



## GIVING GUIDE

## How to be a Wise Donor

As in all areas of your life, being sensitive to God's prompting and direction should be the ultimate test when making giving decisions. At the same time, God also calls us to be wise in our stewardship. This document can help you start to do that. Any list that is abbreviated to one page will have shortcomings so this should be viewed neither as comprehensive nor to be applied legalistically, but as a simple primer for Christians who want to start incorporating some of the experience Calvin Edwards & Company (CEC) has gained through over 21 years of due diligence. Though it could be helpful in other scenarios, the following guide was created for donors to "check out" **established nonprofits for unrestricted grants under \$25,000.**

### FIRST THINGS, FIRST

- ✓ **Mission.** Knowing your money could go to many other causes, is the mission of the nonprofit something that you believe in and want to support?
- ✓ **Strategy.** There could be many ways to achieve the same mission. Does the strategy to achieve the mission seem sound? How did the ministry decide on that particular strategy? Have they tried other strategies out?
- ✓ **Geography.** Where does the ministry work? Some see 4.25% of the world's population living in the U.S. and want to focus on giving internationally. Others see that we still have problems "at home" and want to focus on giving locally or domestically. If a ministry works in multiple places, ask for a rough estimate of the ministry's proportional expenses by geography.

### THREE "RED FLAGS" TO LOOK FOR

- 1. Governance.** While a charismatic leader may be the "face" of a nonprofit, nonprofits are required to have a board of directors who hold ultimate responsibility for the governance and stewardship of the organization. The board's composition and bylaws should allow it to govern effectively and hold the leaders of the nonprofit accountable.

*Practical question: Does the organization has an independent<sup>1</sup> active board of directors with at least five members that meet regularly?*

- 2. Finances & Reporting.** A nonprofit should take steps to ensure donors it is a good steward of the funds it receives. This includes maintaining a high level of financial health while also tracking the results of its work.

*Practical questions: Do its financial ratios show appropriate levels of profit, assets, and liabilities? Does it regularly report metrics that show what it has done over specific timeframes?*

- 3. Transparency & Access.** Like a publicly traded company with shareholders, a nonprofit should have an appropriate posture of openness towards its donors, making its financial data widely available and welcoming donors to observe or participate in its work.

*Practical questions: Does the organization make its IRS Form 990 or audited financial statements available on its website? Does it refuse to answer any questions with vague reasoning?*

### WRAPPING UP

There are many incredible nonprofits that are doing amazing things all throughout the world. Unfortunately, at the same time, many nonprofits are able to raise funds long after becoming largely ineffective. Appropriate accountability from donors can serve to help nonprofits work better and serve more effectively while also potentially freeing up money to different organizations that do good work.

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<sup>1</sup> An independent board has (i) at least four independent members for every one non-independent member, and (ii) no more than two non-independent members. An independent member is one who is not an employee or contractor and has no familial relation to any employee or other board member.