



Charity Navigator rating methodology applied to Chatham Education Foundation

- Charity Navigator rating system examines **Financial Health** and **Accountability & Transparency** (average of last three fiscal years)
 - Chatham Education Foundation rates 3 stars out of maximum 4: “exceeds or meets industry standards and performs as well as or better than most charities in its cause”

- **Financial Health**
 - **Financial efficiency performance metrics**
 - Program expense percentage = program expenses/total expenses
 - Program expenses are grants and scholarships given to the School District of the Chathams
 - CEF Program Expense Percentage = 79%, rated 8/10
 - Administrative expense percentage = administrative expenses/total expenses
 - CEF Administrative expense percentage = 3% (lower is better), rated 10/10
 - Fundraising expense percentage = fundraising expenses/total expenses
 - CEF Fundraising expense percentage = 12% (lower is better), rated 7.5/10
 - Fundraising efficiency = fundraising expenses/total contributions
 - CEF Fundraising efficiency = \$0.09 (lower is better), rated 10/10
 - Charity's fundraising efficiency defined as how much it spends to generate \$1 in charitable contributions
 - **Financial capacity performance metrics**
 - Program expense growth = compound annual growth over past 4 years
 - CEF Program expense growth = 1% (higher is better), rated 1/10
 - Charities that spend more year over year on their programs and services continue to have a greater impact on their charitable missions.
 - Working capital ratio = working capital /total expenses
 - CEF Working capital ratio = 3.1 (higher is better), rated 10/10
 - Working capital for Chatham Education Foundation includes book value of the quasi endowment
 - Charity's working capital ratio is defined as how long it could sustain its current programs without generating new revenue.
 - Charities depend upon their reserves of liquid assets to survive downward economic trends and sustain their existing programs and services.
 - When giving flows, charities that build working capital develop a greater capability for expanding and improving their programs.
 - Liabilities to assets ratio = liabilities/assets
 - CEF Liabilities to assets ratio = zero (no liabilities), rated 10/10
 - This metric helps donors understand if their donations are being used to service debt rather than servicing the charitable mission.

- **Financial health rating**
 - Add up the 7 scores and add 30 points (to convert the score to a 100 point scale) to come up with Financial Health score.
 - CEF Financial Health Score = 87/100, rated 3 stars (max 4)
- **Accountability and Transparency**
 - Chatham Education Foundation rating = 8/100, 3 star rating (maximum 4 stars)
 - Chatham Education Foundation In compliance in following areas:
 - Independent board
 - No material diversion of assets
 - No loans to or from related parties
 - Documents Board meeting minutes
 - Provided copy of Form 990 to governing body in advance of filing
 - Conflict of interest policy
 - Whistleblower policy
 - Records retention and destruction policy
 - CEO listed with salary (no salary)
 - Process for determining CEO compensation (no compensation)
 - Board listed/board members not compensated
 - Chatham Education Foundation not in compliance in following area:
 - Audited financials prepared by independent accountant with an audit oversight committee (deduction of 19 points)
 - Audit may be expensive (~\$5-10k) and is not required by NJ or IRS for a small charity (less than \$500k gross receipts, vs CEF \$259k)
- **Overall score and star rating**
 - Overall CEF score = 84/100, 3 star rating
 - 3 stars 80-90 (good - exceeds or meets industry standards and performs as well as or better than most charities in its cause)
 - Overall score = $100 - \sqrt{((100 - \text{financial health score})^2 + (100 - \text{accountability and transparency score})^2) / 2}$
 - Chatham Education Foundation performed this internal rating analysis using Charity Navigator methodology on data from Form 990 tax returns for fiscal years 2015-16, 2016-17, 2017-18