

The Importance of Fundraising Transparency

6 min read



With about 1.8 million organizations listed as 501c3s, there are more nonprofit organizations in the United States than ever before, and the nonprofit sector continues to grow.

Key Takeaways

- **Aim for Financial Transparency:** According to a YouGov survey of 1,200 adults, 50% of respondents reported being "put off" when they didn't know exactly how their donation dollars were being spent...
- **Be Mission-Focused and Clear About Your Mission:** If you are affiliated with another cause, organization, political party, or religion, it's best to be transparent about your alignment. As a result, your organization won't...
- **Demonstrate the Value of the People in Your NPO With Labor Cost Allocation:** Inflated salaries in a nonprofit are one thing (i.e. a red flag to potential donors), but normal labor costs are another thing entirely...

This growth means that donors have more choices available and that, for each individual nonprofit, the competition over those available dollars is becoming increasingly fierce.

Plus, as the competition has grown, the average individual's confidence in nonprofit organizations has diminished. According to the Independent Sector's Health of the U.S. Nonprofit Sector 2022 Report, just 56% of the U.S. public trusts nonprofit organizations to do the right thing, and this figure is on a downward trend at 3% lower than in 2020 [1].

Diminishing public trust is a big problem for nonprofits, as donations and trust (or public perception of the organization) are intricately linked. Research from the University of Wisconsin and Villanova University found that contributions increased an average of 53% in organizations that received a Seal of Transparency from the charity watchdog organization, GuideStar, in the following year [2].

While these figures might be discouraging for nonprofit leaders, there are steps you can take to get an edge over your competition by improving transparency and gaining public trust.

5 Tips for Creating Transparency in 501c3 Nonprofit Organizations

1. Aim for Financial Transparency

According to a YouGov survey of 1,200 adults, 50% of respondents reported being "put off" when they didn't know exactly how their donation dollars were being spent [3]. Nonprofits are required to make certain information public, such as their annual Form 990 IRS filing ([annual report](#)) and application for tax exemption. You should publish these documents on your website so that they're easy for donors to find and evaluate. We recommend listing at least the previous five years of documents. You can also provide a link to your state-level registration as a charitable organization.

Read More: [What Executive Directors Need to Know about Nonprofit Watchdogs](#)

Additionally, make sure that all of the financial information contained in your marketing materials is accurate and up-to-date. Using data-based statistics to help donors understand their impact and encourage them to increase their donation levels can be a powerful marketing tool, but it's essential that you use accurate messaging.

2. Create Policies That Require Accountability and Implement Internal Controls

In addition to making financial information public, you should also have clear policies and procedures about everything related to finances in your organization. This includes policies regarding budgeting, expense approval, and how your executive director and other employees are compensated. Your nonprofit board should be aware of and required to approve the policies and compensation

Additionally, strict internal controls for the management of your back office need to be created and implemented by an experienced accountant or controller. These systems should be established to create an appropriate separation of duties and powers in order to shield your organization from internal fraud. The back office should also have robust cybersecurity protocols and tools in place to protect the organization, its finances, and all of its constituents' personal information from potential cyber-attacks.

Conflict of interest policies regarding your nonprofit's mission, staff, and board members should also be created and implemented to ensure everyone in the organization is properly aligned around common goals and that no one will be pressured, tempted, or appear to compromise themselves or the nonprofit.

Read More: [Why Isn't My Nonprofit Successfully Raising Money?](#)

3. Be Mission-Focused and Clear About Your Mission

While financial transparency is paramount, it's also important to be clear about and focused on your mission. The same YouGov survey mentioned above found that 45% of respondents reported feeling worried about whether or not a nonprofit was associated with a religion or political party.

If you are affiliated with another cause, organization, political party, or religion, it's best to be transparent about your alignment. As a result, your organization won't appear suspicious. Being transparent about affiliations prevents the organization from appearing as if it might be hiding nefarious activities. This increases transparency and trust.

Plus, you'll be aligned with your true goals and mission which will result in your organization attracting the right type of donors – those who share the same values as your organization.

In just one year, this Nonprofit jumped from \$50,000 to \$500,000 in individual donations after being awarded \$1.5 million in federal grants 📌 [How'd they do it?](#)

"Funders want to see measurable results. They want to see how each of their dollars are being spent. What GrowthForce provides to a nonprofit is the response to that, which can only help a nonprofit get grant funding. "

4. Demonstrate Accountability in All Actions

To maintain the public's trust, a [nonprofit organization](#) (and all of its constituents) must demonstrate accountability, integrity, and responsibility in all of its actions – even minor interactions. This includes only using photos of individuals who agree to have their photos used, not including identifiable information in photos, responding quickly to donations with thank you letters and receipts, following financial policies, and sticking to your mission.

Read More: [What Nonprofit Board Members Should Know About Nonprofit Accounting](#)

5. Make Information Easy to Find and Access (Financial and Otherwise)

Another way to improve public trust through transparency is to shine a light on every piece of your organization. In addition to publishing financial information online (and making it easy to find and access), you should include additional information about your nonprofit. Your website should have a page that lists your executive director and staff in addition to the members of your nonprofit board. Take it a step further and include short bios about each individual, listing their experience and relevant skill set so that potential donors understand what each person in your organization brings to the table.

Demonstrate the Value of the People in Your NPO With Labor Cost Allocation

Take fundraising transparency one step further.

Inflated salaries in a nonprofit are one thing (i.e. a red flag to potential donors), but normal labor costs are another thing entirely (i.e. vital for operating and completing your mission). To show the value of your organization's labor costs, we recommend implementing systems that enable your employees to accurately track their time spent on specific tasks and individual projects.

For example, if you have an employee who spends 50% of their time working directly on a program that generates funds for your nonprofit, then this means you're actually spending 50% of that employee's salary on the program they spend that amount of time on. This means you can allocate 50% of that employee's salary and other labor costs to that program.

With accurate time tracking and job costing, you can show the return on the investment you make in your people by comparing a program's, event's, fundraising efforts, or marketing campaign's labor costs to the revenue it generates or the impact it has.

This process demonstrates the *true value* (and complete transparency) of the dollars you spend on your people, helping potential donors understand how the portion of their donations that go toward covering labor costs is actually going to work.

[1] <https://independentsector.org/resource/health-of-the-u-s-nonprofit-sector/>

[2] <https://www.globalpolicyjournal.com/blog/09/02/2021/why-charities-must-embrace-transparency>

[3] <https://firstnonprofit.com/donors-want-to-know-how-money-is-spent-by-nonprofits/>