounting procedures sufficient to safeguard charity finances.

Effective Date: March 3, 2003, except for the provisions calling for CEO performance evaluations and establishment of a conflict of interest policy. These two provisions will be effective March 3, 2004.

Information Needed from Charity to Determine Compliance:

The charity indicates on the form provided by the Alliance whether its board of directors takes all the actions listed in the application section below.

Application of the Standard:

The Alliance looks for charity confirmation that its board of directors and/or a committee of the board carries out each of the following oversight activities:

- formally reviews the performance of the chief executive officer at least once every two years,
- formally approves the budget,
- ensures that arrangements with outside fund raising firms are made in writing,
- receives information (for example, a written summary) about the financial arrangements with such firms and, if applicable, the anticipated portion of the gross proceeds that goes to the charity,
- has formally approved a conflict of interest policy and regularly monitors it to ensure adherence,
- receives, on an annual basis, each of the following applicable items:

- (a) the charity's IRS Form 990
- (b) the charity's audited financial statement
- (c) auditor's management letter (if one is issued)
- (d) if there is no audited statement, then the charity's unaudited financial statement

If any one of the foregoing activities is not carried out, the charity does not meet this standard.

Standard 2:

A board of directors with a minimum of five voting members.

Effective Date: March 3, 2003

Information Needed from Charity to Determine Compliance:

The charity provides a roster of the voting members of its board of directors.

Application:

The Alliance checks the roster to confirm there is the requisite number and asks the charity to identify any non-voting members.

Standard 3:

A minimum of three evenly spaced meetings per year of the full governing body with a majority in attendance, with face-to-face participation. A conference call of the full board can substitute for one of the three meetings of the governing body. For all meetings, alternative modes of participation are acceptable for those with physical disabilities.

Effective Date:

The standard is being phased in as described below.

Effective date for two meetings: For fiscal years that begin between the following dates: March 3, 2003 and March 2, 2004.

Effective date for three meetings: For fiscal years that begin on March 3, 2004 and thereafter.

Information Needed from Charity to Determine Compliance:

The charity provides dates and attendance information for governing body meetings held in the past fiscal year.

Application:

The Alliance looks for charity confirmation that the following criteria have been met:

(a) Frequency of governing body meetings.

The following implementation will be used by the Alliance:

1. For fiscal years beginning before March 3, 2003, the charity should have the following frequency of governing body meetings: at a minimum, three meetings during the fiscal year, two of which can be executive committee meetings. This follows the previous standard used by the Philanthropic Advisory Service of the Council of Better Business Bureaus' Foundation.
2. For fiscal years that begin between the dates of March 3, 2003 and March 2, 2004, the charity should have the following frequency of board of directors meetings: at a minimum, two board meetings during the fiscal year (one of which can be held by a conference call).
3. For fiscal years that begin March 3, 2004 and thereafter, the charity should have the following frequency of board of directors meetings: at a minimum, three board meetings during the fiscal year (one of which can be held by a conference call). No executive committee (or interim governing body) meetings will be considered in determining whether the charity has a minimum of three board of directors meetings.

(b) Attendance at governing body meetings.

A majority of the governing body members (at least 50%, on average) should be in attendance to meet this standard.

(c) Proxy attendance.

Proxy attendance is not counted for purposes of determining if the charity meets the above attendance requirement.

Standard 4:

Not more than one or 10% (whichever is greater) directly or indirectly compensated person(s) serving as voting member(s) of the board. Compensated members shall not serve as the board's chair or treasurer.

Effective Date: March 3, 2003

Information Needed from Charity to Determine Compliance:

The charity provides compensation information, on the form provided by the Alliance as outlined below. The Alliance will also review the IRS Form 990 and notes to the charity's financial statements for applicable information about compensation.

Application:

The Alliance reviews the information provided, using the following definitions and criteria to determine compliance:

- **directly compensated** voting members of the board are those who receive payments (cash and/or in-kind) from the organization (e.g., paid staff member, paid consultant, etc.)
- **indirectly compensated** voting members of the board are those who are direct family members (e.g., spouse, parent, sibling, and child) of any of the directly compensated individuals noted above
- voting members of the board who receive **honoraria** are considered to be directly compensated
- voting members of the board who receive only **reimbursements for expenses** incurred are not considered to be compensated
- voting members of the board who are **paid staff members of affiliated organizations** are considered to be directly compensated if, and only if, financial and governance relationships between the subject organization and the affiliated organization are such that generally accepted accounting principles (GAAP) require the affiliated organizations to have combined audited financial statements.

For example, if a charity has a 7-member board, no more than one voting member should be compensated directly and/or indirectly. If a charity has a 20-member board, no more than two voting members should be compensated directly and/or indirectly.

Standard 5:

No transaction(s) in which any board or staff members have material conflicting interests with the charity resulting from any relationship or business affiliation.

Factors that will be considered when concluding whether or not a related party transaction constitutes a conflict of interest and if such a conflict is material, include, but are not limited to: any arm's length procedures established by the charity; the size of the transaction relative to like expenses of the charity; whether the interested party participated in the board vote on the transaction; if competitive bids were sought and whether the transaction is one-time, recurring or ongoing.

Effective Date: March 3, 2003

Information Needed from Charity to Determine Compliance:

The charity provides information about related-party transactions, on a form provided by the Alliance. The Alliance will also review the IRS Form 990 and notes to the charity's financial statements for applicable information about related-party transactions.

Application:

This standard does not intend to suggest that every related-party transaction results in a material conflict of interest. As each potential conflict of interest situation presents a different set of circumstances, a definitive statement of when such a conflict occurs is not possible. However, in general, a charity will not meet this standard if one or more of the following circumstances exist:

- The charity conducted substantial transaction(s) with board member or staff -related firms and took **no** steps to ensure arm's length transactions. Examples of such steps: seeking at least two other competitive bids and having the interested board member(s) abstain from the decision to hire the interested individual or firm with which he or she is affiliated.
- The transaction is of such a large amount and/or is in effect over such a long period of time that it is unlikely that the transaction could qualify as arm's length.
- Individually, the related-party transaction amount may be small. However, the charity may have a number of related transactions in the past year, that, when combined, constitute significant related-party activity.

MEASURING EFFECTIVENESS

An organization should regularly assess its effectiveness in achieving its mission. This section seeks to ensure that an organization has defined, measurable goals and objectives in place and a defined process in place to evaluate the success and impact of its program(s) in fulfilling the goals and objectives of the organization and that also identifies ways to address any deficiencies. To meet these guidelines, a charitable organization shall:

Standard 6:

Have a board policy of assessing, no less than every two years, the organization's performance and effectiveness and of determining future actions required to achieve its mission.

Effective Date: March 3, 2004

Information Needed from Charity to Determine Compliance:

The charity provides a copy of its board policy on performance and effectiveness assessments.

Application:

- The Alliance confirms that a policy is in place and that such policy calls for an assessment at least every two years. The policy need not use the words "performance" and/or "effectiveness" but should make clear that the charity intends to formally evaluate its success and impact in fulfilling its mission, goals and objectives.

Standard 7:

Submit to the organization's governing body, for its approval, a written report that outlines the results of the aforementioned performance and effectiveness assessment and recommendations for future actions.

Effective Date: March 3, 2005

Information Needed from Charity to Determine Compliance:

The charity indicates, on a form provided by the Alliance, whether its board receives and approves a written report of the assessment conducted, as described in Standard 6.

Application:

In this standard, the Alliance seeks to confirm that an assessment is carried out. The standard does not seek to evaluate the quality and content of the assessment. Therefore, the Alliance will not typically request a copy of the charity's assessment report.

The following guidance may be useful to charities in developing reports. Both the assessment and the written report may be prepared by the charity's staff, a subcommittee of the board, an outside committee of volunteer experts, a paid consultant, other professionals or any combination of these, as directed by the charity's board. Elements of the report will typically include the following:

- Identification of measurable goals and objectives. These goals will vary in number and nature from organization to organization and from time to time. A charity may have a numerical goal such as the number of individuals who receive assistance from the organization. Another may have an impact goal, such as influencing public policy on certain issues or improving the health of certain groups of individuals. Others may have financial goal(s) such as raising a certain volume of dollars for health research.
- Consideration of how well the identified goals and objectives conform with the mission of the organization.
- Description of the activities that the charity undertook in the past two years to address these objectives.
- If applicable, measurement of the satisfaction of those who benefit from the charity's programs.
- Analysis of the effectiveness of the charity's activities in fulfilling its stated mission, goals and objectives.

- Recommendations for future actions the charity might take based on the findings of the assessment. For example, if goals and objectives were not met, what might be done to improve performance? If goals and objectives were fully satisfied, what future goals and objectives might be identified?

FINANCES

This section of the standards seeks to ensure that the charity spends its funds honestly, prudently and in accordance with statements made in fund raising appeals. To meet these standards, the charitable organization shall:

Please note: Standards 8 and 9 have different denominators.

Standard 8:

Spend at least 65% of its total expenses on program activities.

Formula for Standard 8:

$$\frac{\text{Total Program Service Expenses}}{\text{Total Expenses}} \quad \text{should be at least 65\%}$$

An organization that does not meet Standards 8, 9 and/or 10 may provide evidence to demonstrate that its use of funds is reasonable. The higher fund raising and administrative costs of a newly created organization, donor restrictions on the use of funds, exceptional bequests, a stigma associated with a cause, and environmental or political events beyond an organization's control are among factors which may result in expenditures that are reasonable although they do not meet the financial measures cited in these standards.

Effective Date: March 3, 2003

Information Needed from Charity to Determine Compliance:

The charity provides the most recent financial statements required for its income level, as specified in Standard 11. Depending on the size of the charity's income, this financial statement may be in the form of audited or reviewed financial statements, internally produced financial statements or IRS Form 990.

Application:

In calculating this financial ratio, the Alliance will also consider any issues about the accuracy of the charity's financial statements as described in Standard 13.

The Alliance proceeds as follows in determining the program expense ratio:

- (a) Using the charity's *audited or reviewed financial statements*, the Alliance divides the reported total program service expense by the total reported expenses in order to determine the ratio of program expense to total expense.
- (b) If the charity does not have audited or reviewed financial statements, the Alliance uses the *IRS Form 990* to calculate this ratio. Using the *IRS Form 990*, the Alliance divides the Form's line 13 (total program service expense) by line 17 (total expenses) to determine the ratio of program expense to total expense.
- (c) If a charity does not have an audited or reviewed financial statement or *IRS Form 990*, the Alliance uses the latest available *unaudited financial statement* to calculate the program service expense ratio, as in (a) above.
- (d) If the charity does not have audited, reviewed or unaudited financial statements but completes the *IRS Form 990-EZ*, the Alliance uses this form to calculate this ratio. Using the *IRS Form 990-EZ*, the Alliance divides line 32 (total program service expense) by line 17 (total expenses) for the same ratio.

A charity that does not meet the 65% program expense standard and believes there is an extenuating circumstance as noted in the paragraph contained in the standards should inform the Alliance of its position.

In applying this standard, the Alliance prefers to use the audited financial statements rather than the *IRS Form 990* for reasons including the following:

- In some cases, the audit report combines the finances of the subject charity with the finances of entities closely affiliated with it through financial and governance relationships, as required by generally accepted accounting principles (GAAP). However, the IRS may require these different entities to file separate *IRS Form 990s* instead of a combined form
- The audit report may include the value of donated services and the use of facilities as an expense item, while the *IRS Form 990* does not include these expenses.
- The audit report may include certain note disclosures relevant to the application of this standard that would not appear in the *IRS Form 990*.

Standard 9:

Spend no more than 35% of related contributions on fund raising. Related contributions include donations, legacies and other gifts received as a result of fund raising efforts.

Please note: Standards 8 and 9 have different denominators.

Formula for Standard 9:

$$\frac{\text{Total Fund Raising Expenses}}{\text{Total Related Contributions}} \quad \text{should be no more than 35\%}$$

An organization that does not meet Standards 8,9 and/or 10 may provide evidence to demonstrate that its use of funds is reasonable. The higher fund raising and administrative costs of a newly created organization, donor restrictions on the use of funds, exceptional bequests, a stigma associated with a cause, and environmental or political events beyond an organization's control are among factors which may result in expenditures that are reasonable although they do not meet the financial measures cited in these standards.

Effective Date: March 3, 2003

Information Needed from Charity to Determine Compliance:

The charity provides the latest financial statements required for its income level, as specified in Standard 11. Depending on the size of the charity's income, this financial statement may be in the form of audited or reviewed financial statements, internally produced financial statements or IRS Form 990.

Application:

In calculating this financial ratio, the Alliance will also consider any issues about the accuracy of the charity's financial statements as described in Standard 13.

The Alliance proceeds as follows in determining the fund-raising expense ratio:

Definitions Used for Standard 9

- *Related contributions* refers to those types of support generated through fund raising activities. It is not intended to refer only to annual gifts and can include donations, special event income, bequests, fund raising event revenue, federated campaigns, donated goods, donated services, and grants including foundation and government grants, etc. Other types of revenue (for example, membership dues) may be included under certain conditions.
- As defined in the American Institute of Certified Public Accountants (AICPA) *Not-for-Profit Organizations Audit and Accounting Guide*, paragraph 5.27, “Some not-for-profit organizations receive dues from their members. These transfers often have elements of both a contribution and an exchange transaction because members receive tangible or intangible benefits from their membership in the organization.” As a result, depending on the circumstances, a portion of membership dues (or the total, if there are no membership benefits) may be considered to be a related contribution.
- Some organizations may receive contributions that donor(s) have provided with the specification that these gifts be transferred to another charity. For example, a donor to a federated campaign specifies that the contribution be given to ABC charity. In such circumstances, the accounting rules require that such donations not be recognized as part of the federated organization’s total revenue. For purposes of this standard, however, if fund raising expenses are incurred by the federated organization to generate such gifts, those gifts are considered to be related contributions.
- *Fund raising expenses* include invitations to voting membership and appeals to voting members, when a contribution is a principal requirement for membership.
- *Fund raising* includes, but is not limited to, donor acquisition (seeking out new donors), renewal (soliciting previous donors), member or membership development (see above), and grant procurement.

Procedures

- (a) Using the charity’s *audited or reviewed financial statements*, the Alliance divides the reported total fund raising expense by the total reported related contributions in order to determine the ratio of fund raising expense to related contributions.

- (b) If the charity does not have audited or reviewed financial statements, the Alliance uses the *IRS Form 990* to calculate the ratio. Using the *IRS Form 990*, the Alliance identifies the total related contributions figure, usually by adding the following three applicable line items: line 1d (total contributions) plus line 3 (membership dues) plus line 9c (revenue from special fund raising events). The Alliance then divides line 15 (total fund raising expense) by the total related contributions figure to determine the ratio of fund raising expense to related contributions (See also application of Standard 13).
- (c) If the charity does not have an audited or reviewed financial statement, or *IRS Form 990*, the Alliance uses the latest available *unaudited financial statement* to calculate the ratio of fund raising expense to related contributions as explained in (a) above.
- (d) If the charity does not have audited, reviewed or unaudited financial statements but completes *IRS Form 990-EZ*, the Alliance will be unable to verify the charity's compliance with this standard. The *IRS 990-EZ* does not identify the charity's total fund raising expenses.

A charity that does not meet this 35% standard and believes there is an extenuating circumstance should inform the Alliance of its position.

In applying this standard, the Alliance prefers to use the audited financial statements rather than the *IRS Form 990* for reasons including the following:

- In some cases, the audit report combines the finances of the subject charity with the finances of entities closely affiliated with it through financial and governance relationships, as required by generally accepted accounting principles (GAAP). However, the IRS may require these different entities to file separate *IRS Form 990s* instead of a combined form.
- The audit report may include the value of donated services and the use of facilities as both a contribution and corresponding expense item, while the *IRS Form 990* does not include these amounts.
- The audit report may include certain note disclosures relevant to the application of this standard that would not appear in the *IRS Form 990*.

Standard 10:

Avoid accumulating funds that could be used for current program activities. To meet this standard, the charity's unrestricted net assets available for use should not be more than three times the size of the past year's expenses or three times the size of the current year's budget, whichever is higher.

An organization that does not meet Standards 8, 9 and/or 10 may provide evidence to demonstrate that its use of funds is reasonable. The higher fund raising and administrative costs of a newly created organization, donor restrictions on the use of funds, exceptional bequests, a stigma associated with a cause, and environmental or political events beyond an organization's control are among factors which may result in expenditures that are reasonable although they do not meet the financial measures cited in these standards.

Effective Date: March 3, 2003

Information Needed from Charity to Determine Compliance:

The charity provides financial statements, as also required by Standard 11, and a budget as also required by Standard 14.

Application:

The Alliance calculates the ratio of available assets as follows:

(a) Using the charity's *audited or reviewed financial statements*,

- The Alliance identifies the total unrestricted net assets figure on the Statement of Financial Position. These are net assets that do not have any donor-imposed restrictions. (Usually, audited financial statements have three categories of net assets: unrestricted, temporarily restricted, and permanently restricted.)
- The Alliance then identifies the reported total expenses in the past fiscal year as shown in the audited financial statements. If the charity's current budget is available, the Alliance will also identify the total expenses (i.e., planned expenses for the current year). The higher of these two amounts (most recent actual annual expenses or anticipated current year expenses) will be used for the ratio.
- The Alliance divides total unrestricted net assets by total expenses to determine if this ratio is equal to or less than 3.

- If the ratio is greater than 3, the Alliance reviews the total unrestricted net assets figure. If this figure includes any fixed assets (i.e., land, building, equipment, etc.), the ratio is re-calculated by subtracting the value of these assets (net of any related indebtedness) from the total unrestricted net assets figure. The Alliance may seek additional information in this case, since the audit report and the IRS Form 990 do not usually identify the value of fixed assets that are included in the unrestricted net assets category.

(b) If the charity does not have audited or reviewed financial statements, the Alliance uses the *IRS Form 990* to calculate this ratio.

- Using the *IRS Form 990*, the Alliance calculates the ratio of available assets to most recent or anticipated total expenses, using the unrestricted net assets figure on line 67 and total expenses on line 17, as described above.

(c) If the charity does not have audited or reviewed financial statements or *IRS Form 990*, the Alliance uses the latest available unaudited financial statements, using a ratio as described in (a) above.

(d) If the charity does not have audited or reviewed financial statements, but completes *IRS Form 990-EZ*,

- the Alliance will be unable to verify the charity's compliance with this standard since the *990-EZ* does not include a breakdown of the charity's net assets into the unrestricted, temporarily restricted, and permanently restricted categories.

On a case-by-case basis, if necessary, the Alliance will request additional information from the charity to determine that the charity meets this standard.

A charity that does not meet this standard and believes there is an extenuating circumstance should inform the Alliance of its position on the issue.

Standard 11:

Make available to all, on request, complete annual financial statements prepared in accordance with generally accepted accounting principles.

When total annual gross income exceeds \$250,000, these statements should be audited in accordance with generally accepted auditing standards. For charities whose annual gross income is less than \$250,000, a review by a certified public accountant is sufficient to meet this standard. For charities whose annual gross income is less than \$100,000, an internally produced, complete financial statement is sufficient to meet this standard.

Effective Date: March 3, 2003

Information Needed from Charity to Determine Compliance:

The charity provides its most recent financial statements.

Application:

The Alliance reviews the financial information provided, using the following criteria. The standard's reference to "complete" financial statements refers to the expectation that the charity will provide all pages of the financial statements including schedules and notes, and that the statements will contain all the information called for by generally accepted accounting principles.

- If the charity's annual gross income exceeds \$250,000, the financial statements should be audited by an outside certified public accountant (CPA), and the auditor's opinion or cover letter should generally carry a "clean" or "unqualified" opinion indicating that the financial statements were prepared in accordance with generally accepted accounting principles (GAAP).
- If the charity's annual gross income exceeds \$100,000 but is less than \$250,000, the financial statements may be reviewed by a certified public accountant. A review is a financial statement that provides some level of assurance, but does not involve an examination that is in accordance with generally accepted auditing standards (GAAS). A review will usually include the same elements (e.g., statement of financial position, statement of activities, statement of cash flows, notes, etc.) as the audited financial statements.
- If the charity's gross income is less than \$100,000, the financial statements may be internally produced. However, the statement should include a balance sheet, statement of support, revenue and expenses, notes, and any other appropriate schedules.

- If the charity has gross income of less than \$100,000 and does not have an internally produced financial statement other than an IRS Form 990 or IRS Form 990-EZ, then providing either of these IRS Forms is sufficient to meet this standard
- If the charity's financial statements involve a joint cost allocation (see Standard 13), the notes to the financial statements should disclose, as required by GAAP, (i) the total amount of the joint cost activity, and (ii) the portion of this cost that was allocated to program service, fund raising expense, and if applicable, administrative expense categories.

Standard 12:

Include in the financial statements a breakdown of expenses (e.g., salaries, travel, postage, etc.) that shows what portion of these expenses was allocated to program, fund raising, and administrative activities. If the charity has more than one major program category, the schedule should provide a breakdown for each category.

Effective Date: March 3, 2003

Information Needed from Charity to Determine Compliance:

The charity provides financial statements, as described in Standard 11, that include a breakdown of expenses as indicated below.

Application:

In further explanation of the requirements of this standard, the Alliance notes the following:

- (a) The detailed functional breakdown of expenses described below is required by generally accepted accounting principles (GAAP) to be included in the audit reports for all voluntary health and welfare charities (Financial Accounting Standards Board, *Statement of Financial Accounting Standards No. 117*, paragraph 26). The Alliance requires that all charities, whether or not they fall under the voluntary health and welfare category, include such a schedule in their financial statements.

- (b) An example of such a detailed breakdown of expenses is shown below. It displays the portion of natural expenses (e.g., salaries, travel, postage, etc.) incurred for each major program service, fund raising and administrative expenses.

	<u>Program Service A</u>	<u>Program Service B</u>			
	Medical Research	Health Education	Fund Raising	Adminis- trative	Total Expenses
Salaries	60,000	30,000	47,000	69,000	206,000
Occupancy	10,000	8,000	6,000	5,000	29,000
Grants	210,500				210,500
Travel	1,000	2,000	2,000		5,000
Telephone	2,000	1,000	3,000	750	6,750
Postage	3,000	1,000	3,000	1,500	11,000
Office Supplies	2,500	500	500	750	4,250
Printing	11,000	8,500	5,000	1,000	25,500
TOTAL	300,000	52,000	68,000	78,000	498,000

- (c) If the charity has more than one major program service activity (e.g., both medical research and health education), then the detailed functional breakdown of expenses described above should include a separate expense category for each of these programs.

- (d) If the only financial statement that is provided to the Alliance is the IRS Form 990, this is sufficient to meet this standard *only if* the subject charity has only one major program activity.

Standard 13:

Accurately report the charity's expenses, including any joint cost allocations, in its financial statements. For example, audited or unaudited statements which inaccurately claim zero fund raising expenses or otherwise understate the amount a charity spends on fund raising, and/or overstate the amount it spends on programs will not meet this standard.

Effective Date: March 3, 2003

Information Needed from Charity to Determine Compliance:

The charity provides the financial statements described in Standard 11 and the solicitation materials cited in Standard 15.

Application:

The Alliance follows these guidelines in evaluating the financial information provided. This standard addresses financial information in whatever form it may be available to the public.

- (a) If the charity's financial statements and/or IRS Form 990 report no fund raising or administrative expenses—for example, the fund raising expense category in the financial statements or IRS Form 990 (Part I, line 15) is either blank or \$0—the charity usually will not meet this standard.
- (b) If the charity's financial statements and/or IRS Form 990 show that the charity has inappropriately reduced reported fund raising costs by displaying contributions “net” of these expenses, the charity usually will not meet this standard. In other words, a charity's fund raising expenses should be included in the fund raising expense category of the financial statements or IRS Form 990.
- (c) In the case of special fund raising events, donors sometimes receive services or items of value in conjunction with their gift (for example, a meal or a theater ticket). Many charities report Fund Raising Event Income “net” of those expenses benefiting the donor. This method is how the information is displayed in the IRS Form 990 and is also permissible, under certain circumstances, per the accounting rules (see American Institute of Certified Public Accountants (AICPA) Not-for-Profit Organizations Audit and Accounting Guide, paragraphs 13.17 – 13.22.) However, all fund raising expenses associated with these events, such as the cost of invitations, mailing, promotion and consultant fees, should be included in the fund raising expense category of the financial statements and IRS Form 990.

- (d) Some charities have fund raising activities, such as direct mail appeals, that also include activities, related to program activities usually in the form of public education message(s). The accounting rules (American Institute of Certified Public Accountants (AICPA) *Statement of Position 98-2*) permit the charity, under certain conditions, to report a portion of such appeal expenses as a public education program expense and a portion as a fund raising expense. This division of expenses is called “*joint cost allocation*.”

The Alliance has no objection to educational or advocacy programs that are conducted in conjunction with fund raising activities. However, sometimes charities do not follow the accounting rules that address reporting of related costs. Charities sometimes allocate a portion of appeal costs to public education when the accounting rules do not permit this allocation. Or, they may over-allocate or exaggerate the amount of appeal expenses that are reported as a public education or other program expense. The Alliance may question the charity’s joint-cost allocations in either the audited financial statements and/or IRS Form 990 in certain situations including, but not limited to, the following:

- One of the accounting rules requires that in order to allocate joint costs, the educational message must include a “call to action.” In other words, it must ask the appeal recipient to do something that will help further the organization’s cause, other than make a donation. Examples of a call to action include urging appeal recipients: to see a doctor if they have certain identified warning signs of a disease, to refrain from purchasing certain consumer products that involve animal testing, or to advocate the organization’s cause by contacting an elected official.

Describing the charity’s program activities and achievements, and/or including facts about the charity’s cause that the recipient may not know, do not meet the above definition of a “call to action” above. Accordingly, the accounting rules do not permit costs of an appeal that contains only program descriptions and related facts to be allocated in part to program.

- Sometimes a charity’s appeals include a “call to action” as described above, but the financial statements exaggerate the portion of appeal expenses that are reported as a public education program expense (as opposed to fund raising expense). As a result, the reported fund raising costs are inappropriately low and the program service expenses are inappropriately high.

To illustrate: suppose a four-page fund raising appeal describes a problem and the charity’s efforts to address it. On the last page of the appeal, three lines ask the recipient to take some specific action such as contacting an elected official to advocate the organization’s cause. If the charity then claims that the vast majority of the appeal costs are a

program expense, as opposed to a fund raising expense, the Alliance would question the accuracy of the allocation.

- In determining if a charity's joint cost allocation is accurate, the Alliance considers the circumstances and content of the organization's appeals. Generally, if a charity reports that more than 50% of its fund raising appeal expenses are allocated to its program services, this reporting will likely trigger a more detailed review of this allocation.
 - The accounting rules state that, in general, if a majority of compensation or fees of those conducting the joint cost activity (e.g., the fund raising company) vary based on contributions raised (i.e., the fund raiser is paid on a commission basis), then all the costs of the activity should be charged to fund raising. This rule holds even if the appeals include a "call to action" message.
- (e) Alliance conclusions regarding a charity's compliance with this standard could also impact the application of Standards 8 and 9.

Standard 14:

Have a board-approved annual budget for its current fiscal year, outlining projected expenses for major program activities, fund raising, and administration.

Effective Date: March 3, 2003

Information Needed from Charity to Determine Compliance:

The charity provides a copy of its budget for the current fiscal year and indicates that this budget has been approved by its board of directors.

Application:

The Alliance reviews the information provided using the following criteria:

- The budget must clearly identify the charity's expected total expenses for the current fiscal year.
- A budget that identifies only the charity's natural expenses (for examples, salaries, postage, travel, etc.) but does not provide a functional expense breakdown as described below, does not meet this standard.
- At a minimum, the budget should include a functional expense breakdown that shows the total expected expenses for each major program service (for example, Program A, Program B, etc.), fund raising and administration. Example: If the charity has more than one major program service activity (e.g., both medical research and health education), then, correspondingly, the budget should include more than one program service expense category.
- The Alliance does not need to receive a detailed budget with dozens of pages. A one-page summary budget is sufficient as long as it includes the information specified above.
- Board approval of the budget is necessary to meet the standard.

FUND RAISING AND INFORMATIONAL MATERIALS

A fund raising appeal is often the only contact a donor has with a charity and may be the sole impetus for giving. This section of the standards seeks to ensure that a charity's representations to the public are accurate, complete and respectful. To meet these standards, the charitable organization shall:

Standard 15:

Have solicitations and informational materials, distributed by any means, that are accurate, truthful and not misleading, both in whole and in part. Appeals that omit a clear description of program(s) for which contributions are sought will not meet this standard.

A charity should also be able to substantiate that the timing and nature of its expenditures are in accordance with what is stated, expressed, or implied in the charity's solicitations.

Effective Date: March 3, 2003

Information Needed from Charity to Determine Compliance:

The charity provides samples of its solicitations and informational materials. These include, as applicable, direct mail appeals, telephone appeals, invitations to fund raising events, print advertisements (newspapers, magazines, etc), scripts of television and radio appeals, grant proposals, internet appeals.

Application:

The Alliance evaluates the materials provided with reference to the points below:

- If the charity's appeals state or imply that donations will be used during a certain time period (for example, immediate disaster response) and/or for a specified purpose (for example, to assist disaster victims), the charity should be able to substantiate that it has followed through on these commitments.
- Appeals that request donations (whether from new donors or for renewed support from previous donors) should include a description of the specific program activities for which funds are requested. If the appeal describes a problem (for example, a recent disaster or missing children) without a description of how the charity plans to address it, the charity does not meet this standard.

The Alliance may ask the charity to substantiate the accuracy of appeal statements, including, but not limited to the following situations:

- Whether the financial references used in appeals match the figures found in the charity's financial statements;
- Whether claims to emergency financial need accurately reflect the charity's current financial condition;
- Whether outdated stories, photographs, and/or statistics (i.e., older than three years) are represented as being current; and/or
- Whether the charity's references to its achievements and successes (for example, the number of individuals served) are accurate.

Standard 16:

Have an annual report available to all, on request, that includes:

- (a) the organization's mission statement,***
- (b) a summary of the past year's program service accomplishments,***
- (c) a roster of the officers and members of the board of directors,***
- (d) financial information that includes (i) total income in the past fiscal year, (ii) expenses in the same program, fund raising and administrative categories as in the financial statements, and (iii) ending net assets.***

Effective Date: March 3, 2003

Information Needed from Charity to Determine Compliance

The charity provides its latest annual report.

Application:

The Alliance considers the following points in its review of the charity's annual report:

- The report includes all the elements (a) through (d) cited above. Any missing elements (for example, the charity's ending net assets) will result in the charity not meeting this standard.
- The annual report may have a title other than "annual report," such as "statement of accomplishments," "annual review," "progress report," "report to donors," etc. As long as the recommended information is included, the charity meets this standard.
- The annual report does not have to be an expensive, glossy publication. A few word-processed pages are adequate.
- An annual report that is available online is sufficient to meet this standard as long as a hard copy of the report is sent to inquirers who do not have Internet access.
- The roster of the board of directors that appears in the annual report should identify the officers of the organization (i.e., chair, treasurer, and secretary).

Standard 17:

Include on any charity websites that solicit contributions, the same information that is recommended for annual reports, as well as the mailing address of the charity and electronic access to its most recent IRS Form 990.

Information from Charity Needed to Determine Compliance:

The charity provides its website address.

Effective Date: March 3, 2004

Application:

The Alliance reviews the charity's website(s) for the specific contents described below:

- (a) If the charity has a website that also solicits contributions, then the website should also provide access to the annual report information specified in Standard 16. If the charity's website does not solicit for donations, this requirement is not applied.
- (b) For purposes of this standard, a charity website is considered to be soliciting donations if it specifically requests that contributions (i) be mailed to an address provided for that purpose, (ii) be sent electronically, for example through an online credit card form, or (iii) be made by phone, through a number that accepts credit card donations.
- (c) If the charity has a website that solicits contributions, then the website should give the mailing address of the charity.
- (d) If the charity has a website that solicits contributions, then the charity should also provide electronic access to its most recent IRS Form 990 (or IRS Form 990-EZ). This access can take the form of an appropriately labeled PDF file or a link to the Guidestar.org website.
- (e) If the charity has not completed an IRS Form 990 for one of the following reasons, then this part of the standard is inapplicable:
 - The charity is new and has not yet filed its first IRS Form 990.
 - If the average income of the charity is less than \$25,000 for the past three years, the charity is not required to complete the IRS Form 990.
 - The charity is a church, synagogue, mosque, or similar institution that is not required to file the IRS Form 990.

Standard 18:

Address privacy concerns of donors by

(a) providing in written appeals, at least annually, a means (e.g., such as a check off box) for both new and continuing donors to inform the charity if they do not want their name and address shared outside the organization, and

(b) providing a clear, prominent and easily accessible privacy policy on any of its websites that tells visitors (i) what information, if any, is being collected about them by the charity and how this information will be used, (ii) how to contact the charity to review personal information collected and request corrections, (iii) how to inform the charity (e.g., a check off box) that the visitor does not wish his/her personal information to be shared outside the organization, and (iv) what security measures the charity has in place to protect personal information.

Effective Date: March 3, 2004

Information Needed from Charity to Determine Compliance:

For section (a): If the charity shares the names and addresses of its donors with outside parties it (1) provides a sample of a written appeal offering donors the opportunity to inform the charity whether they wish their names to be shared; (2) indicates that this opportunity is offered at least annually.

For section (b): If the charity has a website, it provides its website address and identifies where the privacy policy is located on the website.

Application:

The Alliance reviews the information provided by the charity with reference to the following points:

(a) Written Appeals

To meet this standard, written appeals to previous donors should include, at least once a year, a means to inform the charity that the donor does not wish his/her name and address shared outside the organization. This can take the form of a check-off box that informs the charity about the donor's privacy request.

If the donor has contributed to the charity for the first time (i.e., a new donor), the disclosure about sharing name and address should be in the written

acknowledgement of the gift unless the charity plans to include the disclosure in a follow-up appeal within the year.

This standard does not apply to written appeals sent to individuals who have not previously contributed (i.e., an acquisition or prospect mailing.) This is because this standard applies to donors and these individuals have not yet contributed to the organization. Also, in many instances these prospect names and addresses are rented from outside sources and the charity does not have authority over their future use.

This standard does not apply to charities that do not share donor names and addresses with others.

(b) Websites

Charity websites, whether or not they solicit contributions, must include clear, prominent and easy access to the charity's privacy policy by providing, for example, a privacy policy link off the home page or a privacy policy link on the page that collects personal information.

Even though a charity website is not soliciting donations, it may ask visitors to provide their names, addresses and other personal information for other purposes. This standard is applicable in such cases.

All four privacy policy elements cited in this standard should be addressed in the charity's website privacy policy. The absence of any of the elements will result in not meeting this standard.

As a further explanation to item (b) (ii) in the website provision of this standard, the charity's privacy policy might provide an address and/or phone number to contact the charity in order to review or correct information that has already been collected about the site visitor.

Standard 19:

Clearly disclose how the charity benefits from the sale of products or services (i.e., cause-related marketing) that state or imply that a charity will benefit from a consumer sale or transaction. Such promotions should disclose, at the point of solicitation:

- (a) the actual or anticipated portion of the purchase price that will benefit the charity (e.g., 5 cents will be contributed to abc charity for every xyz company product sold),***
- (b) the duration of the campaign (e.g., the month of October),***
- (c) any maximum or guaranteed minimum contribution amount (e.g., up to a maximum of \$200,000).***

Effective Date:

The standard is being phased in two stages. The first date will require adherence to provision (a). The second date will require adherence to all three recommended disclosures in cause related marketing promotions.

Effective date for provision (a): March 3, 2003
Effective date for provisions (b) and (c): March 3, 2004

Information from Charity Needed to Determine Compliance:

If a charity engages in cause-related marketing, it provides copies of promotional materials related to these arrangements

Application:

In clarification of the requirements of this standard, the Alliance notes the following:

- This standard is intended to address cause-related marketing activities. The basic message of such promotions is “Buy the product of Corporation XYZ and a contribution will be made to Charity ABC.” In general, the greater the sales volume, the more the charity receives. These promotions have involved a variety of goods and services including breakfast cereals, clothing, cosmetics, credit cards, long distance phone calls and fast-food.
- For example, a disclosure that includes all the recommended elements might read as follows: “5 cents will go to ABC Charity for every box of XYZ Cereal sold in October up to a maximum of \$200,000.” The disclosure needs to include only elements applicable to that specific promotion.
- The disclosure of the amount that goes to the charity might be expressed in monetary amounts (e.g., 25 cents will go to ABC Charity) or as a

percentage of the purchase price (e.g., 3% of the purchase price will go to ABC Charity).

- If the promotion involves the sale of a number of items (as in a holiday gift catalog, for example) that will benefit a specified charity, the disclosure might take the form of a range of amounts that might go to the organization. (For example, “Depending upon the specific item purchased, approximately 5 –10% of your purchase price will go to Charity ABC.”)
- The disclosure must be provided to the potential purchaser at the point of solicitation. Placement of the disclosure might be, for example, within the product advertisement that features the charity benefit, on the product packaging, on the hangtag attached to the product, or on the catalog order form.
- Disclosures solely stating that the charity will receive “proceeds,” “profits,” “net proceeds,” or some other general financial benefit as a result of sales will not meet this standard.

Some charities receive benefits from affinity credit cards (i.e., credit cards that are promoted as benefiting a particular charity each time a transaction is made). In such cases, the disclosure should include all of the applicable benefits received by the charity. This disclosure for the affinity credit card may appear in the advertisement for the card, the application form, or within the consumer agreement for the card. For example, the disclosure may identify:

- The amount that goes to the charity each time a purchase is made with the card. For example, “5 cents goes to Charity ABC for every \$10 purchase with the card.”
- What portion, if applicable, of the application fee for the credit card goes to the charity.
- What portion, if applicable, of the annual renewal fees for the card goes to the charity.

Standard 20:

Respond promptly to and act on complaints brought to its attention by the BBB Wise Giving Alliance and/or local Better Business Bureaus about fund raising practices, privacy policy violations and/or other issues.

Effective Date: March 3, 2003

Information Needed from Charity to Determine Compliance:

The charity provides evidence, such as copies of letters, that it has responded to complaints brought to its attention by the Alliance and/or a local BBB. This standard does not apply if there are no such complaints.

Application:

The Alliance reviews the material provided by the charity in response to complaints.

From time to time, the BBB Wise Giving Alliance and/or local Better Business Bureaus receive specific complaints about charities. To meet this standard, the charity should respond to all complaints brought to its attention by the Alliance and/or local BBB. The responses should identify what actions, if applicable, the charity is taking to address these concerns.

The following are examples of potential areas of complaint/allegation:

- the charity did not follow through on expressed donor restrictions on the use of their gift.
- the charity has failed to remove, as requested, addresses or phone numbers from its contact list(s).
- the charity used excessive pressure in fund raising.
- the charity has failed to follow its announced privacy policy about the use of personal information about the donor.
- the charity made inaccurate claims of previous pledges made by individuals.

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