

MINISTRYWATCH

Philosophy

[[How We View Ourselves](#) | [How We View Ministries](#)]

How We View Ourselves

Are you looking to search for a Ministry? Go to MinistryWatch.com, a type of consumer reporting website of faith-based charities, to [search](#) for a ministry.

The Purpose of Wall Watchers

Wall Watchers is an independent donor advocate facilitating the information needs of donors.

Wall Watchers seeks to provide the truth of stewardship for donors and then to help donors obtain accurate, detailed information about Christian ministries in the Christian Ministry Marketplace.

Wall Watchers examines the practical epistemology of donor stewardship. Not stopping with the theory and origin of the "why" of stewardship (even though that is done too), but how to put it into practice with "where" and "who" (the practical application of putting a known truth into practice).

Wall Watchers' desire is to facilitate wisdom, understanding and discerning decision making for donors. This is done in part by providing information on organizations alleging to be charitable and its key leadership in order to identify materially misleading behavior, or wasteful spending practices, as well as identifying those operations that are above board and running efficiently. The objective is to limit consequences of scams and prevention of fraudulent activity, promote better allocations of giving, encourage intelligent questions of organizational structure, financial health, and advance the idea of organizational transparency and best practices.

What Do We Mean By Calling Ourselves "Independent"?

Wall Watchers is independent in two ways. In the first instance, the organization's independence is based on the fact that it is not owned or controlled by any entity with a vested interest in any ministry or ministries. In the second instance, Wall Watchers is independent in the sense that it does not derive financial support from the ministries that it researches.

What Kind of Entity is Wall Watchers?

Wall Watchers was founded in July 1998 as a North Carolina nonprofit corporation pursuant to section 55A-2-02 of the General Statutes of North Carolina (N.C.G.S.) It is also recognized by the Internal Revenue Service (IRS) as tax-exempt under Internal Revenue Code (IRC) section 501(c)(3) and as a Public Charity under IRC section 170(b)(1)(A)(vi).

What Is Wall Watchers Motivation?

Wall Watchers is convinced that donors armed with credible analysis from a reliable, independent source will respond with larger and more frequent giving. Wall Watchers is driven by donor needs. By providing quality information services, Wall Watchers seeks to contribute to the enlightenment of the philanthropic community while empowering donors with charity-specific knowledge that will lead to increased giving and enhanced accountability.

The Need For Ministry Research

A key ingredient to any well functioning marketplace is a free flow of information that is easily accessible, accurate, low cost, comprehensive and of high quality. Wherever goods or services are exchanged, there is a marketplace in operation. Those who are involved in an exchange make transactions based on some level of knowledge about the benefits of participating in the "trade." The greater the knowledge each participant in a transaction has regarding the potential benefit of making an exchange, the more likely a "trade" will take place. Additionally, the perceived value of having engaged in the trade will be higher for both parties involved.

Some may argue that there is not a marketplace in the nonprofit world due to the absence of a profit motive. Despite this absence, there remains an exchange of donor dollars for the satisfaction of knowing that those in need have been cared for. With this gift comes a stewardship responsibility to both the giver and receiver to see that it has been administered appropriately and not wasted. Givers will not donate if they believe their gift will be wasted or misappropriated. Even though there is not a "bottom line" net profit measurement of success or failure in the nonprofit world, there are a variety of methods of gaining understanding about how efficiently and effectively donations are utilized. Donors will naturally utilize such measures to gain assurance that their giving was administered wisely. Accordingly, the marketplace transaction for nonprofits is simply the exchange of donor dollars for knowledge that the donation will likely achieve its desired goal of helping those in need.

Some may be troubled by the notion that a marketplace indicates a competitive environment exists for Christian ministries. Several observers have expressed concern in the past that competition is inappropriate in a Christian ministry context. Wall Watchers believes that regardless of one's beliefs about such competitive forces, competition undeniably exists in the realm of Christian ministries. Ministries are clearly vying for donor dollars and regularly use standard business practices to attract as much money as possible to their ministries. Ministries with competitive advantages in terms of scale or distribution regularly exploit these for their own benefit while smaller, arguably more worthy ministries, are unable to match the efforts of the larger ministries. Wall Watchers seeks to help donors obtain accurate, unbiased information about all Christian ministries to help level the competitive playing field in the Christian Ministry Marketplace. If competition exists, it should at least be fair.

It is also quite natural to at first be repulsed by the idea of a marketplace in the realm of giving. Giving is a very personal, and hopefully prayerful, activity. Talk of marketplaces and competition seem to be out of place in this area where the spiritual dimension should take precedence. Nothing in this article is meant to diminish the spiritual aspect of giving. Wall Watchers acknowledges that any marketplace or information service that seeks to aid the Christian donor is ultimately subservient to the Holy Spirit's leading - "Each man should give what he has decided in his heart to give, not reluctantly or under compulsion, for God loves a cheerful giver" (2 Corinthians 9:7). It is entirely possible that despite a large quantity of evidence that a donation should not be made to a particular ministry, a donor might feel lead by the Lord to give anyway. At the same time, however, we are confident that the Lord can and does use the tools that are available to donors in the Christian Ministry Marketplace to help align their gifts with His eternal purposes. By remaining faithful to the teaching of the Bible and sensitive to the Holy Spirit's promptings, donors can know if, how and when to best utilize the growing information available to donors about the ministries that they support.

The Example of the Successful Financial Marketplace

Because of the success of the world's capitalist-based economies, most people are familiar with stock exchanges such as the New York Stock Exchange or NASDAQ, perhaps the most effective marketplaces in the world. Here stock certificates representing ownership in public companies are exchanged between buyers and sellers based on each individual's expectations on the future value of the company in question. These stock marketplaces are very highly developed and benefit from the following entities and systems:

- Government Regulation - Government regulations are comprehensive and set up a framework in which both buyer and seller can be treated fairly.
- Self-Regulation - Self-regulators, such as the exchanges themselves, place further constraints on the behavior of their members to ensure trustworthy service to those who access the stock exchanges to trade shares.
- Independent Advisors - Corporations selling shares can rely on wide variety of accomplished investment bankers and other consultants to advise them on how to best promote their shares to investors so that they can raise capital to grow their business.
- Investment Research - Investors in a corporation's shares can, in turn, rely on a multitude of information sources (stock brokers, mutual funds, Morningstar, Value Line, rating agencies, financial planners, the Internet) - often offering conflicting advice - to help them determine whether purchasing the shares would likely be profitable.

While an investor's decision to purchase a stock may or may not ultimately prove profitable, each party to the transaction enters the exchange feeling highly confident that they are making the right decision. This confidence reflects the quality and depth of the marketplace infrastructure that makes accessing worthwhile advice and information quick, easy and affordable. Accordingly, participants in the stock, bond and currency markets are willing to make transactions each day, which combined, measure in the trillions of dollars. As a result, financial marketplaces like stock exchanges are amazingly effective at efficiently directing investments to where the highest return is expected to be found, thereby spurring progress, growth and innovation. This represents a good example of what might be achieved with a more developed and robust Christian Ministry Marketplace.



The Current Dysfunctional Christian Ministry Marketplace

The Christian Ministry Marketplace is nowhere near as effective as that of the financial markets. The Christian Ministry Marketplace remains very underdeveloped and might best be described as dysfunctional:

- Government Regulation - First, **the framework for the market's operation as established by government regulations, notably from the IRS, is weak. Regulations are often not effectively enforced and audits are infrequent.** The IRS has little incentive to spend its limited resources in the nonprofit arena, as any fines assessed for infractions by most nonprofit organizations would be paltry in comparison to what similar IRS efforts might yield

in the for-profit world. Moreover, even when the IRS uncovers a problem, donors are unlikely to ever find out about it, as such matters are generally resolved behind closed doors as an entity tax issue, rather than an issue important to donors.

- Self-Regulation - Second, while the Evangelical Council for Financial Accountability (ECFA) provides the best self-regulation to be found in the nonprofit sector for its more than 1,100 ministry members, there is much more that could be done to tighten the standards it promotes and give donor's greater confidence and representation in the ministries they support.
- Independent Advisors - Third, consultants and other advisors to both Christian ministries and donors are not as prevalent or skilled as those available to corporations in the financial markets. Therefore, both groups are less likely to obtain the quality advice they need when making important decisions.
- Ministry Research for Donors - Finally, the donor to Christian ministry has far fewer places than a typical investor to turn to get an unbiased assessment of the worthiness of individual Christian ministries. Wall Watchers' free website www.MinistryWatch.com is the only entity that focuses entirely on analyzing Christian ministries and offers an independent view on their merits. The chart below highlights some of the shortcomings of the nonprofit marketplace relative to the corporate marketplace.



While the Christian donor is much better served than the secular donor due to the industry leading efforts of the ECFA and Wall Watchers, there is much work yet to be done in order to achieve a comprehensive and fully functional Christian Ministry Marketplace. Moreover, it would be appropriate and commendable for the Christian community to continue to lead the way to greater accountability and effectiveness in the philanthropic world.

The Potential of the Future Christian Ministry Marketplace

What could the future Christian Ministry Marketplace look like? Here are a few ideas:

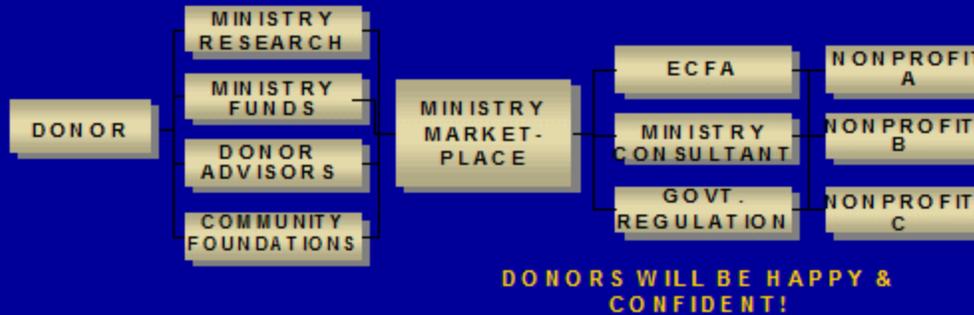
- Ministry Research - Groups like Wall Watchers should continuously seek to improve their research techniques, provide more value-added subjective research on ministry effectiveness, produce more topical research reports to help educate donors to key issues in the Christian Ministry Marketplace and increase the number of ministries covered. Donor advocate organizations like Wall Watchers should proliferate, thereby giving donors a variety of high quality, independent sources of information to interpret the enhanced data

released by ministries.

- Ministry Mutual Funds - Ministry mutual funds might arise, advised by experts like Wall Watchers, National Christian Foundation and Geneva Global, which would help some donors, who are too busy to do their own in-depth ministry research, to optimize their giving. Larger donors might regularly hire personalized donor advisors like Calvin Edwards & Co. and Excellence in Giving in order to prepare highly specific, customized long-term giving plans and targeted ministry research that would maximize the impact of their donations. Large Christian foundations could seek ways to share with the entire Christian community the research they have done on ministries. Christian community foundations like the National Christian Foundation and Christian Community Foundation would prosper as Christians sought out their wise counsel and tax-efficient gifting strategies to increase the amount of money available to the kingdom.
- Self Regulation - The ECFA might tighten its membership requirements even more, seek means to constrain unusually high spending on fundraising and overhead, increase the number of audits performed, propose means to measure ministry effectiveness and begin to publicly censure those ministries that egregiously breach its standards to further insure that Christian ministries are above reproach and operating in a godly manner.
- Government Regulation - Perhaps a charitable version of the Securities and Exchange Commission (SEC) might be developed to promote a better framework for which non-profits, including the Christian Ministry Marketplace, to operate within. Preferably, this would be adopted via self-regulation but this is not likely to occur. We believe that not all ministries would willingly subject themselves to such self-regulation just as many currently are not ECFA members, thus government regulations may be required. This could include:
 1. More frequent reporting of financial performance
 2. Requirements to measure ministry effectiveness in comprehensive annual and quarterly reports
 3. Requirements for larger organizations to prepare consolidated financial statements, segment reporting for larger, complex nonprofits
 4. Giving donors a voice through participation in the annual election of board members
 5. Full disclosure on executive compensation
 6. Serious fines and criminal penalties for failing to notify donors of material information affecting the operations of the organization.
 7. Greater disclosure of Conflicts of interest
 8. Greater disclosure of related party transactions
 9. Greater disclosure on royalty arrangements

All these are already present in the financial marketplace and are one of the reasons why it works so effectively. None are present in the Christian Ministry Marketplace and thus higher levels of giving, modernization and development are undermined. While costs for larger organizations would rise somewhat to abide by these regulations, the return would be even greater as the financial markets for public corporations have proved.

Future Christian Ministry Marketplace



All this is currently possible and, if implemented, would assuredly lead to more and wiser giving by donors and smarter spending by ministries. The net result would be potentially enormous financial blessings for the Lord's work. Accordingly, it is imperative that donors and ministries alike pursue the objective of a fully functioning Christian Ministry Marketplace with intentionality and vigor.

Only a functioning Christian Ministry Marketplace will cause donations to be targeted to the most worthy ministries and motivate ministries to manage their operations as wisely as possible. Below is a chart that contains a partial listing of those organizations that already exist to help make giving a more rewarding experience for Christian donors.

Christian Ministry Marketplace Participants

WHY give to Christian ministries?	HOW to give with a discerning mind?	WHERE to give to kingdom ministries?
Teaching on Christian Stewardship: <ul style="list-style-type: none"> - Crown (crown.org) - Eternal Perspectives (epm.org) - Generous Giving (generousgiving.org) - Royal Treasure (royaltreasure.org) - Sound Mind Investing (soundmindinvesting.com) - The Gathering (thegathering.org) - TheGoodSteward.com (thegoodsteward.com) 	Professional Advisors: <ul style="list-style-type: none"> - CFPN (cfpn.org) - CFPI (christiantol.org) - Christian Community Fdn (thefoundations.org) - Nat'l Christian Fdn (nationalchristian.com) - Counsel and Capital Donor Advisors: <ul style="list-style-type: none"> - Calvin Edwards & Co. (no website) - Gordon Loux (mygivingcoach.com) - Legacy (philanthropyatwork.com) - Excellence in Giving (excellencegiving.com) 	Ministry Research: <ul style="list-style-type: none"> - ECFA (ecta.org) - Generous Giving (generousgiving.org) - Geneva Global (genevaglobal.com) - MinistryWatch.com (ministrywatch.com) Ministry Mutual Funds: <ul style="list-style-type: none"> - Nat'l Christian Fdn (nationalchristian.com) Online Donation Services: <ul style="list-style-type: none"> - Network For Good (networkforgood.com)

Organizational Principles

- (1) To help people.
- (2) To promote biblical principles of stewardship.
- (3) To encourage greater disclosure, transparency, responsibility and accountability among ministries.
- (4) To assist donors in making better informed decisions.
- (5) To be independent.
- (6) To exhibit integrity.
- (7) To make sure our information is relevant, objective, meaningful, useful, insightful, timely, truthful, credible and is value-added to the reader.
- (8) To operate as a nonprofit Christian ministry in conformance with our statement of faith.
- (9) To honor and value our financial supporters.
- (10) To honor and value ministry members.

Mission Statement

Wall Watchers is a Christ-centered, nonprofit organization committed to promoting biblical principles of stewardship and helping people to apply those principles in their lives.

By providing quality information services, we seek to contribute to the enlightenment of the Christian community while empowering Christians with the ministry-specific knowledge that will lead to increased giving and enhanced ministry accountability.



Statement of Faith

1. We believe that the Bible, both the Old and New Testaments is inspired by God, inerrant, and that it is of supreme and final authority in faith and life.
2. We believe that there is only one God, eternally existent in three persons: Father, Son and Holy Spirit.
 - a. We acknowledge the Creator - God as our heavenly Father, infinitely perfect, and intimately acquainted with all our ways.
 - b. We claim Jesus Christ as Lord - the very God who came in human flesh - the object of our worship and the subject of our praise.
 - c. We recognize the Holy Spirit as the third member of the Godhead, incessantly at work convicting, convincing, comforting; and regenerates with divine life and personally indwells the believer upon his faith in Christ for salvation.
3. We believe in creation, not evolution; that man was created by the direct act of God and in the image of God.

4. We believe that Adam and Eve, in yielding to the temptation of Satan, became fallen creatures.
5. We believe that all men are born in sin. Adam's fall into sin left humanity without the hope of heaven apart from a new birth, made possible by the Savior's death and bodily resurrection.
6. We believe in the incarnation, the Virgin Birth, and the Deity of our Lord and Savior, Jesus Christ.
7. We believe in the vicarious and substitutional atonement for the sins of mankind by the shedding of Jesus' blood on the cross.
8. We believe in the resurrection of His body from the tomb, His ascension to Heaven, and that He is now our Advocate before God.
9. We believe in His power to save men from sin.
10. We believe the offer of salvation is God's love-gift to all. Those who accept it by faith, apart from works, become new creatures in Christ. Salvation is by grace through faith, plus nothing, minus nothing, in the atoning blood of our Lord and Savior, Jesus Christ.
11. We believe that anyone who trusts in Christ by faith is a new creation in Him - clothed in His righteousness and fully loved and accepted by God.
12. We believe that God expects our lives to reflect that we belong to Him and that we are pursuing a holy life.
13. We believe that Satan, under the sovereign permission of God, tries to destroy the faith of believers and that drawing near to God is the only way to resist him.
14. We believe that as new creations in Christ we will continue to wrestle with our sin nature. We will, however, continue to grow in grace and become more like Jesus. Ultimate perfection and freedom from sin, however, will only come when we finally stand in the presence of the Lord.
15. We believe that, as believers in Jesus Christ, we are members of His universal church and that the local church is the place God has designed for His people to worship Him, observe the ordinances of baptism and the Lord's Table, and love other Christians.
16. We believe that, having embraced Jesus Christ by faith, we are to make Him known to non-Christians in our sphere of influence.
17. We anticipate our Lord's promised return in power and glory.
18. We are convinced that all who have died will be brought back from beyond - believers to everlasting communion with God and unbelievers to everlasting separation from God.

History

Early 1990s

Wall Watchers had its genesis in the early 1990s, when founders Howard "Rusty" Leonard and his wife Carolynn first entertained the idea of starting a Christian ministry aimed at bringing improved levels of disclosure and accountability to Christian ministries.

In the course of giving to a number of Christian ministries, Rusty and Carol felt the need to better fulfill their own stewardship responsibilities and began requesting basic financial information from the ministries they supported. For Rusty, at the time a portfolio manager for a large investment management firm, and Carol, an accountant, this seemed like a very simple request that any ministry should be happy to honor. Rather than being overwhelmed by a spirit of transparency and accountability on the part of the ministries they supported, the Leonards were shocked when ministries seemed to go out of their way to withhold financial information from them. If financially savvy donors like them had trouble getting information, they wondered, then how uninformed and ill-equipped must the average Christian donor be to exercise stewardship in this important area.

This experience corresponded to a time when they were studying the Bible. The context was of the Old Testament prophet Ezekiel and his calling to be a watchman for the house of Israel (Ez. 33:7). Along with the circumstances going on in their life at the time and their background it was as if the Lord were speaking to them through that text.

The Leonards concluded that they were being called to start an organization that would serve as a "watchman on the wall" by providing a much needed information service to Christian donors.

The Watchman symbol used by Wall Watchers is an Old Testament watchman standing on the wall of the city blowing the shofar (ram's horn). In the same way that the Watchman empowered people to act for themselves by sounding the alarm, Wall Watchers empowers people today by providing them with the information they need to make better informed giving decisions.

But Wall Watchers is more than just a Watchman, and in the same way that the shofar was used for many different purposes in the Old Testament (as a call to worship, proclaiming the presence of God, to assemble people), so to Wall Watchers goals are broader than simply sounding an alarm, and include facilitating increased giving, helping people become better stewards, and bringing donors and ministries together.

And so over time the ministry has taken on a greater scope as an information service as able with increased funding.

July 1998

Wall Watchers officially got off the ground in July 1998 by incorporating as a nonprofit organization in the State of North Carolina.

August 1999

Wall Watchers received recognition from the Internal Revenue Service of its tax-exempt status under Internal Revenue Code section 501(c)(3).

September 1999

Wall Watchers launched [thegoodsteward.com](http://www.thegoodsteward.com) (www.thegoodsteward.com), an educational website for equipping people with the knowledge to become better stewards.

December 1999

An informational website (www.wallwatchers.org) was launched in December 1999 making Wall Watchers vision, mission and intentions more accessible to the public.

September 2000

MinistryWatch.com (www.ministrywatch.com) was launched providing the donating public with access to organizational and financial profiles on nonprofit ministries in the United States.

Vision

As the Lord blesses our efforts, Wall Watchers will help all Christians make more informed financial decisions by guiding them toward the principles of good stewardship found in His Word. Better financial decisions will lead to increased wealth creation and a greater capacity to donate generously to the Lord's work.

Wall Watchers' MinistryWatch.com service will increase the confidence of donors by providing an independent source of information on Christian ministries to aid them in making their giving decisions. Greater knowledge of the good works being done by Christian ministries and insightful analysis of the activities of these ministries can only lead to higher levels of giving by those who feel called to financially support God's work.

We hope that as we look back in ten or twenty years at what Wall Watchers has accomplished, we will be able to clearly see how our efforts have enabled many to become more knowledgeable about the wonderful and sacrificial works being done in the world of Christian ministry.

Our goal is to facilitate the joy of giving through the gift of knowledge, and to make financing those works easier for those on the "front lines."

The Watchman Symbol

The name, Wall Watchers, comes from the founders, Rusty and Carolynn Leonard, and relates to a time when they were studying the Bible. The context was of the Old Testament prophet Ezekiel and his calling to be a watchman for the house of Israel (Ez. 33:7). Along with circumstances going on in their life at the time and their background it was as if the Lord were speaking to them through that text.

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How We Accomplish Our Mission

What are the main programs of Wall Watchers?

Wall Watchers currently operates four programs:

1. MinistryWatch.com, is the online database component of Wall Watchers that profiles and reports on nonprofit public charities, church and parachurch ministries. MinistryWatch.com is not an organization, but is just one communication outlet for Wall Watchers. It is a type of consumer reporting website of faith-based charities. MinistryWatch.com includes a transparency grade, 5 Star Financial Efficiency Ratings, organizational details, descriptive

- information, analyst comments, numerous articles, features, and resource pages.
2. Knowledge Management Information Pipeline, is a process to parse and facilitate wisdom, understanding and discerning decision making. Without the Knowledge Management Information Pipeline there would only be raw data on the website as content. Some charity related websites are mainly focused on the quantity of charity related raw data. This is not the case with Wall Watchers. We live in an age of ever increasing information, as people are after the pursuit of even more and more information; but people are not necessarily wiser. Some of the activities of the Information Pipeline include a propriety database, a larger amount of ministry data stored than is profiled on the website, ministry data examined, information requests being processed, data checked as it comes in, then entered, journaling contacts, following up when needed, calculations of a Transparency Grade, 5 Star Financial Efficiency Ratings, and many other activities. This is a practical application and outgrowth of the philosophy of Epistemology. In particular, a practical epistemology examination and application of donor needs.
 3. Individually tailored research, of issues and subjects that are brought to Wall Watchers attention through complaints of other ministries, media attention, ministries asking for advice in performing with best practices, various governmental entities seeking information, etc. Much of it could be classified as on-call research. This is all done with the view as a Donor Advocate. As a Donor Advocate, Wall Watchers argues for the cause, needs, and desire of Donors. As there are different circumstances, there are different approaches in being an advocate. Sometimes being in the role of an "advocate" will offend others. But this is not done capriciously and carelessly with the intention to harm anyone, but to the contrary in order to plead the case of donors. The research is accomplished by a variety of people in various capacities and the result of which generally does not get profiled on MinistryWatch.com.
 4. TheGoodSteward.com, is an online platform on which Wall Watchers profiles educational articles. This website is not an organization, but is just another communication outlet for Wall Watchers. Topics cover such issues as Biblical Stewardship, Life Stewardship, Financial matters, Giving Wisely, and The Environment. The goal is to bring together the best writers, commentators, and teachers in the area of Christian stewardship.

What Is The Function Of The MinistryWatch.com 5 Star Financial Efficiency Ratings?

The MinistryWatch.com 5 Star Financial Efficiency Ratings produce a summary measure of a ministry's financial efficiency relative to that of its peers. The ratings are derived from financial ratios that are based on the financial statements produced by the organization. The purpose of the ratings is to provide users with an initial place to start when looking at an organization's financial information. The ratings give users an idea of how an organization has performed financially in the past, and do not necessarily convey how an organization will perform in the future. The MinistryWatch.com 5 Star Financial Efficiency Ratings are neither a predictive measure nor a recommendation, and we would add that financial ratios are just one of the many ways Wall Watchers analysts look at and evaluate a ministry.

Using Financial Ratios

Wall Watchers believes in the value and the usefulness of financial ratios. However, we also acknowledge that financial ratios have limitations. We believe that financial ratios can tell donors something useful about an organization, especially when viewed relative to the same ratios for peers (comparative analysis) or compared to previous outcomes (trend series analysis). The value of financial ratios is in their ability to shed light on relationships that exist within the organization's financial accounts. Our ratings system uses a set of financial ratios to determine the financial efficiency of an organization, but this analysis is merely one tool to use in arriving at a comprehensive evaluation of an organization.

Does Wall Watchers Differentiate Between Efficiency And Effectiveness?

Wall Watchers uses the word efficiency to describe the financial performance of an organization derived from financial information contained in the financial statements. Wall Watchers has constructed the MinistryWatch.com 5 Star Financial Efficiency Ratings™ to produce a summary

measure of financial efficiency. Wall Watchers uses the word effectiveness to refer to program outcomes. Wall Watchers provides space within a Ministry Profile to report the ministry description of the effectiveness of its programs, but we do not measure program effectiveness ourselves.

Measuring Program Effectiveness

The way that a ministry measures its own program effectiveness differs from ministry to ministry. Wall Watchers will report this information as the organization reports it. We will, however, review the information reported by a ministry about its program effectiveness and comment upon its reasonableness in the light of the financial and other information that we have obtained about the organization. We will also reserve comment until we have obtained sufficient data to form an opinion.

Limitations On Research

There are two primary limitations that we face with regard to ministry research. First, we depend upon the ministry for the amount and quality of information obtained. Second, Wall Watchers analysts seek to form insights based on less than perfect information. Not surprisingly, Wall Watchers cannot know everything there is to know about an organization, but we hope that by using a structured approach, we can gather, collect and process a sufficient amount of relevant information upon which to base an evaluation.

MinistryWatch.com

MinistryWatch.com profiles faith-based public charities, church and parachurch ministries. It provides information on organizations alleging to be charitable and its key leadership in order to identify materially misleading behavior, or wasteful spending practices, as well as identifying those operations that are above board and running efficiently. The objective is to limit consequences of scams and prevention of fraudulent activity, promote better allocations of giving, encourage intelligent questions of organizational structure, financial health, and advance the idea of organizational transparency and best practices.

Features of MinistryWatch.com:

- Transparency Grade, providing donors with an insight into a ministry's commitment to transparency and help's donors search out those nonprofit Christian ministries that excel in the area of transparency
- Donor Alerts
- Shining Light ministry lists
- 5 Star Financial Efficiency Ratings
- Rating sectors
- The only online database to date that has incorporated audited financial statements of nonprofit ministries. Some organizations profile IRS Form 990 data, but Wall Watchers has paved the way with audited financial statements in addition to IRS Form 990s
- Historical income statements and balance sheets
- Financial ratios
- Analyst Comments
- Nonprofit organizational details and descriptive information
- Ministries Statement of Faith
- Mission Statement
- Program accomplishments
- Ministry needs

- Numerous articles and resource pages
- Wall Watchers is also unique in that it comments on values, worldview and theological considerations of nonprofit organizations as those intersect and are important to donors understanding in making giving decisions

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MinistryWatch.com Supporting Donor Needs as an Advocate

Donors make decisions where to give and how much to give based on some level of knowledge. The greater the knowledge a donor has the more likely a donation will take place. Additionally, greater knowledge produces a greater perceived value and the more likelihood of a repeat donation.

Donor needs include the following:

- Openness and transparency. Prudent donors want to understand what it is they are going to support. Foundational to ethics and morals is transparency and openness. Donors want committed ministries that are open and transparent, not experts in pushing emotional buttons in fundraising persuasion. Transparency is foundational in order to make a good decision.
- Due diligence integrity research. The knowledge that their donation is being used as solicited. Donors want to know that a nonprofit organization is telling them the truth and doing the right thing before God and man. Even when no one is watching.
- Values and beliefs. Donors want to understand which ministries represent their values.
- Efficiency and effectiveness. Donors want to know that their dollars are being used in an efficient and effective manner. Donors generally do not want to give to ministries that are overly focused on their own financial gain. Donors do not want to see leaders of ministries enamored with riches, but maximizing the ministry at every opportunity.
- Best practices. Donors would like some assurance that ministries are adhering to best practices, such as good governance in its operations and open to accountability measures.

Stewardship of Donations

There is a stewardship responsibility to both the giver and receiver to see that it has been administered appropriately and not wasted. Givers will not donate if they believe their gift will be wasted or misappropriated. Even though there is not a "bottom line" net profit measurement of success or failure in the nonprofit world, there are a variety of methods of gaining understanding about how efficiently and effectively donations are utilized. Donors will naturally utilize such measures to gain assurance that their giving was administered wisely. Accordingly, the marketplace transaction for nonprofits is simply the exchange of donor dollars for knowledge that the donation will likely achieve its desired goal of helping those in need.

Regardless of one's beliefs about competitive forces, competition undeniably exists in the realm of Christian ministries. Ministries are clearly vying for donor dollars and regularly use standard business practices to attract as much money as possible to their ministries. Ministries with

competitive advantages in terms of scale or distribution regularly exploit these for their own benefit while smaller outstanding ministries are unable to match the efforts of the larger ministries. Wall Watchers seeks to help donors obtain accurate, detailed information about Christian ministries to help level the competitive playing field in the Christian Ministry Marketplace. If competition exists, it should at least be fair.

Knowledge Management Information Pipeline

Wall Watchers Knowledge Management Information Pipeline is a process to parse and facilitate wisdom, understanding and discerning decision making. Without the Knowledge Management Information Pipeline there would only be quantities of raw data as content. Some charity related websites are mainly focused on the quantity of charity related raw data. This is not the case with Wall Watchers. The presentation of raw data is not the goal of Wall Watchers, but the synthesis of abstract information and attempting to see that it represents the realities and truth in order to help donors.

We live in an age of ever increasing information, as people are after the pursuit of even more and more information. But people are not necessarily wiser. The Information Pipeline and Knowledge Management system is an attempt to make meaning of the overabundance of information. Our desire is to facilitate wisdom, understanding and discerning decision making. This is a practical application and outgrowth of the philosophy of Epistemology. In particular, a practical epistemology examination and application of donor needs.

Wall Watchers' Information Pipeline supports its stakeholders with a collection of knowledge-sharing tools, resources, research, analytics, and content development services. This Knowledge Management process helps organize, identify, classify, create, represent and distribute evaluated information.

One result of the Information Pipeline is the content, functional tools, various classifications and taxonomies, some of which are then displayed and used on the website of MinistryWatch.com. Without the Information Pipeline there would be no useful content for the website. In addition, not all that is part of the Information Pipeline is used by this website. Other uses of it are for customized research as well as internal decision making purposes. In some circles this may be referred to as Knowledge Stewards, Knowledge Brokers, Knowledge Researchers, Knowledge Content Specialists, or an Infomediary.

Some of the practical focal points and activities of the Information Pipeline surround:

- a propriety database
- knowledge agenda process (including content needs, metric analysis process assessment and evaluation)
- information requested
- a large amount of ministry data entered and stored
- data checked as it comes in
- knowledge inventory process (including gap assessment and fulfillment recommendations including content capture)
- contacts journaled
- follow-up procedures performed as needed
- calculations of a Transparency Grade
- classification of rating sectors

- 5 Star Financial Efficiency Ratings
- identification and classification of various data into taxonomies
- tax-exempt and nonprofit issues examined
- best practices learned and explained
- content publication
- quality control to protect intellectual assets
- leveraging opportunities for continuous improvement
- and many other activities that process and analyze data

The Information Pipeline does not end, but then requires coordination and identification of further strategic priorities that justify additional knowledge generation within various knowledge subsets. Part of this process involves understanding stakeholder needs and issues to address, assuring availability, access and quality of content and expertise to help as needed. As this information is shared, efficiencies can be gained that have a return on investment for the organization's knowledge assets. Managing the knowledge needs and requests for various stakeholders ensures content standards can be ensured and improved for the user experience so that the knowledge gateway is valued as a tool for making decisions.

Transparency Grade

Overview

The MinistryWatch.com's Transparency Grade provides donors with an insight into a ministry's commitment to transparency and help's donors search out those nonprofit Christian ministries that excel in the area of Transparency.

People give to their favorite charities for many reasons – some because they have a heart for the mission, some because they have been helped by the charity, others because they know the people and like the organization. Whatever the reason, in every instance a bond of trust develops between donor and charity. Transparency is at the heart of long-term trust in any relationship. Donors want to make wise giving decisions. Without access to comprehensive ministry information it is not possible for donors or donor advocates like MinistryWatch.com to make optimal giving decisions. Charitable organizations that seek to obscure critical information from scrutiny undermine the faith and trust of the donor and damage donor attitudes that have an impact well beyond their own operations. Accordingly, transparency is a key component to a growing and prosperous Christian Ministry Marketplace and fundamental to long-term ministry success.

How Transparency is Assessed

Transparency is assessed based on four areas: (1) timelines, (2) financial information available, (3) foundational clarity, and (4) level of cooperation. In order to make this assessment, Wall Watchers requests information and evaluates the response. A score is assigned between 0 and 100, with 0 reflecting worst practice and 100 reflecting best practice. However, each ministry will be considered in light of its own unique circumstances.

The scores for the four areas are averaged to determine an overall transparency score. For example, if an organization scored a 100 in the first question, a 90 in the second question, an 80 in the third area, and an 80 in the fourth area, its overall transparency score would be 87.50 (350 / 4).

The grade is based on the following scale: 0-60 = F, 61-70 = D, 71-80 = C, 81-90 = B, 91-100 = A. In this example, the overall transparency score of 87.50 would translate into a MinistryWatch.com

Transparency Grade of B.

Functional Purpose of the Transparency Grade

The Transparency Grade exists to provide insight into a ministry's willingness to be transparent in disclosing vital information in a timely manner, and also to encourage ministries to provide information necessary for MinistryWatch.com to produce comprehensive reports for Christian donors. These reports are much like an investment bank's research report on a corporate stock or Morningstar report on a mutual fund and aid the donor in understanding the key issues concerning a ministry's operations. The reports include information on the ministry's purpose, organizational details, its mission statement, history, program accomplishments, the ministry's current needs, as well as financial efficiency ratings. Some also contain an expert subjective analyst report that includes information on the ministry's strengths, weaknesses and theological positions, or a MinistryWatch.com Donor Alert, if one has been produced. Additionally, financial ratios, historical income statements and balance sheets as well as recent news items relating to the ministry are displayed. Many of these features would be unavailable or severely limited if the ministries did not provide the requested information. Of course, we are hopeful that ministries, because of the biblical mandates of responsible stewardship and accountability, would be readily forthcoming with information, but that is not always the case. Additionally, the Transparency Grade can be a positive consideration by donors. A ministry with a high Transparency Grade sends the important message to donors that it takes its biblical stewardship and accountability mandates seriously.

Looking Ahead

There are many other factors that could be considered in determining transparency. These other factors include membership in accountability groups, internal policies, and fundraising practices, to name just a few. However, MinistryWatch.com believes that the best indication of an organization's transparency is how it responds when those commitments and policies are actually put to the test. Donors are not impressed with what ministries say they will do, but what they actually practice. This system tries to assess that commitment within organizations. In the future, more comprehensive assessments of transparency may be possible.

MINISTRYWATCH

MinistryWatch 5 Star Rating System

INTRODUCTION TO RATINGS

What is the purpose of the 5 Star Financial Efficiency Ratings system?

The 5 Star Financial Efficiency Ratings system was created to help researchers, donors and managers assess a nonprofit organization's financial performance. Wall Watchers believes that accountability and efficiency are increased when better information is available to donors. The 5 Star Financial Efficiency Ratings system provides better information in several ways. First, it highlights the relevant financial decisions of nonprofit organizations. The ratings system links financial information to managerial decisions, thereby providing a practical context for viewing financial information. Second, it adds an element of interpretive value to financial information. Donors, like investors, are not always willing to acquire the skills and invest the time required to perform their own financial analysis. Consequently, they see value in receiving information that has

already been processed by others. Third, it provides a robust system to compare nonprofit organizations. Although these systems are common in the for-profit marketplace, such systems are almost nonexistent in the nonprofit world. In these ways, the 5 Star Financial Efficiency Ratings system provides better information to donors and nonprofit managers, which will ultimately assist in bringing improvement to the nonprofit sector.

What does the 5 Star Financial Efficiency Ratings system measure?

The 5 Star Financial Efficiency Ratings system objectively measures the relative degree of financial efficiency achieved by the managers of nonprofit organizations.

First, the rating system is **objective**. The ratings are calculated automatically (mechanically) based on financial variables taken from the organization's published financial information.

Second, the measurement is **relative**. Each rating reflects an organization's rank along a particular dimension relative to its peer group. By comparing a nonprofit to others that have similar structures and missions, Wall Watchers believes that the ratings compare apples to apples, which makes them more relevant to donors and managers.

Third, the system measures **financial efficiency**. Wall Watchers believes that financial efficiency, as defined, is desirable in all organizations, regardless of individual mission or structure. Nowhere within the rating system is an attempt made to assess the effectiveness of programs.

Fourth, the system focuses on **managers**. By structuring the ratings system within the context of financial decision-making, the rating system underscores the belief that it is the managers of nonprofits who are the stewards of the organization's resources and it is their decisions that should be assessed.

Fifth, the ratings are applied specifically to **nonprofit organizations**. Organizations that are classified as nonprofits under section 501(c)(3) of the tax code are the primary candidates for analysis using this rating system.

What is Wall Watchers' definition of financial efficiency?

Financial efficiency, as calculated in the 5 Star Financial Efficiency Ratings system, is a measure of how well a nonprofit organization has managed certain trade-offs (defined later as risk and return) in the use of its financial resources. This measure leaves out any assessment of how effectively an organization's specific programs are accomplishing their desired purpose of providing spiritual or social goods. Despite this narrow focus, Wall Watchers believes that the 5 Star Financial Efficiency Ratings system will be a valuable tool to donors who wish to answer the question of which nonprofits have made the most of the financial resources they have been given.

What are the major limitations of the 5 Star Financial Efficiency Ratings system?

The usefulness of the 5 Star Financial Efficiency Ratings system is limited by the quality of the underlying financial data inputs and the relevance of the model used to determine financial efficiency.

Quality of financial data

The data used in the model is taken primarily from an organization's audited financial statements or from the IRS Form 990 filed each year by many nonprofits. Wall Watchers makes no assurances as to the accuracy of the information contained within the audited financial statements or within the IRS Form 990.

Relevance of the model

All models have limitations. The 5 Star Financial Efficiency Ratings system measures financial efficiency. It does not measure program outcomes or program effectiveness. Although many of the financial ratios used to derive the ratings are commonly used ratios that may be useful in isolation, the model weaves them together to provide an overall measure of financial efficiency. The relevance of the rating system to users is dependent upon their agreement with the way in which these ratios are combined to evaluate financial efficiency.

Using the 5 Star Financial Efficiency Ratings

The 5 Star Financial Efficiency Ratings do not assess an organization's integrity or the worthiness of its mission. They provide very specific information, namely an assessment of financial efficiency. Donors are encouraged to use the 5 Star Financial Efficiency Ratings in light of the two primary limitations described above and the following additional observations:

1. A rating is not a recommendation for or against giving to a nonprofit.
2. The ratings system is just one tool that a donor could use when evaluating a nonprofit.
3. The ratings are based on financial ratios that depict relationships within the financial information of nonprofits.
4. The ratings do not convey information about the value or accomplishments of the programs of nonprofits.
5. The ratings provide one possible assessment of financial efficiency.
6. The ratings provide information about how the nonprofit has performed in the past and do not necessarily reflect how it will perform in the future.
7. A nonprofit is rated only against the other nonprofits in its sector, or peer group. Others may not agree with the sector groupings made by Wall Watchers.
8. The ratings are based on an analysis of the trade-offs that are made between the various financial objectives of nonprofits.
9. The ratings should be used whenever possible in conjunction with Wall Watchers Analyst Comments.
10. Ratings will not normally be constructed for organizations that have not been operating for at least five years.

The Use of Financial Ratios in Financial Analysis

An examination of relationships within an organization's financial information can provide a snapshot of management's decisions at one point in time or over a certain reporting period. Commonly referred to as financial ratio analysis, this technique is often used to evaluate for-profit organizations. Although the goals of nonprofits are different from the goals of for-profits, financial ratios can provide insight into how financial decisions are answered by both for-profits and nonprofits.

LOOKING AT NONPROFITS AND FOR PROFITS

The primary goal of nonprofit organizations is to initiate and operate programs that meet a perceived need in the world. Nonprofits are not formed for the benefit of the organizations themselves or for the benefit of their donors. This is quite different from the primary goal of for-profit organizations. Their goal is to provide a return to their investors. The goals of an organization affect how its financial information is to be interpreted. For example, revenues minus expenses measures profit in a for-profit organization. This is a measure managers usually wish to maximize.

However, revenues minus expenses measures surplus in a nonprofit organization. Surplus is not necessarily a measure that the managers of nonprofits wish to maximize. Many would even argue that managers should try to minimize surplus in order to avoid the perception that they are hoarding funds. This illustrates just one way in which the financial information of nonprofits is interpreted differently from that of for-profit organizations.

Despite different goals, nonprofit and for-profit organizations share a basic structure that can be likened to a manufacturing process in a factory. Like a manufacturing process, organizations start with some kind of **input**, or resource. They move these inputs through a process that has some kind of asset **infrastructure**. Because of the significant costs involved, organizations are sometimes forced to incur debt to finance the building of their asset infrastructure. This debt is analogous to a **mortgage** taken against a new manufacturing facility. The amount of processing that takes place through an infrastructure is often referred to as **throughput**. As throughput is channeled through the process, either the intended **output** or a **bi-product** is produced. Output is what an organization wants to generate from its process. Bi-products are typically not desirable, but they are usually unavoidable. We believe that the financial structure of organizations corresponds to the fundamental structure that we have laid out here. However, this correspondence between financial data and basic organizational structure is not the same for nonprofits and for-profits. The different goals of nonprofits and for-profits require us to define and evaluate these basic elements differently. Understanding how to interpret the financial information of organizations is critical to constructing useful financial ratios for use in evaluating financial management. In the view of Wall Watchers, the most useful way to interpret the financial information of for-profits and nonprofits with respect to their basic organizational elements is as follows:

Manufacturing Elements	Corresponding Financial Measure	
	<i>For-Profits</i>	<i>Nonprofits</i>
Inputs	Contributed Capital, Retained Earnings	Contributions, Other Income
<i>Infrastructure</i>	Assets	Assets
<i>Mortgage</i>	Liabilities	Liabilities
<i>Throughput</i>	Revenue	Operating Expenses
<i>Bi-products</i>	Expenses	Non-program Expenses
<i>Output</i>	Profit	Program Expense

The most noticeable differences between for-profits and nonprofits in this analogy are the concepts of **inputs**, **throughput**, and **output**. The other elements of the manufacturing process are very similar for nonprofits and for-profits.

Inputs - Inputs are the resources at the disposal of the organization. In for-profits, contributed capital (a balance sheet item) is the primary input. For nonprofits, contributions (a revenue item) are the primary inputs. Each measure represents the resources that the organization receives to carry out its mission. Since stockholders of for-profit organizations expect to eventually receive their capital back (along with their share of retained earnings), the inputs of for-profits affect the balance sheet. Since donors relinquish all rights to the resources they contribute to nonprofits, the inputs of nonprofits affect the income statement as revenue. Secondary forms of input are other income in nonprofits and retained earnings in for-profits.

Throughput - Throughput refers to the amount of activity that flows through the process. In for-profits, the amount of activity is the amount of product sold or the amount of service provided (their revenues). For nonprofits, the amount of activity is the amount spent to run their operations (their operating expenses). Throughput is a means to an end for both types of organizations. Sales in for-profits are meant to generate profit and expenditures in nonprofits are meant to operate good programs.

Output - Output is the measure of goal accomplishment. For-profits try to maximize the margin of revenues over expenses to produce the profit they desire. Nonprofits try to maximize the amount of program services they provide through their total spending. Program expense is the financial measure that most closely conveys the quantity of goal accomplishment for nonprofits. Admittedly, this measure does not tell us whether or not the actual program expenditures are producing the outcomes desired. However, from a strictly financial management perspective, the goal of the organization is to maximize expenditures for programs. Evaluating the methods and efficiencies of the programs themselves is beyond the scope of this quantitative ratings system.

THE RATINGS FRAMEWORK

The 5 Star Financial Efficiency Ratings system takes a comprehensive view of a nonprofit's activities and financial position. We base our evaluation of "financial efficiency" on how well the organization balances the elements of risk and return when addressing four fundamental financial decisions that nonprofits make as they carry out their missions. Each of these decisions focuses on one of the major organizational elements described above (inputs, outputs, throughput, and infrastructure). The 5 Star Financial Efficiency Ratings system identifies these four decisions as the fund acquisition decision, the resource allocation decision, the asset leverage decision, and the liquidity maintenance decision.

Fund Acquisition

The fund acquisition decision for a nonprofit organization addresses the question of how the organization acquires resources. It focuses on the organization's **inputs**.

Resource Allocation

The resource allocation decision addresses the question of how the organization spends its resources to accomplish the goals of the organization. It focuses on the organization's **outputs**.

Asset Leverage

The asset leverage decision addresses the question of how the organization uses its asset base to expand the activities of the organization. It focuses on the organization's **throughput**.

Liquidity Maintenance

The liquidity maintenance decision addresses the question of how the organization manages its need for sufficient liquid assets to ensure that it is able to meet current commitments. It focuses on the organization's financial **infrastructure**.

Although managers may not talk about or act with specific reference to this decision framework, their daily decision-making forms their answers to these fundamental questions.

As it has been applied to financial analysis, the concept of efficiency conveys a trade-off between risk and return. Risk and return apply differently to each of the decisions that the nonprofit organization makes. Use of the concepts of risk and return allows us to construct separate efficiency measures for each fundamental financial decision that can then be combined to determine an overall level of financial efficiency. By focusing on efficiency, we recognize that an organization is not always best served to manage with ultraconservatism because, by doing so, it may miss out on additional benefits that can be derived from a more liberal use of resources. Efficient organizations are those that derive the most "return" from the least amount of "risk." **Another way of expressing this idea is to say that efficient organizations are those that strike a healthy balance between carrying out the mission now and setting up the means to carry out the mission later.**

Constructing Ratios

Based on the manufacturing analogy described previously and the fundamental financial decisions faced by managers, we have constructed ratios that attempt to measure the efficiency achieved with respect to fund acquisition, resource allocation, asset leverage, and liquidity maintenance.

Fund Acquisition

Fund Acquisition refers to how the organization acquires the resources it needs to operate. The fund acquisition efficiency rating incorporates two important dimensions of this decision. The Fundraising Cost Ratio is used to measure the risk dimension of this decision. If an organization incurs high fundraising costs relative to total revenue, then there is a greater possibility that the organization's efforts are wasteful or inappropriate. However, this must be considered in conjunction with another element of the decision - the organization's reliance on public support. An organization that places a greater reliance on contributions is more likely to require greater fundraising efforts to support it. Therefore, the Contributions Reliance Ratio is used as the return measure for assessing fund acquisition efficiency. These ratios are defined as follows:

Ratio Name	Risk/Return	Calculation
Fundraising Cost Ratio	Risk	Fundraising Costs/Total Revenue
Contributions Reliance Ratio	Return	Public Contributions/Total Revenue

Criticisms of fundraising measures addressed

Traditionally, consideration of fundraising issues has focused on fundraising ratios that compare the amount of contributions received to the costs incurred to raise those funds. Despite popular appeal, many in the nonprofit community have criticized the use of fundraising ratios. One criticism is that it is difficult, if not impossible, to determine the true costs associated with raising specific contributions. Methods for assigning costs to fundraising efforts vary from organization to organization. Furthermore, the importance placed on fundraising ratios has given nonprofits an incentive to allocate as much as possible to program expense. A second criticism is that contributions represent only one possible source of revenue. Many organizations earn revenues in ways other than direct solicitation of public support. Focusing on fundraising efforts looks at only one component of the organization's overall resource acquisition activity. Third, some academics question whether a high fundraising ratio is necessarily a sign of inefficiency. They

argue that an organization is better off spending money to raise money as long as it raises more than it spends. These concerns and others have caused many to question whether fundraising ratios should be used at all to evaluate the management of a nonprofit.

We have approached the fund acquisition decision in the following manner. First, we acknowledge that organizations allocate costs to fundraising differently. Although this reduces some of the comparability of fund acquisition measures, it does not entirely take away their usefulness. As improvements continue to be made in the accounting standards that set guidelines for cost allocations, some of the variability in allocation method will be eliminated. However, even with better standards, imperfect information will always be a weakness of purely quantitative analysis. That is why the analyst comments that are included in each nonprofit profile are an important tool for gaining a more complete understanding of the organization. Through these comments, analysts are able to shed light on the policies and procedures used by the organization to allocate fundraising costs. With regard to the second criticism, an organization's expenditures for fundraising should be considered in conjunction with its reliance on contributions as a revenue source. Organizations that rely primarily on contributions may be required to incur greater marginal fundraising costs than an organization that is able to generate revenue through other sources. We have incorporated this consideration into our fund acquisition efficiency measure through the Contributions Reliance Ratio. Finally, in response to the third criticism described above, we think that a measure of fund acquisition efficiency will continue to be desired by donors as long as they are concerned about the efficient use of their donations. If a donor subscribes to the view that fund acquisition efficiency is not relevant, then our system allows the donor to focus on other efficiency measures when making a giving decision. The 5 Star Financial Efficiency Ratings are not intended to serve as an endorsement or recommendation of an organization. They are simply additional information that a donor may find useful and relevant.

Resource Allocation

Resource allocation refers to how the organization spends its resources to produce outputs. The first part of the spending decision answers the question of how much to spend now versus how much to spend later. Since nonprofits do not generate profits that can be distributed to owners, all resources will be spent eventually. An organization that does not spend all of its resources when they are received increases the likelihood that it will be able to fund future operations. However, it reduces the support provided to programs now. Therefore, the second part of the spending decision answers the question of how much spending will support the programs of the organization directly versus how much will be saved or used to cover administrative costs (including fundraising costs). We have constructed the resource allocation efficiency rating to measure both dimensions of the spending decision. The risk dimension is measured by the Spending Ratio. The return dimension is measured by the Program Output Ratio. These are defined as follows:

Ratio Name	Risk/Return	Calculation
Spending Ratio	Risk	Total Expenses/Total Revenue
Program Output Ratio	Return	Program Expense/Total Revenue

Asset Management

Asset management refers to how the organization leverages its assets to increase its operations, or throughput. In order to leverage its assets, an organization must often be willing to incur a certain level of risk through increased liabilities. Therefore, the risk dimension of asset leverage is measured by the Liabilities Ratio, which compares total liabilities to total assets. The benefit

realized from leverage considers the amount of throughput (as we have defined it for nonprofits) generated from the organization's assets. Therefore, the return dimension of asset leverage is measured by the Operating Expense Ratio, which compares operating expense to total assets. Operating expense is defined as total expenses less interest, depreciation, and other non-operating costs. This measure is preferable to total expenses as a measure of throughput because it ignores expenses that capture the cost of leverage (interest) and the replacement cost of infrastructure (depreciation). Operating expense focuses only on those expenses that measure the real activity of the organization. The asset management measures are defined as follows:

Ratio Name	Risk/Return	Calculation
Liabilities Ratio	Risk	Total Liabilities/Total Assets
Operating Expense Ratio	Return	Operating Expense/Total Assets

Liquidity Maintenance

Liquidity maintenance refers to how the organization maintains sufficient liquid resources to meet its operating needs. An organization's need for liquid resources is affected greatly by its current commitments. Therefore, the risk dimension of liquidity is measured by the Current Liabilities Ratio, which compares the level of current liabilities to the level of current assets. However, many organizations earn income on their current and long-term assets, and because the cash flows from other revenue are often more predictable than receipts of public support, other income can impact management's determination of an optimal level of current assets. Therefore, the return dimension of liquidity maintenance is measured by the Supplemental Revenue Ratio, which compares other income to current assets. These measures are defined as follows:

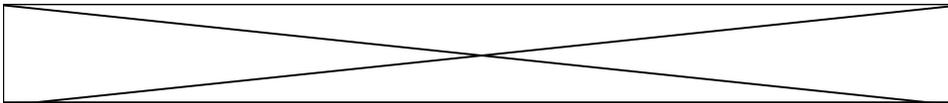
Ratio Name	Risk/Return	Calculation
Current Liabilities Ratio	Risk	Current Liabilities/Current Assets
Supplemental Revenue Ratio	Return	Other Income/Current Assets

Potential Improvements in the Use of Financial Ratios and Ratings

The eight ratios used in the 5 Star Financial Efficiency Ratings system utilize information from an organization's IRS Form 990 or audited financial statements. This information includes variables from the statement of financial position (balance sheet) and the statement of activity (revenues and expenses statement). Although Wall Watchers believes that financial ratios are a valuable tool for nonprofit analysis, it also recognizes some of the problems and limitations associated with using financial ratios. For example, since the balance sheet reflects the financial situation at the end of the year and the revenues and expenses statement reflects a full year of activity, combining these two types of information can sometimes be misleading. One method that is commonly used to adjust for this (but not in the 5 Star Financial Efficiency Ratings system) is to use an average of beginning and ending balances for the balance sheet variables in ratios that use information from both statements. In addition, there are often one-time events that make an organization's financial information in one year significantly different from its "normal" years. To address both of these issues, Wall Watchers intends to eventually introduce ratings that utilize a three-year average for each of the financial ratios used. By using three-year averages, the comparability of organizations with different fiscal years and reporting dates will increase.

Although constructing ratings that use three years of financial information is preferable, doing so requires that information from multiple years be available for all of the organizations being rated together. However, this amount of information is not always available for some organizations, so the 5 Star Financial Efficiency Ratings will initially be calculated based on only the most recent year of data. Another area where improvement could be made to the rating system would be to incorporate a dimension that measures how efficiently an organization utilizes personnel, whether employees or volunteers, to accomplish its mission. This also may require information that is not readily available. Wall Watchers will continue to seek ways to increase the availability of data and the relevance of the 5 Star Financial Efficiency Ratings system. Some of this improvement will occur with innovations such as the planned three-year rating or a dimension to consider the use of people. Some improvement, however, will not be possible until more information is available in the public realm.

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THE MODEL

The 5 Star Financial Efficiency Ratings system computes an organization's overall financial efficiency as a composite of four separate efficiency measures each corresponding to one of the four fundamental financial decisions made by management. Each of the four efficiency ratings is calculated by subtracting a risk score (based on the financial ratio that measures risk) from a return score (based on the financial ratio that measures return). The relationship between the fundamental financial decisions, the basic elements of organizations, and the risk and return measures used is summarized in the following table:

Fundamental Financial Decision	Element in Focus	Risk Measure	Return Measure
Fund Acquisition	Donated Inputs	Fundraising Cost Ratio	Contributions Reliance Ratio
Resource Allocation	Output	Spending Ratio	Program Output Ratio
Asset Leverage	Throughput	Liabilities Ratio	Operating Expense Ratio
Liquidity Maintenance	Other Inputs	Current Liabilities Ratio	Supplemental Revenue Ratio
Efficiency	All elements	Combines risk and return for each category	

5 Star Financial Efficiency Ratings are computed in the following manner:

1. For each fundamental financial decision, calculate the risk ratio and the return ratio for all organizations in a sector (a sector consists of at least 10 organizations with similar

mission and/or organizational structure).

2. Compute the sector average for the risk ratio and the return ratio.
3. Calculate a risk score and a return score for each organization using the following formula:

$$\text{Organization Ratio} / \text{Sector Average Ratio}$$

4. For each organization, subtract the risk score from the return score to get an efficiency score.
5. For each organization, calculate the percent rank (percentile) of an organization's efficiency score relative to the efficiency scores of its peers.
6. Assign an individual financial decision efficiency rating of one to five stars to the organization based on the following distribution:

00.0% - 10.0%	1 Star
10.1% - 32.5%	2 Stars
32.6% - 67.5%	3 Stars
67.6% - 90.0%	4 Stars
90.1% - 100.0%	5 Stars

To compute the overall 5 Star Rating of an organization, perform the following additional steps:

7. For each organization, calculate the simple average of the four individual percent ranks (one for each of the four financial decision efficiency ratings) to get an overall efficiency average.
8. For each organization, calculate the percent rank of an organization's overall efficiency average relative to the average efficiency averages of its peers.
9. Assign a 5 Star Rating of one to five stars based on the distribution used above for the individual financial decision efficiency ratings.

Principles upon which the rating system is based

The 5 Star Financial Efficiency Ratings system was designed as a research tool that would help meet donors' need for good information. This system meets its intended need only insofar as it adheres to ten important principles of good research. Donors alone will ultimately be the judges

of its usefulness. These ten principles and their practical definition are as follows:

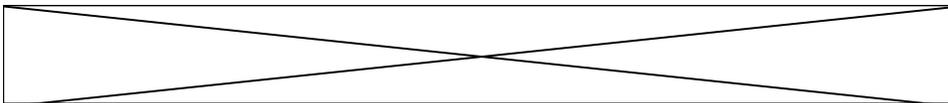
1. Simple - Ratios are easy to calculate
2. Intuitive - System is easy to understand
3. Value-added - Results improve upon the information currently available
4. Objective - Measurements are quantitative and unbiased
5. Meaningful - Results condense a large amount of info into an easily interpreted summary
6. Useful - Results are easily incorporated into the decision-making process
7. Relevant - Results address issues that donors are interested in
8. Robust - System is applicable to a large number of nonprofit organizations
9. Replicable - Users are able to calculate results themselves using publicly available data.
10. Transparent - Explanations of how the results were obtained are provided with results

A final note about ratings systems

It is important to note that Wall Watchers does not consider the 5 Star Financial Efficiency Ratings system to be the final word on nonprofit financial analysis. In fact, it is only the beginning. Wall Watchers believes that as information about nonprofits becomes increasingly available and as the tools for conveying and analyzing that information (e.g. the Internet) become increasingly sophisticated, new ratings models will be produced which look at nonprofits in different ways. The users of these models (primarily donors) will ultimately choose to use the model or models that are most consistent not only with their own information needs, but also with their own ideas about how nonprofits should be utilizing their resources.

Furthermore, the creation of competing ratings models is only part of the evolving nonprofit information marketplace that will ultimately provide for a more efficient allocation of resources and make nonprofits more responsive to donors. An examination of the for-profit capital markets, complete with their investment advisors, ratings organizations, regulatory bodies, and online transaction brokers, provides a good picture of how an information marketplace can facilitate this kind of efficiency. Wall Watchers' ultimate goal with the creation of the 5 Star Financial Efficiency Ratings system is not only to empower donors with a useful tool to help them with their decision-making today, but also to help spur the discussion and innovation that will transform the nonprofit information marketplace of tomorrow.

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An Illustration

Using fictitious financial information for one organization, the construction of the ratings is demonstrated here. Organizations compared are all assumed to operate in the same sector and to

have been around for at least five years. The first step in producing the ratings is to calculate the eight individual financial ratios used in the model. These eight ratios are calculated using the most recent year's financial information found in the IRS Form 990 or audited financial statements and are shown here for our example organization.

	Ministry Ratio	Ratio Definition
Fund Acquisition Efficiency Ratios		
Fundraising Costs Ratio	0.07	(Fundraising Costs / Total Revenue)
Contribution Reliance Ratio	0.50	(Public Contributions / Total Revenue)

Resource Allocation Efficiency Ratios		
Spending Ratio	0.95	(Total Expense / Total Revenue)
Program Output Ratio	0.81	(Program Expense / Total Revenue)

Asset Leverage Efficiency Ratios		
Liabilities Ratio	0.31	(Total Liabilities / Total Assets)
Operating Expense Ratio	2.16	(Operating Expense / Total Assets) ¹

Liquidity Maintenance Efficiency Ratios		
Current Liabilities Ratio	0.47	(Current Liabilities / Current Assets)
Supplemental Income Ratio	2.35	(Other Income / Current Assets)

1 Operating Expense is defined as Total Expenses less non-operating costs (primarily depreciation and interest).

The next step is to calculate a "score" for each of the eight ratios. This "score" is calculated by dividing the individual ratio for one organization by the average ratio for the entire sector. The ratio scores for the organization in our example are shown below.

	Ministry Ratio	Sector Avg	Ratio Score (Indiv / Sector)
Fund Acquisition Efficiency Ratios			
Fundraising Costs Ratio	0.07	0.08	0.88
Contribution Reliance Ratio	0.50	0.71	0.70

Resource Allocation Efficiency Ratios

Spending Ratio	0.95	0.98	0.97
Program Output Ratio	0.81	0.84	0.96

Asset Leverage Efficiency Ratios

Liabilities Ratio	0.31	0.42	0.74
Operating Expense Ratio	2.16	2.60	0.83

Liquidity Maintenance Efficiency Ratios

Current Liabilities Ratio	0.47	0.66	0.71
Supplemental Income Ratio	2.35	1.54	1.53

Next, the risk score is subtracted from the return score for each decision category to calculate four efficiency scores. Based on the distributions of the four efficiency scores for all of the organizations, percent ranks are calculated for each individual organization's four efficiency scores. This is shown below for our example organization.

		Ratio Score (Indiv / Sector)	Efficiency Score (Return - Risk)	Percentile Rank
Fundraising Costs Ratio	Risk	0.88		
Contribution Reliance Ratio	Return	0.70		
Fund Acquisition Efficiency			(0.17)	7%
Spending Ratio	Risk	0.97		
Program Output Ratio	Return	0.96		
Resource Allocation Efficiency			(0.01)	47%
Liabilities Ratio	Risk	0.74		
Operating Expense Ratio	Return	0.83		
Asset Leverage Efficiency			0.09	87%
Current Liabilities Ratio	Risk	0.71		
Supplemental Income Ratio	Return	1.53		
Liquidity Maintenance Efficiency			0.81	98%

Finally, a rating of one to five stars is assigned to each efficiency measure based on the percent rank distribution described below.

00.0% - 10.0%	1 Star
10.1% - 32.5%	2 Stars

32.6% - 67.5%	3 Stars
67.6% - 90.0%	4 Stars
90.1% - 100.0%	5 Stars

To determine the overall financial efficiency measure, the four individual percent ranks calculated previously are averaged for each organization. Based on the distribution of this "average percent rank" statistic, a new percent rank is calculated to determine the relative overall financial efficiency of each organization.

	Percent Rank	5 Star Rating
Fund Acquisition Efficiency	7%	1 Star
Resource Allocation Efficiency	47%	3 Stars
Asset Leverage Efficiency	87%	4 Stars
Liquidity Maintenance Efficiency	98%	5 Stars
Average of Percentage Ranks	60%	(Simple average of 4 Individual % Ranks)
Overall Financial Efficiency	85%	4 Stars (Based on distribution of all Orgs Avg % Ranks)

Individually Tailored Research

Wall Watchers is a Donor Advocate. As a Donor Advocate, Wall Watchers argues for the cause, needs, and desire of Donors. Different fact situations require different approaches in being an advocate. One commonality to these different fact situations is the need for individually tailored research.

Much of this research could be classified as "on-call research", because Wall Watchers literally receives impromptu calls, emails, letters and packages concerning a wide variety of issues. Many of these issues and situations could not have been anticipated except that they were brought to our attention. Some of these issues are specific items to analyze, due diligence to be preformed, best

practice to share and educate, and allegations of wrongdoing.

Sources of these issues and subjects are brought to our attention by donors, through complaints of other ministries, media attention, and ministries asking advice with implementing best practices, various governmental interaction, and sometimes insiders as whistleblowers.

Research is generally accomplished by a diverse group in various capacities with Wall Watchers; however, they are researchers familiar with aspects of tax-exempt and nonprofit research. These aspects can be summarized as "The 5 P's of Research". It is the People and Process factors within an organization that produce the Program and Performance outcomes for that entity. All external factors, regulatory boundaries and demographics are the Peripheral. Viewed in isolation, each of these factors provides only a partial picture, but looked at collectively, the factors contribute to a comprehensive assessment of an organization.

Further insight of some of the categories of issues brought to Wall Watchers attention are the following:

Donor issues of import such as compensation of leadership (that the organization is mission focused and not overly focused on financial gain), knowledge that their donation is being used as solicited (the veracity of truth claims on both a financial level and that a particular organization really stands for certain values), and that donor dollars are being used in an efficient and effective manner.

Analyzing the economic assertions made by organizations to determine the correctness of those assertions, financial efficiency, entity structure and information on key leadership in order to identify materially misleading behavior, or wasteful spending practices, as well as those operations that are above board and running efficiently.

Best practices research of tax-exempt entities, i.e. governance, transparency, financial efficiency, program effectiveness, organizational structure, and internal controls.

Due diligence research of organizations, such as the legitimacy of entities, various truth claims asserted, joint ventures between exempt and nonexempt entities, private inurement, self-dealing, evaluating regulatory compliance, compliance with GAAP (Generally Accepted Accounting Principles), and financial irregularities. In addition to administrative, civil and criminal issues.

Allegations and/or predication of just some of the potential wrongdoing has included:

1. Money laundering
2. Racketeering
3. Tax fraud
4. Private inurement
5. Unrelated business income tax
6. Shell company scheme
7. Personal purchases with company funds
8. False invoicing via vendors
9. Misuse of fixed assets (such as "borrowing" assets for non-business purposes)
10. Theft of assets (unconcealed larceny and/or larceny in plain sight)
11. Kickbacks
12. Conflict of Interest
13. Expense reimbursement schemes
14. Check tampering
15. Prepared fraudulent checks for own benefit
16. Programmatic reporting schemes

17. Breaching Duty of Loyalty

Just because requests for various research and allegations come to our attention does not mean that we take on each and every one of those grievances or desires. There are many reasons why we may not pursue a request. A large factor is that the demand is much larger than we have resources. Because of this we need to be discerning in which requests to pursue.

Many times the results of individually tailored research do not get profiled on MinistryWatch.com. The presentation is sometimes that of an individually tailored written report, sometimes a one-on-one discussion, or to a small group, a management team, or meeting with the attorneys and accountants of an entity, and sometimes a report and discussion with a governmental entity.

Sometimes being in the role of an "advocate" will offend others. But this is not done capriciously and carelessly with the intention to harm anyone, but to the contrary in order to plead the case and cause of donors as many do not seem to have a venue and voice to be heard.

Research Philosophy

Wall Watchers' premise and foundational orientation begins with the assumption that the Bible illuminates two things: the nature and character of God and the nature and character of what man is and what it should be. If one carefully considers these things it will result in excellence in action and behavior. God acts in perfect knowledge, truthfulness, perfect judgment, wisdom, discernment and understanding. Therefore, our goal should be to follow in God's example.

Unfortunately, our postmodern culture has downplayed the importance of or in many cases denies the above mentioned things. Contradictory statements like "All truth is relative" and "there are no absolutes," especially in regards to religion, are deemed the accepted norm in many circles. Many question whether it's even possible to know truth at all! Such relativity is acceptable when it comes to spiritual matters, but when it comes to matters of the balance of your bank account absolute truth is deemed very important.

Just as truth is called into question, we are told that discerning wisdom should not be used to discriminate between religious claims. Any sort of discerning wisdom cannot be relevant since all beliefs are considered true by the relativist. By the same token "Judge not lest you be judged" (Matthew 7:1) has become one of the most misinterpreted Bible verse. Some would say, "you can't judge anything to be wrong." If this is the case we don't need to be concerned where we spend our money, how we treat people, what we teach, what we learn of (if we learn anything at all), how we drive, how a doctor operates on us, what pills a pharmacist filled, or where we give our money and what cause we support. This whole judgment of some that others cannot judge anything wrong is misguided, out of context and not a wise or logical premise, even when it comes to spiritual matters.

Wall Watchers rejects the postmodern approach, but believes:

1. God is a rational being.
2. Likewise God created us as rational.
3. Truth is absolute in nature
4. Truth is that which corresponds to reality
5. Truth about reality is knowable
6. The opposite of true is false.
7. Two opposing statements cannot both be true in the same sense and the same time.
8. God desires that His people conduct themselves in a wise, understanding and discerning

- manner in the pursuit of truth
9. Our day to day lives should not be separated from spiritual matters. Rather, both should happen together harmoniously.

Because we live in an imperfect world, things are not always what they appear. Deceit and evil are often clothed in the shapes and appearances of truth and goodness. Things are sometimes better and sometimes worse than they appear to be. A gray beard does not make a philosopher; all is not gold that glitters; and a rough diamond may be worth an immense sum. Even good people can make bad decisions and make mistakes. We ought therefore to restrain snap judgments and opinions before we have opportunity to search into them more thoroughly.

It is very important that donors learn to judge things aright rather than donate first then later regret giving to "wrong" charitable causes. Instead, healthy inquiry will help the donor find out whether he or she agrees or disagrees with how the receiving charities handle themselves financially and spiritually. Inquiry will give the donor clarity in deciding whether a given ministry actually promotes and cultivates that which is important to the donor. Otherwise continual confusion will give way to wasted donor time, talent, and dollars in unintended activity and unintended support.

Wise decisions are made after looking at the options from all angles. In order to discern the better between two or more things, one must compare the similar counterparts of the two. Each aspect must be weighed on the balance of judgment. Strengths and weaknesses of each should be understood. The whole purpose is to make all the circumstances lucid in order to make an informed decision.

If we were to decide on which car to buy, we might compare the reports between the car dealer, the mechanic, your friend who might be with you, and of course our own observations of the car. It is important to take note of evident disagreements between the information received. Most of the time some statements must be discarded and some affirmed, as many will contradict each other. We might ask, "Is it evident that the car is reliable as the dealer says it is?" or "does the evidence weigh in favor of the mechanic who says otherwise?" Two opposing statements cannot both be true in the same sense and at the same time. We must then weigh all this with the other car we might be considering. Not only are there multiple sources of information, but we have multiple cars to compare. Car buyers will look at varying degrees of reliability, cost, gas mileage, functional use, safety record, make, model, location made, and perhaps a few other things as it is important and relevant to that potential car buyer.

Likewise, we can distinguish what a ministry believes and compare what it does to what it says it does. We also ask, "how is this ministry organized and how is the money spent?" We can then compare it with another ministry. If you have two equally good ministries, all things being equal, decide on those preferences that God has given you. This assumes that the given the methodology is proper and there is no evidence of deceit.

There is no question that donors are forced to choose to donate to some ministries and not to others, simply because donors do not have of unlimited resources. Because of this premise, Wall Watchers believes that donors should make an assessment of their options and make discerning decisions. Not everyone has enough time to research everything. Thus Wall Watchers serves as a donor advocate facilitating the information needs of donors.

Inductive and Deductive Reasoning

Wall Watchers will use varying degrees of inductive and deductive reasoning as it conducts its research. Through many observations (induction) Wall Watchers will draw reasonable conclusions

(deductions) about ministries in order to help donors make discerning decisions.

There are different schools of thought in logic - that between deductive and inductive reasoning, as well as differences in the science method from the empirical method versus relying on theory.

A deductive argument offers two or more assertions that lead automatically to a conclusion. Deductive arguments can usually be phrased as brief, mathematical statements in which the premises lead inexorably to the conclusion. As long as the assertions in the argument are true, there can be no doubt that the final statement is correct--it is a matter of mathematical certainty.

Unlike deductive reasoning, Inductive reasoning is not designed to produce mathematical certainty. Induction occurs when we gather bits of specific information together and use our own knowledge and experience in order to make an observation about what must be true. Inductive reasoning uses a series of observations, in order to reach a conclusion. The reasoning process is directly opposite to that of deductive. The most basic kind of inductive reasoning is called induction by enumeration, or, more commonly, generalization. You generalize whenever you make a general statement based on observations with specific members of that group. You also generalize when you make an observation about a specific thing based on other specific things that belong to the same group. When you use specific observations as the basis of a general conclusion, you are said to be making an inductive leap.

Because of different schools of thought in logic, not all research methodology is the same. There are essentially two very different types of research being done by groups and individuals:

1. Inductive method, one that is generalized to a target situation from initial behavioral and demographic characteristics shared by other situations that have been studied in the past. It is the product of incomplete, statistical analysis and generalization (very often without comparison to norms), hence the descriptor Inductive.
2. Deductive method, (the less common method) is the process of interpreting physical evidence, and a thorough study of the situation at issue, to accurately reconstruct the specific situation, and from those specific, individual patterns, deduce offender characteristics, demographics, emotions, and motivations. It is a heavy emphasis on an informed forensic reconstruction, and the exclusion of information from other similar offenders, or other similar offenses and situations.

Deductive research is one that is deduced from the careful forensic examination and behavioral reconstruction of a single situation. After the situation has been reconstructed, the characteristics are analyzed. From the combined characteristics, research of the situation can be deductively inferred. It is a forensically and behaviorally contained process. The process of deductive research is most appropriately termed Behavior Evidence Analysis, and depends on the analyst's abilities to recognize patterns of behavior within a single situation to deduce meaning.

The advantages of the Inductive research model are:

- A very easy tool to use, for which no specialized knowledge, education, or training is required.
- Research can be assembled in a relatively short period of time without any great effort or ability on the part of the researcher. The result can be a list of unqualified characteristics. These generalizations can accurately predict some of the non-distinguishing elements of a research situation, but not with a great deal of consistency or reliability.

The major disadvantages of the Inductive research model are:

- The information itself is generalized from limited population samples, and not specifically

related to any one case; therefore it is not by its nature intended for reconstructing a specific research targets situation. It is a generalized set of representations, averaged from a small group who may or may not have been appropriately sampled, depending on the knowledge and ability of the person collecting and assembling the data.

- Inductive research are generalized and averaged from the limited data collected only from known related data points. Inductive research does not fully or accurately take into account the current situation, therefore it is by its very nature missing datasets from the most intelligent or skillful researcher.
- A third major disadvantage is that, as with any such generalization, Inductive research is going to contain specific inaccuracies that can and have been used to implicate an opposite conclusion, such as innocent individuals being wrongly accused. This occurs when Inductive research is used as some sort of infallible predictive measure by an unprofessional, trigger-happy researcher.

The advantages of the Deductive research model are:

- This model requires specialized education and training in a particular field. Because of this requisite specialized knowledge, Deductive research tend to be more specific than Inductive research, moving from a universal set of characteristics to a more unique set of characteristics.
- Deductive research is also useful for thoroughly establishing Modus Operandi behavior, as well as offender signature behavior, which assists in the linkage of seemingly unrelated situations (or crimes).
- Deductive research method more thoroughly explores victimology, and the nature of the interaction between the victim(s), the crime scene(s), and the offender. It can very pointedly demonstrate an individual offender's motivations in even the most bizarre or seemingly senseless offenses. No one acts without motivation. Deductive research techniques explore offender actions through the physical evidence, through the victimology, and through the crime scene as the primary behavioral and motivational documentation, and illuminate that particular offender's motivation. The whole research target is a logic statement, based solidly on the arguments made through an analysis of behavior patterns.
- Also, due to this same thoroughness, learned or experiential generalizations can be kept from obscuring or misleading research. Researchers with a lot of experience researching a particular type of situation, tend to formulate theories about a case early on. Instead of researching the case, they may instead spend their efforts attempting to prove a theory. Deductive research precludes theory generation, and subsequent bruised egos, until a full research analysis has been done.
- The final major advantage of the Deductive research method is that it examines behaviors of individual offenders as they occur over time. Change and growth are allowed for, analyzed, and recompiled back into the research target. As something like offender MO behavior or motivations change or evolve over the course of multiple offenses in an offender's career, it is noticed and it used to better understand the offender.

The disadvantages of Deductive research method are:

- It is not a quick fix or a cure all; it requires a great deal of effort and multi-disciplinary skill on the part of each member of the research team.
- Because it is a more intensive process, it can be extremely emotionally exhausting. Researchers that learn to use these techniques should take care to be emotionally grounded individuals and not be afraid to discuss any emotional difficulties with those close to them.
- Deductive research cannot point out a specific known individual and say with confidence that they are likely responsible for a certain crime or series of crimes unless that offender's

unique signature is known and established.

The multi-disciplinary Deductive research method is the more time consuming, but in the research/investigative end will prove to be more effective because of its usefulness as a research/investigative guide, its competency at linking wrongdoing (or efficiency and best practices), and because of its very high probative value in terms of thoroughly establishing signature and motivation. In short, the Deductive research encourages deliberation, competency, thoroughness, and requires a high degree of internal cohesiveness and communication. The Inductive research method encourages egocentricity, research/investigative short-cuts, and has been used in the past to replace a competent forensic research/investigation into fact.

Research Process

Wall Watchers accomplishes research with the use of in-house researchers and that of sub-contract relationships. Wall Watchers has labeled the sub-contract relationships as the "Research Fellows Program." This is a long-term program that will adapt and change depending on funding.

Multiple independent individuals conduct extensive database, Internet and in the field research to gather information, examine organizational structures, belief structures, prominent individuals, key contractors, business relationships, evaluating regulatory compliance, and potential financial irregularities. The result is a definable product making the connection to the heart of donor's information needs.

Information analysis generally includes seven tasks:

1. Determine and identify the issues of the subject matter of the research analysis
2. Determine what is already known
3. List what is unknown (needs to be researched)
4. Identify possible sources of information about what is unknown
5. Outline a course of action to gather the information
6. Gather information
7. Organize and present research results

Information analysis is best understood as a series of equally important steps. In other words, none of the steps is primary while the others are secondary. A breakdown of "effort" necessary for each step shows that writing-up the final research product is not the overwhelming majority of effort. The initial one-third of the effort consists of identifying criteria, formulating the subject of the research analysis, understanding what is already known and what is unknown and mapping out a plan of fact gathering. The next one-third is the work of talking to people and gathering physical data. The final one-third of the process is to transmit the information gathered in a useful manner.

There are two types of Research Fellows:

1. **The Specialist**
Focused on certain aspects of nonprofit organizations, such as: financial, statistical, sector specialist, relational, theological, etc.
2. **The Generalist**
Uses all tools available in differing degrees, depending on the facts and circumstances, to understand and communicate the research results.

The strength of the Research Fellow Program is not in an individual member, but in a body of researchers with multiple talents and connections. It is a network of information providers. Other fields may call them Information Brokers/ Information Workers/ Information Operatives/ Knowledge

The 5 Ps of Research

People, Programs, Process, Performance, and Peripheral

The 5 P's refers to a theoretical model of five factors that Wall Watchers analysts would like to consider in-depth when researching ministries. The 5 P's framework gives an element of much needed structure to qualitative analysis consistent with our belief that it is the People and Process factors within a organization that produce the Program and Performance outcomes for that institution. All external factors, regulatory boundaries and demographics are the Peripheral. Viewed in isolation, each of these factors provides only a partial picture, but looked at collectively, the factors contribute to a comprehensive assessment of a ministry.

When making research priorities and gathering information, the theoretical model needs to be brought into the light of reality. Tough decisions need to be made at times between an extensive in-depth research project versus a timely on going product.

Some factors may overlap, but looked at from a slightly different perspective. A few of the items within each factor are as follows:

1. People
 - Founders
 - Board members
 - Top management
 - Key employees
 - Volunteers
 - Related organizations
 - Sister organizations
 - Professional affiliations
 - Alliances and relationships
 - Statement of Faith
 - Volunteers - #, role they play
 - Related Organizations - identify major ones, nature of relationship
 - Organization/Entity Chart
 - Partners and Competitors - auditors, lawyers, suppliers, partners, competitors
 - Major donors - degree of reliance (percent of support from top donors), individual or foundation
 - Founders - influence and current involvement
 - What individuals have the most impact on the ministry's direction and success?
 - What are the backgrounds and responsibilities of the top officers in the organization?
2. Programs
 - Activities
 - Locations
 - Methods
 - Message
 - How they do them - methods, strategies
 - Who they are for - target audiences
 - Where and when they occur - national vs. regional, churches vs. homes, annual vs.

- ongoing
 - What are the common goals shared by all of the organization's programs?
 - What are the organization's core programs that contribute to the overall mission?
 - How important of a role does communicating a certain message play in the carrying out of each program?
 - What is the source of the message conveyed in programs?
 - Besides funding, what are the greatest challenges and obstacles to carrying out programs?
 - What is the most significant cost component the programs?
3. Process
- Accountability to the Board
 - Internal control
 - Succession plan
 - Strategic management
 - Ministry Process (core business processes)
 - Resource management processes
 - Program Development - How they determine what to do and how to do it, how they evaluate program success
 - Legal process assessment- International law, regulatory compliance, fundraising law, defending against lawsuits, conflicts of interest
 - Human Resource - HR manual, SOF requirement, compensation philosophy, hiring policy, use of volunteers, what positions exist
 - Technology - How sophisticated are office systems, how they maintain a web presence, how they ensure security of systems
 - What internal processes are most critical to the success of the ministry?
 - How does the organization determine its long-term strategy for carrying out its mission?
 - What is the ministry's general approach to dealing with donors and the public?
 - What processes does the organization use to ensure proper stewardship and reporting of financial resources?
 - What kind of Internal Control policies?
 - Any investment policy or philosophy on investments?
 - What is the frequency and types of financial reporting?
 - What are the significant accounting policies, like for cost allocation?
 - What are the key relationships that keep the organization accountable to their Board, their peers, the Christian community, and the public?
 - What associations do they belong to?
 - How do they keep donors informed?
 - How do they communicate the mission, goals and objectives both internally and externally?
4. Performance
- Program outcomes
 - Revenue growth
 - Ratios and ratings
 - What are the key performance measures that the ministry monitors to ensure that it is operating efficiently and effectively?
 - What financial ratios (if any) does the organization monitor to assess its own performance?
 - What are the most significant performance trends the organization is currently experiencing (e.g. revenue growth/decline, people fed)?
 - What significant events have occurred that have affected the performance or outlook for the ministry's financial situation?
 - How does the ministry utilize program outcome measurements to improve the way it carries out its mission?
 - Ratios - Understand reasons for outliers, understand reasons for high or low ratings
 - Trends - understand reasons for trends in major financial variables, understand

- o major changes or events affecting financial information
 - o Specifics - understand issues identified in the notes to financial statements and odd line items
 - o Program outcomes - understand results and trends if they track this information
 - o How do they measure your program outcomes?
5. Peripheral
- o What external forces (e.g. political, economic, etc.) have the most impact on the ministry?
 - o Political/Legal Regulatory: What political, legal, and regulatory bodies does the organization deal with?
 - o Resource Availability: What are the significant outside resources that the organization depends on?
 - o Demographic Environment: What areas or people groups benefit most from the ministry's programs?
 - o Does it have a Statement of Faith and if so what values can be gleaned by it?
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Frequently Asked Questions

[Why Does Wall Watchers Sometimes Send Out 'Donor Alerts' Critical Of Ministries Or Post a Shining Light Ministry Advocating For Particular Ministries?](#)

[Is it morally Right to Take Due Diligence Measures in Giving?](#)

[How Should Donors Use Ministry Research?](#)

[Will Wall Watchers Ignore Fraudulent Activities Occurring Within Ministries?](#)

[Where Does Wall Watchers See Itself In Relation To The ECFA?](#)

[Why is Wall Watchers not a member of the ECFA?](#)

Why Does Wall Watchers Sometimes Send Out 'Donor Alerts' Critical Of Ministries Or Post a Shining Light Ministry Advocating For Particular Ministries? [[top](#)]

Wall Watchers is a donor advocate and will be examining the key issues concerning ministries and related facts and circumstances of interest to donors. Wall Watchers wants all donors to be discerning, with knowledge and prudence.

Wall Watchers will periodically elicit facts from numerous sources and will follow the trail wherever it may lead, whether it is positive or negative. Donor Alerts are those items that are of a negative nature and important to donors, and Shining Lights are those items that are of a positive nature and important to donors. Wall Watchers will never provide fundraising services. Wall Watchers issues a very small percentage of Donor Alerts or Shining Light ministry lists relative to the overall number of ministries in its database. Nevertheless, we sometimes send out Donor Alerts to our readers to alert them to any ministry that may be engaged in activity that causes Wall Watchers to question if donor money is being used efficiently and/or as intended. At other times, Wall Watchers research staffers discover particularly positive information of ministries in the website database. Initially, Wall Watchers compiled data and conducted research for the sole purpose of providing donors with independent ratings and analysis. That information would serve as the basis for any giving decision that a donor might choose to make. However, the actions of some ministry leaders demanded a response from Wall Watchers beyond the standard sharing of basic information; withholding the information from donors would have been tantamount to condoning sin. Conversely, some other ministries are so eagerly transparent and willing to share information, and are highly effective and efficient in accomplishing their mission, that Wall Watchers leadership determined that the ministry's mission should move beyond empowering donors with information to actually educating donors based on the expert analysis and detailed information gathered. While such advocacy will be rare and judicious, it is necessary for many reasons. First, no matter how diligent a potential donor might be, the vast number of ministries in the Wall Watchers database (now numbering more than 500 and

growing), would overwhelm most folks - "Plans fail for lack of counsel, but with many advisers they succeed" (Proverbs 15:22). Additionally, many worthwhile ministries go under funded because they are unnoticed.

Is it morally Right to Take Due Diligence Measures in Giving?

It is logical to take due diligence measures in giving. After all, the world is full of fakes, frauds, and scams. Almost every day the newspaper brings another story of a well-meaning donor who was taken advantage of; however, MinistryWatch.com regularly hears from Christians who object to our attempts to encourage ministries to be open and transparent in their financial dealings, or to encourage donors to be diligent in their stewardship responsibilities.

And rather than just reject their arguments, let's look at them. We often hear, for example, that:

- It is not right for anyone to judge
- It is not Christian to be critical
- To examine a ministry is a waste of time and not trusting God and His guidance
- Stick to the Bible instead of man-made ideas

Since the objections are from a type of religious perspective, I will go directly to the Bible to answer them. But first, it must be noted that the objections do not stand up to logical scrutiny. After all, the argument that it is "not right to judge" is itself a judgment. A Christian who is critical of another for being critical is being - well, critical!

So the real question is HOW should we use the sound judgment and critical skills God has given us?

Why Donors Should Seek Ministry Information

Here are just a few of the biblical and logical reasons Christians should seek information about organizations they give to:

Acquire Knowledge

- The mind of the prudent acquires knowledge, And the ear of the wise seeks knowledge. (Prov. 18:15, NAS)
- The mind of the intelligent seeks knowledge, but the mouth of fools feeds on folly. (Prov. 15:14, NAS)
- "How long, O naïve ones, will you love simplicity? And Scoffers delight themselves in Scoffing, and fools hate knowledge? (Prov. 1:22, NAS)
- A senseless man has no knowledge... (Psalm 92:6a, NAS)
- Also it is not good for a person to be without knowledge...(Prov. 19:2a, NAS)

These verses are pretty plain: God wants us to acquire knowledge.

Act upon Knowledge

- Every prudent man acts with knowledge, but a fool displays folly. (Prov. 13:16, NAS)
- Apply ... you ears to words of knowledge. (Prov. 23:12, NAS)
- Five prudent women acting with knowledge, contrasted with five women who did not. (Matthew 25:1-13, NAS)

These verses take us to the second step: We are not just to acquire knowledge, we are to act upon

that knowledge. Notice the harsh word for the person who does not act with knowledge. That person is called a "fool." Please listen to Scripture even in your giving habits. Be prudent by acting with knowledge when giving your money as a steward, and do not be foolish with what God has entrusted to you.

Be Careful in Your Actions

- The naïve believes everything, but the prudent man considers his steps. (Prov. 14:15, NAS)
- And he who hurries his footsteps errs. (Prov. 19:2b, NAS)

These verses take prudence to a new level. We are not only to seek knowledge, we are to examine what we learn. In other words, we are not only required to ask ministries for information, these verses suggests that we are to carefully consider our next steps. We should examine ministries closely before we give money to them.

Seek Consultation

- Without consultation, plans are frustrated, but with many counselors they succeed. (Prov. 15:22, NAS)
- In abundance of counselors there is victory. (Prov. 11:14b, 24:6b, NAS)

The free exchange of ideas, discourse, discussion, and information flow is encouraged by scripture, not discouraged. Consultation takes many forms given many different issues and circumstances. Scripture is not limiting to only some types of consultation. Seek charity specific knowledge from an information provider like MinistryWatch.com and others. Then your intended stewardship will succeed and truly be used in a worthy manner, instead of the real possibility of being mismanaged, wasted, or abused.

Spread Knowledge

- The lips of the wise spread knowledge, but the hearts of fools are not so. (Prov. 15:7, NAS)
- On the lips of the discerning, wisdom is found...(Prov. 10:13a, NAS)
- The lips of the righteous feed many... (Prov. 10:21a, NAS)
- The tongue of the wise makes knowledge acceptable, But the mouth of fools spouts folly. (Prov. 15:2, NAS)
- There is gold, and an abundance of jewels; But the lips of knowledge are a more precious thing. (Prov. 20:15, NAS)

These verses are ones that we at MinistryWatch.com take to heart, for these verses go to the very heart of what we do. Indeed, when we are criticized for spreading knowledge about Christian ministries, a natural answer could be: Should we be disobedient to these verses? Of course not. These verses not only encourages us to share information, but it also should be an encouragement to the ministries themselves to actively attempt to educate their own donors and the community about their financial operations and their ministry efforts.

These are just a few of scores of verses in Scripture that encourage us to diligently seek knowledge, and to responsibly share that knowledge with others in an effort to make them wise.

The bottom line is this: God would have us be wise, diligent stewards, and he would have us encourage each other to be and do the same. Why? Not because God needs us or our money, but so that our own joy can be full, so we can have the satisfaction of knowing that we truly participating in a meaningful way in what God is doing in His world.

How Should Donors Use Ministry Research?

Donors should use ministry research in the same way that investors use investment research - to make informed decisions. External research provides independent insight into the workings of an organization. As stewards of the resources that God has entrusted to them (including both financial resources and mental capacity), donors have a responsibility to know how and why their money is being utilized in the way that it is. Giving does not stop at the writing of a check; this event marks only the beginning of an ongoing two-way relationship between the ministry and the donor. Both have entered into a relationship, and both must foster that relationship. Information is the tie that binds, out of which a level of trust is built between donor and ministry.

Will Wall Watchers Ignore Fraudulent Activities Occurring Within Ministries?

The detection of fraudulent activities within organizations is the primary responsibility of internal and external auditors. However, Wall Watchers is a donor advocate and will examine documents, review outside data such as public records, interview individuals and assess the validity of complaints of whistleblowers, in an attempt to disseminate information. Withholding it runs counter to its mission of educating and empowering donors. Wall Watchers research will at times focus on analyzing organizations and key leadership that may have intentionally or unintentionally provided materially misleading data, (financially or non-financially) for the purposes of soliciting donations. It is hoped that Wall Watchers will limit consequences of scams and prevention of fraudulent activities, promote better allocations of giving, encourage intelligent questions of organizational structure, financial health, and advance the idea of financial transparency.

Wall Watchers researchers have been cautious and judicious in how they use the information gathered, sensitive to the importance of handling disputes in a biblical manner and of the necessity of first corroborating any allegations of mismanagement. However, in some cases, a ministry just simply refuses to be transparent, or has been found to have engaged in questionable or illegal practices.

Wall Watchers does not believe silence is acceptable in such situations. Scripture teaches and in fact implies that silence gives sanction to sin - "Have nothing to do with fruitless deeds of darkness, but rather expose them" (Ephesians 5:11).

Matthew 18: 15-17 offers the model for Christ-followers to utilize in resolving disputes. First confront individually; second, lacking repentance, bring another brother or sister as a witness; third, lacking repentance, tell the whole church; finally, lacking repentance, expel the sinner. Generally speaking, Wall Watchers falls into step 3 of the process. Usually, by the time Wall Watchers discovers or hears of questions regarding financial practices or other management issues, employees or others have attempted to get the ministry to change its ways. By the time Wall Watchers is alerted and involved, it is the "whole church" - the donors - that need to know of the problems. If Wall Watchers is the first to discover suspected wrongdoing, Wall Watchers will begin with the first step of this biblical model, though withholding possible evidence of illegal or immoral activities is never an option.

Biblical admonitions require action and not to ignore fraudulent activity.

Where Does Wall Watchers See Itself In Relation To The ECFA?

Wall Watchers sees itself as a complement to the ECFA. Wall Watchers is a free donor advocate aiding donors in understanding the key issues concerning a ministry's operations. The ECFA is a membership ministry advocate, with its primary responsibility to the ministries that pay dues to the ECFA and thereby fund its operations. Each is primarily advocating for opposite sides in the giving transaction. The ECFA accomplishes its mission primarily through its seal that signifies member

acceptance of its standards and Wall Watchers through its comprehensive ministry research reports.

Why is Wall Watchers not a member of the ECFA?

Wall Watchers applied to the ECFA to become a member, however the application was rejected for the following reasons:

The denial of Wall Watchers application for ECFA membership was based on a difference in philosophy concerning the rating of ministries, not because Wall Watchers could not meet ECFA's Standards.

The ECFA Board concluded that Wall Watchers' pursuit of its objectives as a member of the ECFA could create divisiveness within the membership of the ECFA.

Wall Watchers' understands the reasons for the ECFA's decision, but does not agree with the conclusions drawn. Wall Watchers' hopes that in time the ministry's efforts will help to dispel those concerns allowing for reconsideration of its application at a later date.

Terms & Conditions

Welcome to Wall Watchers!

"Freely you have received, freely give" (Matthew 10:8b).

This website is made available by Wall Watchers to help fulfill our mission of educating and empowering donors. We encourage you to fully utilize its comprehensive examination of profiled ministries. We encourage you to link to this website, or any sub-page.

Service Mark Protection

MinistryWatch is a registered service mark of Wall Watchers. All other Wall Watchers products and proprietary tools, including the names Wall Watchers and The Good Steward, and the watchman symbol are service marks of Wall Watchers. All other service/trademarks referred to on this Web Site are service/trademarks of their respective owners.

Accuracy of Information

Wall Watchers attempts to ensure the integrity and accurateness of this website, and MinistryWatch ministry profiles contain statements and statistics that have been obtained from sources believed to be reliable. However, neither Wall Watchers nor its information providers can guarantee the accuracy, completeness, timeliness, or correct sequencing of any of the information on this website, including, but not limited to information originated by Wall Watchers, licensed by Wall Watchers from information providers, or gathered by Wall Watchers from publicly available sources. There may be delays or omissions in the Information. It is possible that this website could include inaccuracies or errors, bugs, viruses, or other problems, and that unauthorized additions, deletions, and alterations could be made to this website by third parties. In the event an inaccuracy or problem arises, please inform Wall Watchers so that it can be verified and corrected. Wall Watchers disclaims all liability and responsibility for any errors, omissions, bugs, viruses, or other problems in this website and for any damages caused thereby.

Most of the descriptive information on the website is derived from information provided by the

ministry, ministry websites, promotional material, and other sources. Financial information usually comes from the IRS Form 990, the BMF Master File, or audited financial statements produced by the nonprofit organization, and is usually received from the organization's voluntary response to Wall Watchers information requests. Wall Watchers does not edit or control the financial information it receives.

Disclaimer Regarding Financial and Legal Advice

The information on this website, including but not limited to reports, profiles, newsletters, articles, and opinions is provided for educational and informative purposes only. It is not intended to provide legal, accounting, or tax advice and should not be relied on in that respect. We suggest that you hire a competent lawyer, accountant, and/or financial advisor to answer specific legal, accounting, and/or financial questions.

Wall Watchers values your privacy. Although standard log files are compiled to measure the website's traffic, specific e-mail addresses of users are not identified. The information collected regarding the website's users is used to improve the content of our website and is not normally shared with other organizations. Please refer to the Wall Watchers Online [Privacy Statement](#).

Notices. Any questions or comments about these Terms of Use or other issues related to this website should be directed to Wall Watchers at the following regular mail and electronic mail addresses:

Wall Watchers

2514 Plantation Center Drive
Matthews, NC 28105

Toll Free: 1-866-364-9980

Email: info@wallwatchers.org

Contact Us



Wall Watchers
2514 Plantation Center Drive
Matthews, NC 28105

Email: info@wallwatchers.org

Toll Free: (866) 364-9980

Web Sites:

www.wallwatchers.org

www.MinistryWatch.com

www.thegoodsteward.com

Provide Insight and Feedback:

Send an email or letter answering the following:

1. What type of information do you want in order to make a good charitable decision?
2. If you could ask a nonprofit organization any question and get the answer, what would you ask?
3. How do the values or worldview of a charitable organization impact your giving decision?
4. What are some of your favorite organizations?

["A man's counsel is sweet to his friend." (Proverbs 27:9)]

How can you help?

[Make a contribution today by credit card at this Network for Good link](#), or by writing a check out to Wall Watchers. Don't make the check to MinistryWatch.com as that is just a website of Wall Watchers and not an organization.

Help Wall Watchers maintain a voice and momentum as a Donor Advocate. Your financial support can be used as a type of multiplier effect by providing confidence in the charitable sector. Charity is historically and ostensibly a Christian ideal. The sector now has extremes from the secular to the religiously fraudulent, cults and scammers. As a pooled resource of concerned donors, we can overcome the fraudsters, scammers and misdirected gifts.

Much work needs to be done to improve the lot of donors and to raise the standards in the Christian Ministry Marketplace. Wall Watchers has the potential of meeting vital needs, but it is not being funded as it should.

An outcome of Wall Watchers' work will be the increased amount of money available for the Lord's work by raising donor confidence in the ministry's carrying out these efforts. Donors are mostly left to fend for their interests individually as no group formed and financed by Christian donors, other than Wall Watchers currently exists.

Improving donor representation and empowering donors can ignite a renewed interest in giving. It would also cause current giving to be targeted more effectively and strategically.

Thank you for your interest to pass on wisdom, understanding and discernment to others.

"Let us not lose heart in doing good, for in due time we will reap if we do not grow weary." (Gal. 6:9, NASB)