

Czech University of Life Sciences Prague

Faculty of Economics and Management

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Diploma Thesis

Not for Profit Organizations in Health Care Sector

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

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DIPLOMA THESIS ASSIGNMENT

Eliška Bártová

Economics and Management

Thesis title

Not for Profit Organizations in Health Care Sector

Objectives of thesis

The objective of the thesis is to calculate relevant efficiency ratios for selected non-for-profit organizations operating in the health care sector, to evaluate the results and to test whether there is a relationship between received contributions and fundraising expenses.

Methodology

Ratio analysis, Horizontal analysis, Comparative analysis.

The proposed extent of the thesis

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: Non-for-profit organizations, Healthcare, Efficiency ratios, USA, Horizontal analysis, Fund raising.

Recommended information sources

MIHÁLIK, Jan et al. Fundraising bez hranic. Získávání darů pro humanitární pomoc a rozvojemou spolupráci. Bratislava: PDCS, 2012. 335 p. ISBN 978-80-89563-05-0.

O'NEILL, Michael. Nonprofit Nation: A New Look at the Third America. San Francisco: Josey Bass, 2002. 336 p. ISBN 0-7879-5414-4.

POWELL, Walter W. and STEINBERG, Richard. The Nonprofit Sector. A Research Handbook. Second edition. New Haven: Yale University Press, 2006. 672 p. ISBN 978-0-300-10903-0.

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SALOMON, Lester M. and ANHEIER, Helmut K. Defining the nonprofit sector: A cross-national analysis. Great Britain: Manchester University Press, 1997. 527 p. ISBN 0-7190-4901-6.

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Declaration

I declare that I have worked on my diploma thesis titled "Not for Profit Organizations in Health Care Sector" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any third person.

In Prague on 30th March 2015

Eliška Bártová

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Not for Profit Organizations in Health Care Sector

Neziskové organizace ve zdravotnictví

Summary

The main aim of this diploma thesis is to show financial results of four selected American nonprofit organizations operating in health care, to analyze them and provide suggestions for their improvement. The results are obtained via calculation of several common ratios, used in nonprofit system.

The thesis compounds of two main parts divided to chapters and subchapters. The first part- theoretical contains information about nonprofit organizations in general, their differences between companies, classification, funding and ways of measuring their efficiency. Special emphasis is put on American nonprofit organizations. One chapter of the theoretical part is also dedicated to health care sector in the USA.

The second part- practical, focuses on selected nonprofit organizations. Their efficiency is measured through calculation of common ratios. Obtained results are commented and analyzed.

The final part of the thesis summaries the obtained results and provides recommendations which could be useful for the selected organizations, other nonprofit organizations and potential donors.

Souhrn

Hlavním cílem této diplomové práce je ukázat finanční výsledky čtyř vybraných amerických neziskových organizací fungujících ve zdravotnictví, dále analýza získaných výsledků a návrhy na jejich zlepšení. Výsledky jsou získány výpočtem několika ukazatelů, používaných v neziskovém sektoru.

Práce se skládá ze dvou hlavních částí, které jsou dále členěny do kapitol a podkapitol. První část- teoretická- obsahuje obecné informace o neziskových organizacích, rozdíly mezi ziskovými a neziskovými organizacemi, rozdělení, financování a možnosti měření efektivity. Důraz je kladen na americké neziskové organizace. Jedna kapitola teoretické části je také věnována systému zdravotnictví ve Spojených státech amerických.

Druhá-praktická část se zaměřuje na vybrané neziskové organizace. Jejich efektivita je zde měřena pomocí vybraných ukazatelů. Získané výsledky jsou okomentovány a analyzovány.

Závěrečná část shrnuje získané výsledky a uvádí doporučení, která mohou být užitečná jak pro vybrané neziskové organizace, tak pro ostatní neziskové organizace a pro potenciální dárce.

Keywords: Nonprofit organizations, healthcare, efficiency ratios, USA, horizontal analysis, fundraising.

Klíčová slova: Neziskové organizace, zdravotnictví, ukazatele efektivity, Spojené státy americké, horizontální analýza, fundraising.

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1. Introduction

Nonprofit organizations (NPOs) play an invaluable role today and their existence is one of the characteristics of modern democratic society. Now, there are countless NPOs operating in many different fields. NPOs are organizations whose main aim is not to gain profit for their owners but to serve the society in a particular way. The income of the NPOs should be used to fulfill their objectives. NPOs are also an important part of the economy; they create new jobs, represent the interest of citizens and provide a variety of services.

NPOs play a very important role in the health care sector. Thanks to assistance from NPOs it is much easier to provide necessary assistance for people in need who are not able to afford the desired help and assistance.

NPOs mission statement is not driven by financial results. However, measuring of their efficiency still makes sense. Large part of NPOs' income stream is represented by money from donors. It is obvious that the donors want to see where their money went and whether it was spent efficiently or not. Therefore a practical part of this thesis is dedicated to ways of measuring the efficiency using selected common ratios typical for nonprofit sector.

For measuring the efficiency were chosen following organizations: *CancerCare*, Children's Cancer Recovery Foundation, The National Children's Cancer Society and Pancreatic Cancer Action Network. All those organizations are well established NPOs in health care sector operating in the USA and providing large variety of healthcare services. The reason for choosing those organizations is a fact that they are all operating in the same field, have similar size, mission and are well established.

The purpose is to calculate their efficiency using selected common ratios with a special emphasis on fundraising efficiency and to provide an academic analysis of how efficiently they operate, with regard to results of the calculated ratios and horizontal analyses of their revenues and expenses. Finally recommendations will be provided for the selected organizations on how to maintain and increase their efficiency. Other NPOs can use the recommendations and see what could have been done better as well.

2. Objective of the thesis and methodology

2.1. Objective of the thesis

The diploma thesis comprises of two main parts. The first part is theoretical and the second part is practical. Both parts are then divided into chapters and subchapters.

The aim of the theoretical part is to provide relevant information about NPOs in general, to describe their differences between companies and explain the classification of NPOs and ways of their financing. Special emphasis is put on NPOs in the USA and on health care sector there.

The practical part begins with relevant information about four selected American NPOs, about their historical background and fields of operation. Relevant common ratios are calculated and obtained results are analyzed. Additionally, the horizontal analyses of income statements are made. The special emphasis is put on development of fundraising expenses and contributions. The main aim of this part is to prove or reject following hypotheses:

H1: Selected NPOs operating in the same field will have similar efficiency ratings.

H2: Increase in fundraising expenses leads to increase in received contributions and grants.

The last part of the thesis summarizes and evaluates the obtained results and provides further suggestions for selected NPOs regarding an increase of their efficiency. It is then easier for potential donors to decide where to contribute.

2.2. Methodology

The first part of the diploma thesis comprises of the theoretical basis of the literature study. This part provides an overview on NPOs in general; the difference between for-profits and NPOs is explained. Classification and funding of NPOs and possible ways of measuring of their efficiency are introduced. Later on, the health care sector of the USA is introduced and the role of NPOs is explained. A main source of information is relevant literature listed in the bibliography at the end of the thesis.

The practical part begins with selected NPOs, their background and history. Later on the practical part continues with financial analysis of the selected NPOs' fiscal performance by calculation of relevant common ratios. The main aim of the practical part is to evaluate financial performance of selected organizations. Comparative analysis of obtained data is used and the results are commented and analyzed. Necessary information is obtained from selected NPO's IRS forms 990. The end of the thesis provides comments and recommendations resulting from the outcomes.

For getting the desired outcomes, the following ratios were chosen. Fundraising Efficiency ratio, Public Support ratio and Fiscal Performance ratio were the outcome of a financial performance measures study performed by W.J.Ritchie and R.W.Kolodinsky.¹ The study is described more in detail in subchapter 3.1.4. Program Efficiency ratio was suggested by the Cathedral Consulting Group, LLC² as one of the key ratios for measuring NPO's financial performance.

Program Efficiency ratio

Program Efficiency ratio determines what share of NPOs' total expenses is spent directly on its program and not on administration and fundraising. To obtain the result total program service expenses are divided by NPO's total expenses.

Program efficiency ratio= Program service expenses/Total expenses
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As Cathedral Consulting LLC³ explains, the average NPO should have around 80% program expenses and 20% general and fundraising expenses. Not every NPO can achieve those values, as they are highly dependent on NPO's size and program services. In the scenario where the NPO does not reach the recommended values, it does not necessarily mean that it is operating inefficiently. Detailed look at the NPO's program and mission is required.

¹ RITCHIE, W.R. and KOLODINSKY, R.W. Nonprofit organization financial performance measurement: An evaluation of new and existing financial performance measures. p 367-381.

² CATHEDRAL CONSULTING GROUP [online]

³ Ibid.

Fundraising efficiency ratio

Fundraising efficiency ratio basically shows how efficient is the NPO at raising money. It has a significant explanatory value as the result exactly expresses the cost of obtaining each contribution dollar. To obtain the desired outcome, there was chosen following formula of the ratio⁴:

Fundraising efficiency ratio= Fundraising expenses/ total Contribution (meaning gifts, grants and other contributions).

The higher the value of the ratio, the more money was spent to raise the contribution. According to general guidelines the value of the ratio should not be higher than 35%. Nevertheless the higher value does not necessarily mean that the NPO is not efficient enough. It is necessary to see more in detail the NPOs' fundraising activities and their outcomes. Additionally, a comparison of the ratio value between similar NPOs can tell a lot, as some groups of NPOs may have higher costs of fundraising and lower contribution due to a character of their mission.

Public Support ratio

Public Support ratio shows how much is the NPO dependent on contributions from public, including also contributions from government. The formula of the ratio is following:

Public support ratio= Total contributions (meaning gifts, grants and other contributions) / total revenue.

The result of the ratio shows what percentage of NPOs' total revenues consists of direct public support contributions. There is not an optimal value of this ratio as in case of public efficiency ratio however too high value is not desirable because it means that the NPO is too dependent on one type of income. Lower ratio may indicate that the NPO is more

⁴ This formula is not used by Ritchie and Kolodinsky but it was chosen for the purpose of this thesis as the necessary information can be found in IRS 990 form. This formula is used among others by NPO database Charity Navigator (<http://www.charitynavigator.org/>).

stable; in case of a decrease of income from one source the NPO will be still able to continue its operation.

Fiscal Performance ratio

Fiscal performance ratio expresses the share of total revenues on total expenses. The formula of the ratio is following:

Fiscal performance ratio= total revenues/total expenses.

The result of the ratio expresses whether the NPO heads to a deficit or not. Result lower than 100% indicates that the NPO spends more than gains- that may lead to a significant decrease of NPO's savings. Result of 100% and higher is a desirable one and indicates a good fiscal performance of the NPO.

Horizontal analysis

In order to see the development of revenues and expenses over time, a horizontal analysis of an income statement will be used. Horizontal analysis is a *procedure in fundamental analysis in which an analyst compares ratios or line items in a company's financial statements over a certain period of time.*⁵ At a later stage, the changes over time can be explained in absolute or relative terms. Absolute change expresses the change in the actual value of the items; relative change expresses the percentage increase or decrease.

The absolute value is the difference between current year's and previous year's value. To obtain the relative value, the difference between current year's and previous year's value is divided by the previous year's value. From this value the percentage is created.

There are several ways to perform the horizontal analysis that differ in the time scope. For the purpose of this thesis it will be performed on yearly data.

⁵ INVESTOPEDIA [online]

Selection of NPOs

The criteria for the selection of NPOs for further study will be selected based upon the following attributes:

- Operating in similar field,
- similarities in mission,
- similar size,
- well-established.

To perform a comparison with some explanatory value, it was crucial to fulfil the above mentioned criteria. To select the desired NPO, the database Charity Navigator⁶ was used. After logging in it is possible to use an advanced search- that gives the user more possibilities about how to narrow the search and obtain the desired results. For the purpose of this thesis the keyword used in the search was “cancer”, category “Health”, cause “Diseases, Disorders and Disciplines” and size/total expenses \$13.5 million and up. This search provided 12 results, out of which 4 NPOs were chosen that were the most similarly related to each other.

The chosen NPOs are following ones:

- *CancerCare*,
- Children's Cancer Recovery Foundation,
- The National Children's Cancer Society,
- Pancreatic Cancer Action Network.

⁶ CHARITY NAVIGATOR [online]

3. Literature review

3.1. General information about nonprofit organizations

3.1.1. Difference between nonprofit and company

For better understanding of functioning of NPOs it is crucial to define it at the beginning and to show the differences between a firm and nonprofit organization.

The main feature that distinguishes the for-profit and nonprofit sector is the profit itself. The basic aim of the firms as representatives of profit sector is to gain the profit, however that is not the main aim of the NPOs.

The NPOs are defined as organizations with following characteristics:⁷

1. Organized/ institutionalized

NPOs have a specific structure regardless of whether they are formally or legally registered. A legal charter of incorporation in some countries could represent this. Temporary gatherings of people without any structure or organizational identity are excluded from the definition, otherwise the concept of NPOs would become too complicated to examine.

2. Private

In the case of NPOs, private means that they are institutionally separated from government/state administration. However they can still receive government support and government officials can sit on their boards. The most important fact concerning this criterion is a fact that the NPOs have separate identity from the state and therefore are not subjects of governmental authority.

3. Nonprofit

NPOs do not redistribute their profit to their owners, members, founders or governing board. The profit must be used to fulfill the mission of the organization. The organization can be classified as a nonprofit only if its profit is reinvested within it or used to fulfill the purpose of it. That implies that NPOs are private organizations whose primary goal is not

⁷ SALAMON, L.M; ANHEIER, H.K. *The International Classification of Nonprofit Organizations: ICNPO-Revision*, p.2-3.

to generate a profit for their owners and are not driven by commercial goals. If those conditions are not accomplished, then the organization cannot be called nonprofit.

4. Self-governing

There is no leading influence from outside for the NPOs, however some NPOs that function as a part of governmental agencies or private businesses might be controlled. Therefore the definition includes also criterion of self-governance, the organizations must have their own governance and must be able to control their own activities to a significant extent.

5. Voluntary

To fulfill the definition of a NPO, the organizations must represent a voluntarism at some point. The concept of voluntarism includes two considerations: firstly the NPO must include volunteers to some of its operations or management; secondly term “voluntary” means “non-compulsory”. If the NPOs require the membership or it is required by law then the NPO would not be part of a nonprofit sector.

The authors add another two criterions of NPOs- no political and religious involvement.

Even though the NPOs ‘aim is not to gain profit for their owners, some of them run profit activities. There are conflicting views on this. One may argue that NPOs’ mission- to satisfy needs of people who are not able to obtain services provided by the market could intersect with attempts of profit activities. As mention W.Foster and J. Bradach⁸, this is an obvious conflict between the mission of NPOs and obtaining financial resources. NPOs are dependent on donations and gifts from their donors and an excessive effort to get additional funds can lead to inaccurate fulfillment of the NPOs’ mission.

Another essential difference between NPOs and for-profit companies is the further treatment of the profit. Profit of the company stays in the company or is divided among the owners or shareholders. Profit of NPOs should be used to fulfill their mission and the managers there do not get any share of it. This fact could lead to lower motivation of the NPOs’ managers as their income would stay the same regardless of the results of the NPO.

⁸ FOSTER, W.; BRADACH, J. *Should Nonprofits Seek Profits?* p.1-9.

It is possible to distinguish three main types of organizations according to financing of their activities:⁹

- Private organizations- dependent on revenues from their own sold goods and products,
- State subjects – dependent on tax revenues,
- NPOs – dependent on donations and gifts.

To sum up this subchapter the following table is provided, showing the differences between companies and NPOs in three basic categories.

Table 1- Differences between Companies and NPOs

	Company	NPO
Priorities	Profit, positive cash flow, mission, values	Mission, values, minimization of loss, profit, balanced budget
Use of profit and cash flow	Divided between owners/shareholders, partial further investment	Further investment to activities fulfilling the mission of the NPO
Management responsibility	Mainly owners/shareholders	Members of NPO including public

Source: Boukal, p. 94. Own work.

3.1.2. Classification of NPOs

The nonprofit sector is represented by number of different institutions operating in various fields. The classification of nonprofit sector the author considers the most lucid, was done within a project called The International Classification of Non-profit Organizations (ICNPO). The ICNPO uses a differentiation of the non for profit units according the types of goods and services provides by them. The ICNPO divides the NPOs into 12 major activity groups that are further divided into 24 subgroups. The ICNPO has been created following an analysis of 13 countries that participated in the first stage of a project in Center for Civil Society Studies at Johns Hopkins University. Afterwards was the ICNPO tested and verified in 11 countries.

The ICNPO has been used by researchers in different countries that vary in several fields; in political, cultural and legal system; by size, scope and role of nonprofit sector there and also by level of their economic development. Even though the ICNPO represents a highly effective classification system for nonprofit organizations in various countries, there is still

⁹ WEISBROD, B. A. The nonprofit mission and its financing. p.165-174.

some space for adjustments. The adjustments regarding sub groups have been suggested by various researchers operating in the same field.¹⁰

The biggest advantage of using the system is the applicability of it in different countries making them internationally comparable. Nevertheless as the authors of the system mention, it has some disadvantages as well. It may be complicated to classify some of the NPOs, which operate in more fields. As examples are used environmental organizations- some of them are engaged in advocacy activities. Therefore it is not clear, whether they should be classified according to area of their activity or according to the nature of their activity.¹¹

According to ICNPO, the NPOs were classified to following major groups and subgroups:¹²

- **Group 1- Culture and recreation**, subgroups: Culture and arts, Sports, Other recreation and social clubs
- **Group 2- Education and research**, subgroups: Primary and secondary education, Higher education, Other education, Research
- **Group 3- Health**, subgroups: Hospitals and rehabilitation, Nursing homes, Mental health and crisis intervention, Other health services
- **Group 4- Social services**, subgroups: Social services, Emergency and relief, Income support and maintenance
- **Group 5- Environment**, subgroups: Environment, Animal protection
- **Group 6- Development and housing**, subgroups: Economic, social and community development, Housing, Employment and training
- **Group 7- Law, advocacy and politics**, subgroups: Civic and advocacy organizations, Law and legal services, Political organizations
- **Group 8- Philanthropic intermediaries and voluntarism promotion**
- **Group 9- International**
- **Group 10- Religion**
- **Group 11- Business and professional associations, unions**
- **Group 12- Not elsewhere classified**

¹⁰ SALAMON, L.M; ANHEIER, H.K. *The International Classification of Nonprofit Organizations: ICNPO-Revision*, p.1.

¹¹ SALOMON, L. M.; ANHEIER, H.K. *Defining the nonprofit sector: A cross-national analysis*. p.75.

¹² SALOMON, L. M.; ANHEIER, H.K. *Defining the nonprofit sector: A cross-national analysis*. p.70-74.

3.1.3. Funding of NPOs

It is crucial for each NPO to create a well working network of income, either from public institutions, private institutions, or private individuals. Rising of funds is one of the key factors for successfully working NPO. Each NPO should be building a loyal long-term relationship with its donors to encourage them to keep donating. The whole process of obtaining the income described in the following subchapter is called fundraising.

Even though the demand for services of NPOs is growing, many of them have to fight with several funding cuts and lower amount of obtained donations from volunteers.¹³ This fact should encourage the NPOs to try even harder to attract and keep their donors and volunteers in order to remain their operation.

There are different types of financial sources for NPOs:

1. Individuals

Individuals, mostly non- entrepreneurs, can donate a huge share of a NPO's income- however comparing with other NPO sources it may not be the most significant. Individual donors often require a special treatment; to keep them interested they should be considered more like a valuable customers instead of just source of income.

2. Institutional donors

Foundations and granting organizations are considered as institutional donors. Those organizations can be a long term source of income for NPOs via providing grants. Often happens that grants are provided to a NPO whose mission and impact are similar to the specialization of the institutional donor. Among granting organization belong also corporations- both physical bodies and legal entities.

3. Government

NPOs can apply for several grant funds offered by government. Form of the governments' aid depends on the national rules; in some countries it is more common. With government funding may be connected stricter controls of the NPO's spending than with funding from other sources.

¹³ ROSHAINAY A., HAMIZACH A.R., NOORBIJAN A. B. *Assessing the self-governance and value creation in non-profit organizations*. p. 286-293.

There are NPOs that do not want any grants from governments to stay independent and to avoid any possible political conflicts.

4. Self-financing of the NPO

Self- financing includes entrepreneurial activities; it may also occur through collecting of membership fees, selling products, providing services, organization of public collections and charity events, renting of tangible assets.¹⁴

Government contributions and self-financing are not included in the term “fundraising” this is described in the next subchapter. However they are still very important part of NPO’s income.

3.1.4. Fundraising

According to Cambridge dictionary, term fundraising means *the act of collecting or producing money for a particular purpose, especially for a charity*¹⁵. However, fundraising is not just a one step process. At the beginning, it is important to show the public that there is a significant need and the actual NPO can meet the need through its operation. Therefore, fundraising can be also described as a process of selling to donor a thought that he can be actually useful.

Fundraising is also part of company’s financial statements, as an expense. It will be shown more in detail in the second part of the thesis. Each organization needs money to be able to fulfil its objectives. NPO’s expenses include among other costs of rents, employees wages and costs of running its projects. The NPO should be able to pay all its necessary expenses to remain its operation. Fundraising is a tool to help the NPO fulfill its aims and objectives

¹⁴ INGRAM, D. *Financing Solutions for Nonprofit Organizations*. [online]

¹⁵ CAMBRIDGE DICTIONARIES ONLINE [online]

Fundraising strategies

There are several strategies for successful fundraising. As the technological development is very fast, the NPOs must adjust its operation to it. It is possible to use two types of attracting the potential donors¹⁶:

- **Modern way**- using web pages, social networks, e-mails, smart phone + tablet applications, online charity shops. The huge advantage of the modern way is that the costs of it are lower.
- **Traditional way**- using advertising by post or paper booklets. Even though it seems like the Internet is everywhere, there is still lot of people who do not use it. There could be potential donors among those people as well; therefore they should not be forgotten.

According to Mal Warwick¹⁷, there are five fundamental fundraising criteriasff:

1. Efficiency

Are the money raised at the lowest possible costs? Efficiency is the first thing people usually think about when talking about fundraising program. However it is not always the best solution to raise money at the lowest cost, additionally it is not practicable. If the ways of fundraising that are being used are not working well anymore it means that fundraising method should be changed even if it means possible higher costs of fundraising.

2. Stability

There are several questions that should be asked if there is a will to keep the NPO stable:

- Can the NPO survive in the long term?
- Can the NPO assume to receive the same amount of income as now also in future, if it is still using the same fundraising program?
- Is the fundraising program diversified or does it depend only on few sources?

¹⁶ MIHÁLIK, J. et al. *Fundraising bez hranic. Ziskávání darů pro humanitární pomoc a rozvojovou spolupráci.*

¹⁷ WAWRICK, M. *The Hands-On Guide to Fundraising Strategy & Evaluation* [online]

- Does the NPO pay enough attention to the needs and desires of its donors, so they will continue their support?

3. **Visibility**

If the NPOs' mission demands to be visible among public, are the fundraising activities noticeable enough?

4. **Involvement**

Are the donors sufficiently involved in the NPO's affairs if they wish so? Most of the NPOs are able to raise more funds if their donors are involved. This could help the NPO to be more visible, attract more volunteers and in long term to assure stable income. Nevertheless in short term the higher donor's involvement may lead to lower program efficiency because the donor's involvement is connected with extra costs for the NPO. The advantage of the involvement is that if the donors are being informed about the NPO's activities, they become more generous.

5. **Growth**

Are the NPOs' fundraising revenues growing enough to allow the expected growth of the NPO?

One of the ways of designing a fundraising strategy may be through encouraging the growth- for example via expanding NPO's donor base. It is important to count with a fact that the strategy may be not financially efficient in the short term because of extra costs. This may lead to higher or lower public visibility. In case the strategy fails, it may have negative effect on the NPO's long-term financial stability.

All the strategies above could be observed in the NPOs. This model could help each NPO to clarify its priorities and decide which of them the top priorities are at the moment.

It is not possible to fulfill more than one strategy at a time. Strategies can be combined only in short term during transition periods. It is up to each NPO which strategy to choose. In case one strategy is already secured, another one can start to be fulfilled.¹⁸

Difficulties of fundraising

NPOs provide their services all around the world and sometimes the donors do not see the actual work of the NPO because it is not in proximate distance (e.g. tsunami in Asia). Those facts make it less easy to obtain necessary financial support from the donors. This makes the whole fundraising process more difficult in two ways¹⁹:

- **Fundraising happens outside the perception of the receivers of the help.** Often the receivers do not have any idea how are their needs and problems described. In the short term the donors can be motivated by the receivers' destiny, however in long term could appear distorted perception of the situation in form of prejudice or donors frustration. There is no direct control on how are the receivers perceived.
- **It is difficult for the donors to monitor the use of donated funds.** Hardly any of the donors has a possibility to visit personally the place where his donations went. Most of the donors even do not feel the need to do so, even if they contribute to a project that is in their own country. It is easier for them though to imagine the impact of the project because they know the basic framework- the economical, social and cultural context of the donation. The understanding of the context of foreign projects is often missing, because the donors do not have direct information about it.

Both aspects described above require NPOs to be constantly working on strengthening their trustworthiness and do everything to be considered as a quality NPO. One of the ways of how to achieve it is to show the donors his concrete contribution in geographically distant place via using modern technologies.

¹⁸ CHCIPOMOCI. *Fundraising-formy, metody, strategie* [online]

¹⁹ MIHÁLIK, J. et al. *Fundraising bez hranic. Ziskávání darů pro humanitární pomoc a rozvojovou spolupráci.*

3.1.5. Efficiency of NPOs

Efficiency means a situation, when an organization is producing at its maximum with regards to its input.²⁰ Nevertheless there is a significant difference between for-profit and nonprofit organizations. The for-profit sector uses as a main value the profit itself however for the nonprofit sector is the answer much broader. The definition of efficiency of NPOs is assessed according to the NPO's mission and the results depend on the quality of NPOs outcomes. It is obvious that if the NPOs main mission is a research of a for example new vaccine, the costs would be much higher and the efficiency results worse than in case of different NPO- whose aim is e.g. financial support for people in need. The outcome of the first theoretical NPO could be visible not immediately; it is possible that some vaccine would be explored after years and years of research. During the first years there would be no measurable outcome however after the discovery of the vaccine and beginning of its use, the outcome could be incalculable.

Still, calculation of efficiency ratios makes sense. The theoretical donors need some clue while deciding about whom to contribute. As mention Epstein and McFarlan²¹, NPO's performance depends both on financial metrics and non-financial measurements represented by level of achieving the NPO's mission. Nevertheless, the non-financial measures are less precise and more difficult to measure than the financial ones. There would be no mission without financial resources; however the resources would become irrelevant if the NPO is not focused on fulfilling its mission. Financial efficiency requires from the NPO constant development and implementation of financial strategy.

A way how to obtain financial data of organizations (not only NPOs) is through accounting. The data necessary for further calculations are provided in companies' income statements. Regarding companies, one glance on net income value can immediately provide an overview on how the company is doing. The same is not true for NPOs; absence of profit does not necessarily mean that the NPO is not operating efficiently.

There were numerous scandals regarding wasting or stealing of NPO's financial sources. Each scandal has a negative impact on trust of the donors/potential donors whereas trustworthiness of any NPO is a key to its success. This fact is crucial especially in a

²⁰ COELLI, T. J.; PRASADA RAO, D. S.; O'DONNELL, C. J.; BATTESE, G. E. *An Introduction to Efficiency and Productivity Analysis*. p. 3.

²¹ EPSTEIN, M.J. and MCFARLAN, F.W. *Measuring the Efficiency and Effectiveness of a Nonprofit's Performance*

situation when donors can not directly check and understand details of a program where their donations are spent. The trustworthiness of the NPOs is based on many different factors. Firstly it is quality work and results of the NPO, including financial efficiency. Subsequently, the NPO must have established principles and methods that ensure the quality and effectiveness of its work. That will be visible for all people interested in the NPO. The NPO must be transparent and responsible against both its donors and receivers of its help. Another really necessary aspect of trustworthiness is the way how all the information regarding the NPO is provided. It has to be understandable and acceptable for the interested people. The whole point is not only about releasing some data but it is crucial to introduce the connections between them so that the reader has a united piece of information. Not only the content is important, but also the way of its announcement. Unpremeditated releasing of any information could be harmful for both the receiver of the help plus the NO. It is necessary to mention that all NOs must be able to fulfill efficiently their missions and also must be able to communicate clearly. The basic ingredients for maintaining the trustworthiness of any NO are the visibility; understand ability and continuous improvement of work.²²

3.1.6. Financial performance of NPOs

As it was already described in subchapter 3.1.4, there is a demand for financial information and performance of the NPOs, not only from the side of its donors but of the greater public at large also. Measuring of the NPOs performance was the subject of several research projects.

The process of making public NPOs' financial data started with the IRS form 990 in early 1940s. It was much easier to reach the desired data with the IRS forms 990s' especially when this was made available online. Both the availability and accessibility of the IRS form 990 increased the comparison of the finances of NPOs. The NPOs were already ranked during 1960s and 1970s by various periodicals including *Forbes* and *Money Magazine*. The initial demand for that information came as a result of publicized fundraising abuses.²³

²² MIHÁLIK, J. et al. *Fundraising bez hranic. Ziskávání darů pro humanitární pomoc a rozvojovou spolupráci.*

²³ HAGER, M.A. and FLACK, T. *The Pros and Cons of Financial Efficiency Standards* [online]

K.A.Froelich, T.W.Knoepfle and T.H.Pollak published an interesting research report in 2000. They compared IRS form 990's data with data from audited financial statements for 350 NPOs in order to investigate *the adequacy, reliability, and appropriate interpretation of IRS 990 Return data.*²⁴ The result of the study showed that *IRS 990 Return can be considered an adequate and reliable source of financial information for many types of investigations, but preparers and users of the data need a clearer understanding of its purposes to enable appropriate interpretations.*²⁵

For the calculation of financial performance in for-profit sector several financial ratios are used. In many cases, using the same ratios of nonprofit sector would not provide a fully understandable picture about their financial situation though, as the NPOs' main mission are not the best financial results but the best overall performance, including a fulfilment of the NPO's goals. Still, there were some attempts to create financial ratios that would be usable for the NPOs and would provide the public desired and accurate information regarding the financial situation of a selected NPO. This is closely connected to a lack of suitable tools for financial measurement, mentioned also W.J.Ritchie and R.W.Kolodinsky in their study regarding financial performance measures.²⁶ The authors divided the study to two phases: exploratory (phase 1) and application (phase 2). Phase 1 compounds of factor analysis of sixteen financial performance ratios, where the authors use cross-sectional and longitudinal university foundation data. Phase 2 then analyses the results by applying the results from phase 1 by using data from IRS forms 990. The outcomes of the study are three performance categories including financial ratios - fundraising efficiency, public support and fiscal performance that were described in the first part of this thesis-methodology. The study proved that the tested financial performance measures can be broken into different categories. .

According to W.J.Ritchie and R.W.Kolodinsky²⁷ each NPO should decide which weight should it put to each of above described ratios. If the NPO thinks that all the ratios are equally important for it, then each of them are equivalents of 33%. However in some cases

²⁴ FROELICH, K. A.; KNOEPFLE, T.W.; POLLAK, Thomas H. *Financial Measures in Nonprofit Organization Research: Comparing IRS 990 Return and Audited Financial Statement Data.* p 232-254.

²⁵ Ibid.

²⁶ RITCHIE, W.R. and KOLODINSKY, R.W. *Nonprofit organization financial performance measurement: An evaluation of new and existing financial performance measures.* p 367-381.

²⁷ Ibid.

there could be more emphasized e.g. fundraising- that would be shown by using a higher percentage weight on the public support ratio.

3.2. NPOs in the USA

The nonprofit sector in the USA has an irreplaceable position and provides a huge quantity and range of services. It cooperates closely with the government and has its support that resulted in significant growth and development.

During last few years went the sector through many changes. The most recent impact was probably the financial crisis starting in 2008. The crisis significantly influenced the financial situation of many organizations, including the NPOs.²⁸

It has an appreciable impact on the US economy, for example in 2012 it contributed approximately \$887.3 billion to the US economy, which means 5.4% of the country's GDP.²⁹

The value of all revenues and expenses of just one of the NPOS, exceeded \$1 trillion. In 2012 the value of public charities' total revenue was \$1.65 trillion; total expenses were \$1.57 trillion. The value of reported assets of public charities was \$3 trillion in 2012.³⁰ Those astronomical values confirm the importance and huge size of nonprofit sector in the USA.

Volunteer work is closely connected to NPO's. In the USA there is a strong tradition of volunteering and it has been very common to volunteer. According to the Current Population Survey³¹, approximately one fourth of Americans older than 16 volunteered between September 2009 and 2013- either through or for some NPO.

3.2.1. Types of NPOs in the USA

For the purpose of taxation (namely for obtaining the tax-exempt status) is used definition of NPOs by the Governments internal revenue code (IRC). The NPOs are distinguished by the rules of Internal Revenue Service (IRS) in section 501 on the basis of corporate and tax laws of 50 U.S. states. IRS distinguishes more than 30 organizations that are tax exempted.

²⁸ RITCHIE, W.R. and KOLODINSKY, R.W. *Nonprofit organization financial performance measurement: An evaluation of new and existing financial performance measures*. p 367-381.

²⁹ MCKEEVER, B. S.; PETTIJOHN, S.L. *The Nonprofit Sector in Brief 2014*. [online]

³⁰ NATIONAL CENTER FOR CHARITABLE STATISTICS. *Quick Facts About Nonprofits* [online]

³¹ Ibid.

Below are listed selected categories recognized by IRC:

- **501 (c) (3)**

This category represents the largest category of NPOs in the USA. NPOs within this category must fulfill following conditions: they serve charitable purpose, do not redistribute their net profit to their private shareholders or individuals and do not participate or intervene in any kind of political activity.³² The mission of the NPOs must be one of following: charitable, educational, religious, scientific and literary; groups that test for public safety, that foster national or international amateur sports competition; or organization engaged in prevention of cruelty to children or animals. This definition covers many different activities and therefore the majority of NPOs are listed there.

NPOs within this category are eligible to receive donations from individuals and businesses that are tax deductible.

As to the establishment of here belonging NPOs, each state has its own regulation.

- **501 (c) (4)**

NPOs belonging to this category have to fulfill the same conditions as ones belonging to 501 (c) (3). There are several differences between those two categories though. The NPOs have to meet following criteria: the NPO *“must be a civic league or organization not organized for profit but operated exclusively for the promotion of social welfare; is a local association of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality; the net earnings of the group are devoted exclusively to charitable, educational, or recreational purposes.”*³³

This category includes *civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, or local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality, and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes*³⁴

Political activities are not mentioned here which implies that the belonging NPOs can be politically active while meeting their non profit mission.

³² O’NEILL, M. *Nonprofit Nation: A New Look at the Third America*, p. 3.

³³ GOETTLER, J. *Types of Nonprofit Organizations* [online]

³⁴ LII. *Exemption from Tax on Corporations* [online]

- **501 (c) (1)**

NPOs belonging to this group are those organized under Act of Congress. An example is Federal Credit Unions. Tax-exempt contributions are allowed for those NPOs only in case that they are made for exclusively public purposes.³⁵

- **501 (c) (2)**

NPOs belonging have a financial stake in the tax exempted NPO. That also means that they own property used by NPO.

- **501 (c) (5)**

NPOs belonging are employment, agricultural and horticultural organizations. These NPOs are also educational or instructive, they are trying to improve working conditions or improve their products and efficiency.

- **501 (c) (6)**

NPOs belonging are business associations, chambers of commerce and other organizations that are trying to improve conditions in business.

- **501 (c) (7)**

NPOs belonging are social and interest groups of people. The groups support school, leisure and social activities.

Designation 501 (c) (08) – (c) (27) represents another types of NPOs with specific tax conditions.

Besides the classification used by IRS, NPOs in USA can be differentiated according to their specialization. In addition to charitable organizations of types (c) (3) and (c) (4), there are following types of NPOs:³⁶

- **Private foundations**

These foundations raise funds and donations from a limited number of their members. The members contribute the most of the donations to the foundation. The foundations are not involved in the actual charitable work; they fund other NPOs working on selected causes.

³⁵ FRITZ, J. *IRS Classifications for Nonprofits* [online]

³⁶ STARTNONPROFITORGANIZATION.COM. *Types of Nonprofit Organizations* [online]

- **Public charitable organizations**

This type of NPO unlike private foundations accepts donations and financial resources from a wide range of donor: either as a membership subscription or from one of many different funding agencies. For obtaining this status, the NPO must have an active or persistent program for raising funds and receiving donations. The potential donors include the private organizations, funding agencies, public, or the agencies set up by the Government. Public charitable organizations can be exempted from tax. Among this type of NPO belong charitable hospitals, churches, medical research centers, educational institutions including schools, colleges and universities.

Other type of NPOs that do not belong to 501(c) (3) classification are following:³⁷

- **Advocacy groups**- their purpose is to influence the legislations or Government policies. They are not classified as charitable organizations and therefore they are not tax exempted.
- **Membership organizations**- unlike public organizations, the membership organizations are usually setup for the benefit of their members.
- **Recreational clubs**- their main objective is to provide facilities for recreation of their members. They can also accomplish charitable activities however the activities cannot become a priority.
- **Auxiliary organizations**- they are subsidiaries or support organizations to a parent one. They can be both for-profit and nonprofit.
- **Employee benefit funds**- their main aim is planning and obtaining sources for employee benefits. They may or may not be supported by the employer of the organization.

³⁷ STARTNONPROFITORGANIZATION.COM. *Types of Nonprofit Organizations* [online]

For the purpose of this thesis it is important to list main types of NPOs operating in health care. Those NPOs cover a broad range of different organizations whose types were described above. One big group consists of foundations, operating within various fields including health and health care.

Another well known institutions operating as NPO are Community health centers (CHCs) - *community-based and patient-directed organizations that serve populations with limited access to health care.*³⁸ CHCs provide primary health care services to uninsured people, including prenatal care and referrals to specialized care. The fees for the provided services depend on patient's ability to pay.

Below are listed examples of organizations that can be operated both as for-profit and nonprofit:

- hospitals,
- nursing homes,
- hospices,
- dialysis centers,
- home health agencies,
- mental health centers,
- home care providers.

3.2.2. Number of NPOs in the USA

The total number of NPOs in the USA is unknown because religious congregations and NPOs with less than \$5,000 in annual revenue do not have to register themselves within the IRS. Therefore the following numbers represent only registered NPOs.

³⁸ HRSA. *What is a Health Center?* [online]

Table 2- Number of NPOs in the USA

Type of NPO	2003		2013		% change
	number of NPOs	% of all organizations	number of NPOs	% of all organizations	
501(c)(3) Public Charities	783,020	57.2%	1,015,504	68.4%	29.7%
501(c)(3) Private Foundations	103,387	7.6%	99,949	6.7%	-3.3%
501(c) Other Nonprofit Organizations	481,925	35.2%	368,776	24.8%	-23.5%
Total	1,368,332	100.0%	1,484,229	100.0%	8.5%

Source: NCCS, own work

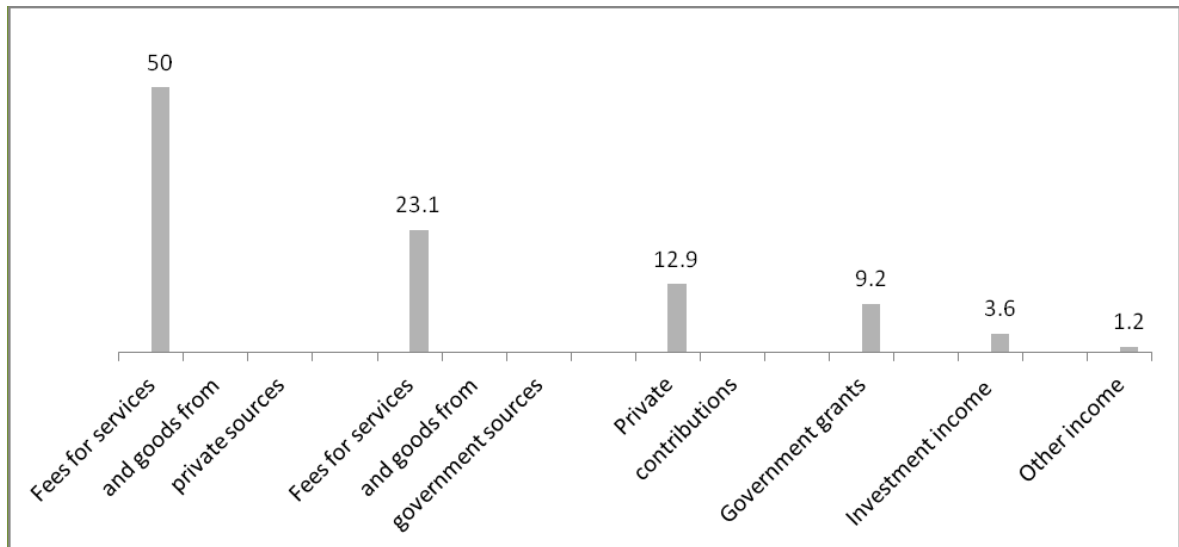
As shows the table above, there is a positive trend among total number of NPOs in the USA. There was an 8.5% growth of number of NPOs between 2003 and 2013, which in this case means 115,897 new NPOs. This implies to an average yearly growth of around 11,000. The annual growth was slower during the financial crash in years 2008 and 2009 that brought a huge economic decline.³⁹ The highest shares of NPOs are public charities that represent almost two-thirds of all registered NPOs. This is also the only category of NPOs where there was a growth in its number.

3.2.3. Financing of NPOs in the USA

The NPOs in the USA are financed from three main sources- government support, fees for their services, and donations. Despite widespread misconception that mainly philanthropists and private donors finance the biggest share of the NPOs, most of NPOs' total revenues come from fees and contributions from their clients.

³⁹ SALAMON, L.M. *The State of Nonprofit America*, p. 10.

Graph 1- Revenue sources for reporting public charities, 2012 (%)



Source: MCKEEVER, B. S.; PETTIJOHN, S.L. *The Nonprofit Sector in Brief 2014*. [online], own work

As can be seen in the graph above, fees for services and goods from private sources represent 50% of the income of reporting public charities. This figure consists of mostly hospitals and higher education NPOs. Another indispensable part of the income are fees for services and goods coming from government sources, with 23.1%. Rest of the income are either donations or government grants.

The share of main sources of finance differs for different NPOs. Religious and cultural NPOs for example have to rely on fees and private donations however NPOs providing health or social services are more dependent on government contributions. The sources of income in have changed a lot during last decades.⁴⁰

3.2.4. Income tax of NPOs in the USA

For profit firms are obliged to pay federal, state and local income taxes. To support NPOs there are some special tax reliefs for them. Selected NPOs can obtain a tax-exempt status- for obtaining that status it is necessary to get a confirmation from federal government that the organization is really non for profit.

The NPOs that are tax exempted are defined by IRC. Detailed description of those NPOs was already provided in subchapter 3.2.1. The NPOs are federal tax-exempt if included in

⁴⁰ O'NEILL, M. *Nonprofit Nation: A New Look at the Third America*, p.20

following sections of IRC: 501 (c), 501 (d) and 401 (a). None of the income of those NPOs can fall to private owners or any other individuals. In case that tax exempted NPO is engaged in some side business then the income from it is a subject of taxation.

To obtain the tax exempt status according to section 501 (c), the NPOs must apply at the IRS within 27 months from their formation date. IRS is then obliged to approve the request if the NPO fulfils the conditions for getting the tax exempt status.

Regarding the state and local income taxes, they differ from state to state. Most of the NPOs which are federal tax exempted are tax-preferred though.

IRS allows the NPOs to use several tax deductions from their tax base. It is possible to use tax deduction of \$1,000 for all NPOs which have to pay income tax from their income resulting from business activities. NPOs are also allowed to deduct net income loss (after an elimination of losses from the excluded and exempt activities).

3.2.5. IRS form 990

Once a NPO receives a tax-exempt status, there are special requirements regarding its reporting. For NPOs with value of their gross receipts lower than \$25,000 together with most religious organizations it is not obligatory to file annual information returns. For NPOs which do not fulfil any of the previous condition, the file of an annual return is a necessity.

There are two types of form IRS for those NPOs:

- IRS Form 990 - NPOs with annual receipts of more than \$100,000 or total assets more than \$250,000
- IRS Form 990-EZ – NPOs with annual receipts of less than \$100,000 but at least \$25,000 and total assets less than \$250,000.⁴¹

Those forms have to be filled in by about one third of NPOs recognized by IRS⁴² and are available to public.

The IRS form 990 provides financial information about the NPOs including the key information:

- Revenues, expenses, changes in net assets or fund balances
- Statement of functional expenses

⁴¹ GUIDESTAR. *Understanding the IRS Form 990* [online]

⁴² Ibid.

- Statement of program service accomplishments
- Balance sheets
- List of officers, directors, trustees and key employees
- Other information.

The IRS form 990 can provide a complex and integrated overview about any NPO and its finances and it is a very useful tool for those who can find the relevant information in it. Comparing to audited financial statements, the IRS 990 provide more detailed description of revenues and expenses and therefore could be its predicative value higher. The IRS 990 form is filled in yearly and the NPOs can decide which month they will use as a first month of their fiscal year.

3.3. Brief introduction to health care sector in the USA

Detailed description of the whole health care sector in the USA could be a separate topic for different thesis. For the purpose of this thesis it is not necessary to provide such a huge amount of information however some basic background will be shown to better understand how the whole system works and what part of it occupied by NPOs.

The American health care system is funded both by public and private funding and there are both public and private insurers. What makes it different from any other health care system is a fact that in USA there is more private than public insurers.⁴³ There are also slight differences between the separate states in the USA- the price of particular acts could differ in each state.

The health insurance is not compulsory; in 2013 the percentage of uninsured people was 13.4 %. Out of insured people 64.2% was covered by private health insurance and 34.3% by government health insurance. The rate of uninsured people is much higher among immigrants. In 2013 was the uninsured rate for Hispanics 24.3%.⁴⁴

There has been introduced a health care plan- The Patient Protection and Affordable Care Act, known as Obama Care. US President Barack Obama signed it on March 23rd, 2010. Obama Care reforms the whole health care system and its aim is to provide better quality

⁴³ CHUA, K. *Overview of the U.S. Health Care System* [online].

⁴⁴ SMITH, J.C.; MEDALIA, C. *Health Insurance Coverage in the United States: 2013* [online].

and affordable health care for more people. The releasing of it was accompanied by many complications (e.g. non-working registration system) and there are still ongoing debates on how the plan is or is not efficient.

3.3.1. Public healthcare

There are two dominant public healthcare programs with participating US government- Medicare and Medicaid. Below are described basic features of each program.

Medicare

Medicare is a national healthcare program created in 1965 for selected groups of disabled people and for people older than 65 years who have worked and financially participated to the system. The program is fully administrated only by the U.S. government and it is financed by income taxes.

Medicare is divided into four parts:

- part A- Hospital/Hospice insurance
- part B- Medical insurance
- part C- Medicare advantage plans
- part D- Prescription drug plans.

After reaching 65 years, people who paid taxes are entitled to participate in part A. Parts B, C and D can be purchased for a monthly fee. In 2013 the percentage of people covered by Medicare was 15.6 percent.⁴⁵

Medicaid

Medicaid is an insurance program for low-income people. It was created in the same year as Medicare- in 1965. The administration of Medicaid is responsible the states therefore there can be huge differences among states about e.g. coverage of the services or reimbursement for a treatment of Medicaid patients. Both the states and federal government finance the program. It is not obligatory for the states to participate in Medicaid however by a federal law the states must cover children, parents, elderly and disabled people and pregnant women.

⁴⁵ SMITH, J.C.; MEDALIA, C. *Health Insurance Coverage in the United States: 2013* [online].

The percentage of people covered by Medicaid in 2013 was 17.3 percent.⁴⁶

There are also smaller programs belonging to public health care than Medicare and Medicaid. Those programs include following:

- Veterans Health Administration – program for veterans of the military. Taxpayers finance it; the care is either free or for a small fee. There are special Veteran’s hospitals belonging to government where the care is delivered.
- State Children's Health Insurance Program- program for uninsured children from families with too high income for Medicaid but too low to pay a private insurance. Its financing and administration are based on the same principle as Medicaid.

3.3.2. Private healthcare

There are two forms of public health insurance- employment based or individual one. Employment based insurance is one of possible benefits from employer to his employees. The employer pays either the whole insurance or just a share of it. The insurance is administered by private companies which can be either for profit or non for profit.

Employment based insurance is the largest type of health insurance in the USA; it covered 53.9% of population in 2013.⁴⁷

Individual insurance is for retired people, self-employed people and people who do not get the insurance paid from their employer. Private insurance companies administrate it.

To summarise the lines above, there is a question suggesting itself- is the health care system which is used in the USA the right one, or not? It is not possible to give a one word answer as there is a huge number of different opinions. Despite of a fact that American health care system is the most expensive, is was ranked on the last place among 11 industrialized countries (Canada, Germany, France, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, Australia and New Zealand) for which was measured health system quality, efficiency, access to care, equity, and healthy lives. The results of the Commonwealth Fund report show that the USA is having the highest costs but the

⁴⁶ SMITH, J.C.; MEDALIA, C. *Health Insurance Coverage in the United States: 2013* [online].

⁴⁷ Ibid.

lowest performance. On the first place was ranked the United Kingdom which spent \$3,406 per person in 2011 while USA spent \$8,508.⁴⁸

However there are opposite views as well. Despite some imperfections of the health care sector, there are thousands of patients from different countries travelling to USA to receive a treatment. As showed a study in Lancet (British medical journal), the USA have the highest number of patients surviving cancer. The USA also provides excellent conditions for research- following numbers could be used as prove. Of the last 25 winners of the Nobel Prize in medicine are 18 either American citizens or they work there.⁴⁹

3.3.3. Role of NPOs in health care sector in the USA

As it was described in the thesis before, NPOs play an important role within the USA regardless of their focus. Public charities operating in healthcare represent 13% of all public charities- out of that are 2.4 % hospitals and primary care facilities and 10.6% other health care organizations. In 2012, the number of reporting public charities operating in healthcare was 37 374.⁵⁰

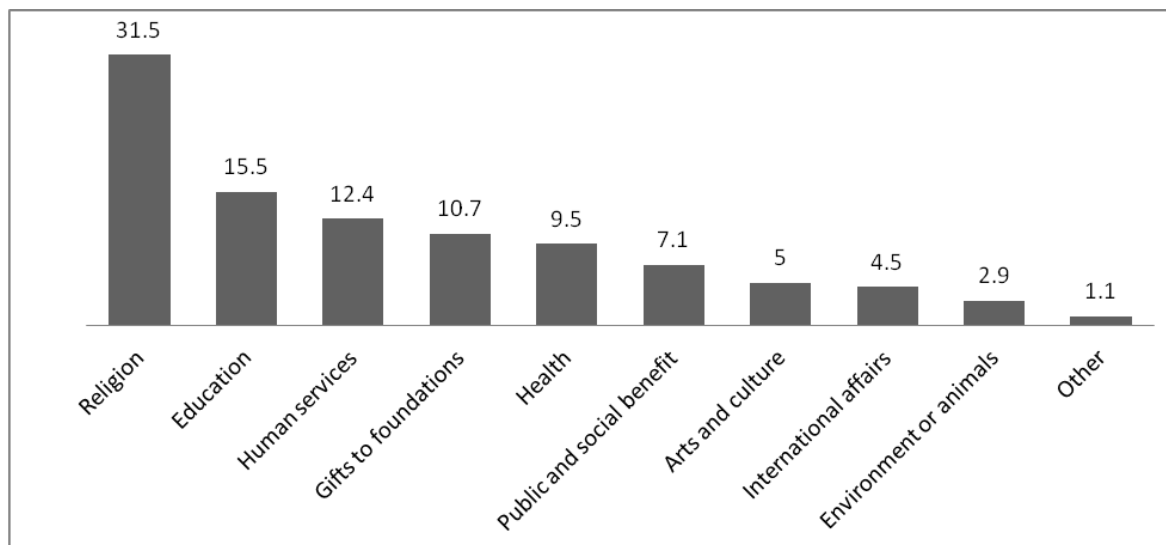
In the following graph are percentages of all contributions received by different types of NPOs. Regarding the charitable contribution, 9.5% of all contribution was dedicated for NPOs dealing with health.

⁴⁸ FOX, B.; MAHON, M. *US Health System Ranks Last Among Eleven Countries on Measures of Access, Equity, Quality, Efficiency, and Healthy Live* [online]

⁴⁹ TANNER, M. *Opposing view: Despite flaws, U.S. health care the best* [online]

⁵⁰ MCKEEVER, B. S.; PETTIJOHN, S.L. *The Nonprofit Sector in Brief 2014* [online]

Graph 2 - Charitable contributions by type of recipient organization, 2013 (%)



Source: MCKEEVER, B. S.; PETTIJOHN, S.L. *The Nonprofit Sector in Brief 2014*. [online], own work

NPOs operating in health care are eligible to have the same tax relieves as other NPOs, under special conditions described in subchapter 3.2.4. There has been a discussion regarding the scope of tax relieves for NPOs in healthcare. Some policy makers do not think that the scope of services provided by selected NPOs commensurate with the value of their tax exemptions. Due to huge differences in organizational practices of some NPOs the policy makers suggest either more accountability among those NPOs or a decrease in their tax benefits.⁵¹

Both NPOs and for-profit organizations need to gain profit - NPOs to remain operating, for-profits to satisfy their stockholders or investors. The author of the thesis is of the opinion that in better situation are the NPOs as their main concern is not “outside” of the organization, like it could be in case of for-profits.

What matters the most though is the level of health care provided either by NPOs or by for-profits. According to quality measures, the differences between for-profit and nonprofit facilities are not significant however some results are slightly better for nonprofit facilities.⁵²

⁵¹ SCHLESINGER, M.; GRAY, B.H. *How Nonprofits Matter In American Medicine, And What To Do About It*, p.287-303.

⁵² POWELL, W. and STEINBERG, R. *The Nonprofit Sector. A Research Handbook*, p.385

4. Financial performance of selected NPOs

As previously stated in the methodology, the chosen criteria used to select the NPOs are

- Operating in similar field,
- Similarities in mission,
- Similar size,
- Well established.

These criteria were selected so ensure the ratios could be easily compared and so as to make the financial performances of each particular NPO clearly comparable with another NPO in the same field. All selected NPOs belong to previously described category 501 (c) (3) - the biggest category of NPOs in the USA.

The selected charities are as follows:

- *CancerCare*,
- Children's Cancer Recovery Foundation,
- The National Children's Cancer Society,
- Pancreatic Cancer Action Network.

\Regarding the process of calculation it is crucial to mention following information. The NPOs use for the calculation of total expenses in IRS form 990 Professional fundraising expenses- those are expenses for professional fundraising services, however excluding following expenses connected to fundraising: advertising and promotion, office expenses, information technology, royalties, occupancy, travel, payments of travel or entertainment expenses for any federal, state, or local public officials, conferences, conventions, and meetings, payments to affiliates, depreciation, depletion, and amortization, insurance, other expenses. The amount of total fundraising expenses is shown in the IRS form 990 (Part I, line 16b). For the purpose of this thesis will be used for all the calculation the amount of total fundraising expenses.

4.1. CancerCare

CancerCare is a national NPO with long history based in New York City. Its mission is to provide *free, professional support services including counseling, support groups, educational workshops, publications and financial assistance to anyone affected by cancer.*⁵³ The range of provided services is quite broad; therefore it requires several professionals to fulfill it. The professionals cooperating with CancerCare are oncology social workers and world-leading cancer experts.

4.1.1. Highlights of CC's history

CancerCare was founded in 1944 in New York City as a Care of Advanced Cancer Patients. Through the next years it was building its position as one of the main NPOs operating in health care dealing with cancer patients. CancerCare became more recognized by public after releasing a movie "A Special Kind of Care" in 1969, where the ways of providing care to cancer patients and their families were showed. The movie became well known among doctors, students of social work and health care professionals.

Another important point at the organization's history was year 1985, when the National Breast Cancer Awareness Week was introduced for the first time. CancerCare Executive Director Diane Blum was one of the co-founders of this event, which before this day was known as National Breast Cancer Awareness Month. The main aim of this event is to raise awareness among people and show the importance of an early detection of breast cancer.

Later on, CancerCare introduced first telephone education workshop and several educational workshops. With the beginning of the World Wide Web, CancerCare has set up a website and email address for faster and more effective communication with the patients. Further development of CancerCare includes start of transportation assistance services and launching of helpline for women facing ovarian cancer.

As confirm the previous lines, CancerCare is a well-established NPO providing its services to huge amount of people.

⁵³ CANCER CARE. *Mission and Vision* [online]

Currently the *CancerCare* serves around 70,000 people every year. The service includes a distribution of 800,000 publications and welcoming 1.5 million website visits annually. Regarding the financial assistance, in 2014 *CancerCare* provided more than \$22.3 million. The CEO of *CancerCare* is Patricia J. Goldsmith.⁵⁴

4.1.2. Calculation of selected ratios

The *CancerCare* uses as a fiscal year period a period between beginning of July and end of following June. Therefore the calculations were made for following periods:

- 2011, meaning 1st July 2010-30th June 2011,
- 2012, meaning 1st July 2011-30th June 2012,
- 2013, meaning 1st July 2012-30th June 2013.

Fundraising efficiency ratio

Table 3 - *CancerCare* Fundraising efficiency ratio

Period	Fundraising Expenses	Total Contribution	Fundraising Efficiency
2011	\$ 2 656 672	\$ 17 704 553	15.0%
2012	\$ 2 565 958	\$ 14 553 433	17.6%
2013	\$ 2 576 109	\$ 12 674 590	20.3%
Average			17.7%

Source: IRS forms 990 of *CancerCare*, own calculation

The results of the *CancerCare*'s Fundraising efficiency ratio are highly acceptable. The organization managed to keep the ratio lower than the recommended maximum of 35% in all observed periods. The average of 17.7% and also very similar values of fundraising expenses reflect *CancerCare*'s thought-out way to success.

As indicated by the IRS forms 990, the highest share of *CancerCare*'s fundraising expenses were spent on salaries and wages related to fundraising in all observed periods. Whether those costs were justifiable or not would be a topic for further investigation.

⁵⁴ CANCER CARE. *Our History* [online]

Fiscal performance ratio

Table 4 - CancerCare Fiscal performance ratio

Period	Total Revenues	Total Expenses	Fiscal Performance
2011	\$ 18 829 246	\$ 18 306 076	102.9%
2012	\$ 15 566 338	\$ 18 576 570	83.8%
2013	\$ 13 876 650	\$ 15 916 803	87.2%
Average			91.3%

Source: IRS forms 990 of CancerCare, own calculation

Overall were the results of Fiscal performance ratio acceptable. The CancerCare achieved its best result in period 2011, where its revenues exceeded the value of its expenses. However this situation did not happen again in followings periods. The results of 83.8% and 87.2% do not necessarily mean serious financial troubles for the CancerCare nevertheless the organization should put an effort to reverse the last two year's trend.

The highest share of revenues was represented by received contributions. Regarding the expenses, the CancerCare had in all observed periods the highest spending on grants and other assistance within the USA and on salaries.

Public support ratio

Table 5 - CancerCare Public support ratio

Period	Total Contribution	Total Revenues	Public Support
2011	\$ 17 704 553	\$ 18 829 246	94.0%
2012	\$ 14 553 433	\$ 15 566 338	93.5%
2013	\$ 12 674 590	\$ 13 876 650	91.3%
Average			93.0%

Source: IRS forms 990 of CancerCare, own calculation

The results above express that the CancerCare is highly dependent on contributions, with average of 93% during observed periods. The value of revenues other than contribution was rather insignificant, including investment income and income from sales of inventory. The CancerCare is dependent mostly on cash contributions. In periods 2011 and 2012, the value of non-cash contributions was around \$40 000, in period 2013 there were no non-

cash contributions. The specific type of the CancerCare’s programs influences that as the organization provides mostly financial support and assistance it requires primarily cash contributions to remain in operation.

Program efficiency ratio

Table 6 - CancerCare Program efficiency ratio

Period	Program Service Expenses	Total Expenses	Program Efficiency
2011	\$ 14 742 542	\$ 18 306 076	80.5%
2012	\$ 14 886 000	\$ 18 576 570	80.1%
2013	\$ 12 414 640	\$ 15 916 803	78.0%
Average			79.6%

Source: IRS forms 990 of CancerCare, own calculation

The CancerCare shows satisfactory results of the Program efficiency ratio. In all observed periods with average ratio of 79.6% were perfectly fulfilled the recommendations by Cathedral Consulting. The CancerCare succeeded to manage its expenses in a desirable way not only for itself but also for potential donors. Both values of Program service expenses and total expenses were quite stable during the observed periods- that is also a sign of well thought management of CancerCare regarding its spending.

4.1.3. Horizontal analysis of income statement

Table 7 - Horizontal analysis of CancerCare's income statement

Revenues	2011/2012		2012/2013	
	Absolute	Relative	Absolute	Relative
Contributions and grants	\$ -3 151 120	-17.8%	\$ -1 878 843	-12.9%
Program service revenue	-	-	-	-
Investment income	\$ -74 887	-14.4%	\$ 332 824	74.9%
Other revenue	\$ -36 901	-6.1%	\$ -143 669	-25.3%
Total revenue	\$ -3 262 908	-17.3%	\$ -1 689 688	-10.9%
Expenses	2011/2012		2012/2013	
	Absolute	Relative	Absolute	Relative
Grants and similar amounts paid	\$ 455 062	8.7%	\$ -1 993 871	-35.1%
Benefits paid to or for members	-	-	-	-
Salaries, other compensation, employee benefits	\$ -196 200	-2.5%	\$ -769 841	-10.2%
Total fundraising expenses	\$ -90 714	-3.4%	\$ 10 151	0.4%
Other expenses	\$ 11 632	0.2%	\$ 103 945	2.0%
Total expenses	\$ 270 494	1.5%	\$ -2 659 767	-14.3%
Revenue less expenses	\$ -3 533 402	-675.4%	\$ 970 079	32.2%

Source: IRS forms 990 of CancerCare, own calculation

Regarding the development of values of total revenues and expenses, there were not any significant deviations during the observed periods. That was already visible from the results of the Fiscal performance ratio- the horizontal analysis just confirmed that.

The CancerCare registered a steep growth of investment income between periods 2012 and 2013, a result from sale of securities.

An interesting development is noticeable in the changes of values of contributions and fundraising expenses. Whilst between periods 2011 and 2012 there was a 17.8% drop of received contributions and grants, at the same time the fundraising expenses decreased for only 3.4%. An even bigger difference appeared between following periods. With just slight growth in fundraising expenses there was still a decrease of 12.9% in total received contributions. That fact rejects the second hypothesis even though the relative value of increase in fundraising was only 0.4%.

4.2. Children's Cancer Recovery Foundation

Children's Cancer Recovery Foundation (CCRF), based in Hershey, Pennsylvania provides several types of assistance for children under the age of 18 suffering from cancer and their families.

There are three main programs ran by the foundation:

- Bear-Able Gift Program- collection and further distribution of toys and similar goods to hospitals,
- Helping Hands Fund- financial support for families with trouble paying rents and utilities- the payments are made directly to the utility companies and landlords
- Camp Scholarship Program- funding for a camp for children after their treatment with variety of choice including sports, music, art, science etc.

The foundation also runs an international assistance program- its main aim is to provide medications and medical supplies necessary for cancer treatment to developing countries. Another field where the foundation is operating is cancer research. New Era Cancer Research Fund was introduced in order to discover new methods of cancer treatment that are less toxic and therefore less harmful for the organism.

4.2.1. Highlights of CCRF's history

CCRF is together with Cancer Recovery Foundation of America and The Breast Cancer Charities of America a member of Cancer Recovery Foundation International. Cancer Recovery Foundation International (CRFI) has its initiatives also in Canada, U.K. and Germany.

Greg Anderson, a cancer survivor and currently an author of 11 books whose main topic is connected to how to deal with cancer diagnosis, founded CRFI including CCRF in 1984.

CCRF has been in operation for more than 30 years now and it is one of the leading NPOs in children's cancer prevention and survival. A huge success for the CCRF was receiving The Independent Charities Seal of Excellence status in 2008. The status is granted to such organizations that proved to have *the highest standards of public accountability, program effectiveness and cost effectiveness.*⁵⁵

The founder of CCRF Greg Anderson is also its CEO.

⁵⁵ CHILDREN'S CANCER RECOVERY FOUNDATION. *Who we are* [online]

4.2.2. Calculation of selected ratios

The CCRF uses as a fiscal year period a calendar year. Therefore the calculations were made for following periods:

- 2011, meaning 1st January 2011-31st December 2011,
- 2012, meaning 1st January 2012-31st December 2012,
- 2013, meaning 1st January 2013-31st December 2013.

Fundraising efficiency ratio

Table 8 - CCRF Fundraising efficiency ratio

Period	Fundraising Expenses	Total Contribution	Fundraising Efficiency
2011	\$ 1 624 772	\$ 7 652 702	21.2%
2012	\$ 2 443 637	\$ 17 130 106	14.3%
2013	\$ 4 075 882	\$ 33 469 142	12.2%
Average			15.9%

Source: IRS forms 990 of CCRF, own calculation

The CCRF obtained in observed periods very good results of fundraising efficiency with the average of only 15.9%. The highest share of fundraising expenses was spent on professional fundraising services in periods 2011 and 2012 and on fees for services provided by non-employees in 2013.

The fundraising services performed in 2011 and 2012 included following types of solicitation: mail, Internet, e-mail, phone, in person and solicitation on non-government grants. The CCRF also organized special fundraising events. Year 2013 was the most successful for the CCRF in the fundraising efficiency field, thanks to two events- Golf Tournament and Children's Festival.

Fiscal performance ratio

Table 9 - CCRF Fiscal performance ratio

Period	Total Revenues	Total Expenses	Fiscal Performance
2011	\$ 7 736 736	\$ 7 760 647	99.7%
2012	\$ 17 208 749	\$ 16 809 161	102.4%
2013	\$ 33 566 557	\$ 32 656 230	102.8%
Average			101.6%

Source: IRS forms 990 of CCRF, own calculation

There is nothing to reproach regarding the CCRF's Fiscal performance ratio- the organization managed to gain more than spend in 2012 and 2013, which is a highly desirable result.

The highest share of revenues was in all observed periods represented by received contributions that were higher with the revenue increase. Regarding the composition of expenses, the CCRF spent the most on Grants and other assistance to governments, organizations, and individuals outside the USA plus on fees for services to non-employees. That is a consequence of a fact that the CCRF runs an international assistance program focused on providing help to developing countries.

Public support ratio

Table 10 - CCRF Public support ratio

Period	Total Contribution	Total Revenues	Public Support
2011	\$ 7 652 702	\$ 7 736 736	98.9%
2012	\$ 17 130 106	\$ 17 208 749	99.5%
2013	\$ 33 469 142	\$ 33 566 557	99.7%
Average			99.4%

Source: IRS forms 990 of CCRF, own calculation

The above results indicate that the CCRF was extremely dependent on just one type of income- direct contributions. The share of non-cash contributions was significant (2011

and 2012- approximately one half, 2013- approximately one third). Donated goods and services represented the non-cash contributions.

Based on the above results, the CCRF should pay enough attention to keeping a good relationship with its donors to secure a stable income stream. Additionally, considering some investment activities could secure the organization in the future.

Program efficiency ratio

Table 11 - CCRF Program efficiency ratio

Period	Program Service Expenses	Total Expenses	Program Efficiency
2011	\$ 5 550 739	\$ 7 760 647	71.5%
2012	\$ 13 558 871	\$ 16 809 161	80.7%
2013	\$ 27 230 409	\$ 32 656 230	83.4%
Average			78.5%

Source: IRS forms 990 of CCRF, own calculation

Based on the above results, the CCRF managed to spend in average almost 80% on its programs during the observed periods. That is a recommended result therefore the organization should try to maintain it around similar value. In terms of the Program efficiency ratio it is possible to say that the CCRF is efficient.

4.2.3. Horizontal analysis of income statement

Table 12 - Horizontal analysis of CCRF's income statement

Revenues	2011/2012		2012/2013	
	Absolute	Relative	Absolute	Relative
Contributions and grants	\$ 9 477 404	123.8%	\$ 16 339 036	95.4%
Program service revenue	-	-	\$ 68 213	-
Investment income	\$ 182	115.2%	\$ 254	74.7%
Other revenue	\$ -5 573	-6.6%	\$ -49 695	-63.5%
Total revenue	\$ 9 472 013	122.4%	\$ 16 357 808	95.1%
Expenses	2011/2012		2012/2013	
	Absolute	Relative	Absolute	Relative
Grants and similar amounts paid	\$ 7 038 816	233.5%	\$ 11 704 161	116.4%
Benefits paid to or for members	-	-	-	-
Salaries, other compensation, employee benefits	\$ 24 617	15.8%	\$ 56 426	31.4%
Total fundraising expenses	\$ 818 865	50.4%	\$ 1 632 245	66.8%
Other expenses	\$ 1 162 243	38.4%	\$ 6 471 186	154.5%
Total expenses	\$ 9 048 514	116.6%	\$ 15 847 069	94.3%
Revenue less expenses	\$ 423 499	1771.1%	\$ 510 739	127.8%

Source: IRS forms 990 of CCRF, own calculation

As indicate the results above, the CCRF showed year-on-year growth. The amount of both total revenues and total expenses increased almost twice between the observed periods. Between periods 2011 and 2012 the CCRF increased their fundraising expenses by 50.4%, the amount of received contributions increased by 123.8%. Between following periods was the situation the same: both increase in fundraising expenses (this time for 66.8%) and almost doubled value of received contributions. Therefore the second hypothesis can be definitely confirmed in case of CCRF as there is a strong relationship between increase of received contributions and increase in fundraising expenses.

According to the horizontal analysis it seems that the CCRF is very successful in its operations- the organization was able triple and double the amount of contributions paid. It would be interesting to see further development of CCRF- whether it will be able to continue this trend or not.

4.3. The National Children's Cancer Society

The National Children's Cancer Society (NCCS) is located in St. Louis, Missouri and provides *emotional, financial and educational support to children with cancer, their families and survivors*⁵⁶. Within the USA there are four main programmes provided by the NCCS:

- Family Support Program- its aim is to provide an assistance of “case managers”- professionals trained to provide both practical and emotional support to parents and caregivers,
- Transportation Assistance Fund- provides financial support for costs connected with transportation and accommodation due to treatment,
- Emergency Assistance Fund- provides emergency support of \$300 for families with inpatient child (under special conditions).
- Beyond the Cure Program- provides information to survivors in order to their better adaptation.

Additionally, the NCCS provides an international program - Global Outreach Program based on cooperation with pharmaceutical companies on distribution of medical supplies and cancer treatment drugs in different countries.

4.3.1. Highlights of NCCS's history

The NCCS was created in 1987 as a response for discovery of bone marrow transplantation as a procedure for cancer treatment. The initial idea was to provide enough financial sources to support the research of the bone marrow, as the insurance companies considered it rather risky and did not want to fund it.

During its almost 30 years of existence, the NCCS was able to support financially more than 36,000 kids cancer patients. The amount of money redistributed exceeds \$61 million. The NCCS also cooperates with several hospitals and paediatric oncology units.

⁵⁶ NCCS. *Mission, History* [online]

One of the NCCS’s successes was meeting the “Standards of Charity Accountability”, which include *a comprehensive, in-depth evaluation of charity governance, fundraising practices, solicitations and informational materials.*⁵⁷

Currently the president as well as CEO of the NCCS is Mark Stolze.

4.3.2. Calculation of selected ratios

The NCCS uses as a fiscal year period a period between beginning of October and end of following September. Therefore the calculations were made for following periods:

- 2011, meaning 1st October 2010-30th September 2011,
- 2012, meaning 1st October 2011-30th September 2012,
- 2013, meaning 1st October 2012-30th September 2013.

Fundraising efficiency ratio

Table 13 - NCCS Fundraising efficiency ratio

Period	Fundraising Expenses	Total Contribution	Fundraising Efficiency
2011	\$ 4 902 329	\$ 31 277 575	15.7%
2012	\$ 4 000 829	\$ 21 275 919	18.8%
2013	\$ 4 059 413	\$ 33 181 823	12.2%
Average			15.6%

Source: IRS forms 990 of NCCS, own calculation

Regarding the fundraising efficiency, the NCCS shows very satisfactory results. In all observed periods the fundraising efficiency did not exceed value of 35%, which is the maximum value according to general guidelines. The best result was obtained in 2012 where the share of fundraising expenses on total contribution was just 12.2%

The results indicate that comparing to the value of contribution the NCCS receives it does not spend that much money on fundraising. The highest share of fundraising expenses was in all described periods represented by production services, salaries and marketing.

⁵⁷ NCCS. *Mission, History* [online]

Fiscal performance ratio

Table 14 - NCCS Fiscal performance ratio

Period	Total Revenues	Total Expenses	Fiscal Performance
2011	\$ 32 203 062	\$ 32 712 879	98.4%
2012	\$ 22 087 196	\$ 22 799 245	96.9%
2013	\$ 34 059 520	\$ 34 392 972	99.0%
Average			98.1%

Source: ISR forms 990 of NCCS, own calculation

The value of fiscal performance ratio has been stable during the observed periods. However as it is obvious the value of total expenses always exceeded the value of total revenues. Having fiscal performance ratio lower than 100% is not desirable- in long term it could mean financial troubles for the NCCS. In this case it does not seem worrying- the NCCS maintains very similar values of its revenues and expenses during the periods.

The highest share of revenues is represented in all observed periods by contributions and in-kind contributions⁵⁸, in case of expenses the NCCS spent the most on program services. From all the provided programmes, the most financially demanding was a division of Patient and Family Services.

⁵⁸ In-kind contributions are non-cash contributions represented by goods, services or expertise. In-kind support is often provided by corporations.

Public support ratio

Table 15 - NCCS Public support ratio

Period	Total Contribution	Total Revenues	Public Support
2011	\$ 31 277 575	\$ 32 203 062	97.1%
2012	\$ 21 275 919	\$ 22 087 196	96.3%
2013	\$ 33 181 823	\$ 34 059 520	97.4%
Average			97.0%

Source: IRS forms 990 of NCCS, own calculation

The results of public support ratio express that the NCCS is extremely dependent on contributions, in this case on other than government contributions because it does not receive any form of financial support from the government. The value of other revenues excluding the contributions is insignificant. Out of the total contribution, approximately two-thirds comprises of non-cash contributions. That is influenced by the scope of programs provided by the NCCS. As the NCCS cooperates with pharmaceutical companies within the Global Outreach Program, the non-cash contributions include medical supplies and cancer treatment drugs provided by the pharmaceutical companies.

Program efficiency ratio

Table 16 - NCCS Program efficiency ratio

Period	Program Service Expenses	Total Expenses	Program Efficiency
2011	\$ 27 169 920	\$ 32 712 879	83.1%
2012	\$ 18 214 957	\$ 22 799 245	79.9%
2013	\$ 29 624 883	\$ 34 392 972	86.1%
Average			83.0%

Source: IRS forms 990 of NCCS, own calculation

The NCCS shows very satisfactory results of the ratio. The average value recommended by Cathedral Consulting LLC was fulfilled in all three observed periods. Considering only the results of Program efficiency ratio, it is possible to say that the NCCS operates efficiently. As indicate both these results and results of Fundraising efficiency ratio, the NCCS is able to manage the share of its revenues and expenses in a desirable way.

4.3.3. Horizontal analysis of income statement

Table 17 - Horizontal analysis of NCCS's income statement

Revenue	2011/2012		2012/2013	
	Absolute	Relative	Absolute	Relative
Contributions and grants	\$ -4 001 656	-12.8%	\$ 5 905 904	21.7%
Program service revenue	-	0.0%	-	0.0%
Investment income	\$ -355 608	-85.0%	\$ 184 151	292.6%
Other revenue	\$ 241 398	47.6%	\$ -117 731	-15.7%
Total revenue	\$ -10 115 866	-31.4%	\$ 11 972 324	54.2%
Expenses	2011/2012		2012/2013	
	Absolute	Relative	Absolute	Relative
Grants and similar amounts paid	\$ -8 420 303	-35.6%	\$ 11 205 597	73.5%
Benefits paid to or for members	-	-	-	-
Salaries, other compensation, employee benefits	\$ -75 215	-5.7%	\$ -11 739	-0.9%
Total fundraising expenses	\$ -901 500	-18.4%	\$ 58 584	1.5%
Other expenses	\$ -607 932	-16.5%	\$ 265 878	8.6%
Total expenses	\$ -9 913 634	-30.3%	\$ 11 593 727	50.9%
Revenue less expenses	\$ -202 232	-39.7%	\$ 378 597	53.2%

Source: IRS forms 990 of NCCS, own calculation

According to the results of the horizontal analysis, the trend of financial results between observed periods was very unstable.

As can be seen in the table, between periods 2011 and 2012 was a decrease in both total revenues and total expenses. Opposite situation occurred in following period- the NCCS's revenues and expenses increased. Positive fact for the NCCS was that both decrease and increase happened for similar value, therefore the NCCS managed to maintain similar ratio of its revenues and expenses.

A change worth noticing is almost tripled revenue from investment. As it is stated in the IRS form 990, the NCCS's investment income came from sale of securities.

For confirmation and rejection of second hypothesis it is necessary to have a look at the development of contributions and fundraising expenses. While there was an 18.4% drop in

fundraising expenses between periods 2011 and 2012, at the same period the NCCS registered 12.8% drop in obtained contribution. Between periods 2012 and 2013 is the situation inverse, the NCCS registered growth of its contribution of almost one fourth and just a slight increase of its fundraising expenses- of only 1.5%. Those two results confirm the second hypothesis as there is visible a relationship between growth of received contributions and fundraising expenses.

4.4.Pancreatic Cancer Action Network

Pancreatic Cancer Action Network's (PCAN) main office is located in California, close to Los Angeles. The main programs of PCAN are the following:

- Research and Scientific Affairs- funding of research, its main aim is to increase the number of researchers and a collaboration between institutions and disciplines,
- Government Affairs and Advocacy- putting pressure on the government to increase spending for pancreatic cancer research,
- Patient and Liaison Services- telephone and online services providing free information about treatment,
- Community Outreach- support of volunteers who host and organize several events about need for further research of pancreatic cancer.

4.4.1. Highlights of PCAN's history

PCAN was formed in 1999 by: Paula Kim, Terry Lierman and Pamela Acosta Marquardt. This came to be as a result of losses of their close ones. By that time the pancreatic cancer was not very known even by doctors, therefore the initial mission of the PCAN was to support further research and increase the quality of treatment.

Initial point for creation of PCAN was contact with celebrities affected by pancreatic cancer. During a fundraising evening organized by volunteers and actors "An Evening with the Stars" more than \$165,000 was collected. This event led to greater interest from the public and finally it led to establishment of PCAN.

During its 16 years existence, the PCAN managed to redistribute \$23 million in research grants to more than 100 scientists in the USA. The PCAN is very successful in the

advocacy field- in 2012 U.S. president Barack Obama signed a *Recalcitrant Cancer Research Act*- an act requiring the National Cancer Institute to develop a strategic plan regarding fight with pancreatic cancer. PCAN also helped more than 80,000 people via the Patient and Liaison Services. Very significant is a work of volunteers who help to increase the financial contribution and raise awareness.⁵⁹

Currently, the goal of the PCAN is to double the pancreatic cancer survival rate by 2020. The president as well as CEO of the PCAN is Julie Fleshman.

4.4.2. Calculation of selected ratios

The PCAN uses as a fiscal year period a period between beginning of October and end of following September. Therefore the calculations were made for following periods:

- 2011, meaning 1st July 2010-30th June 2011,
- 2012, meaning 1st July 2011-30th June 2012,
- 2013, meaning 1st July 2012-30th June 2013.

Fundraising efficiency ratio

Table 18 - PCAN Fundraising efficiency ratio

Period	Fundraising Expenses	Total Contribution	Fundraising Efficiency
2011	\$ 1 157 567	\$ 13 267 432	8.7%
2012	\$ 1 450 890	\$ 17 395 483	8.3%
2013	\$ 1 733 860	\$ 21 450 795	8.1%
Average			8.4%

Source: IRS forms 990 of PCAN, own calculation

The results of the ratio are quite low which indicates that PCAN did not spend very much on fundraising comparing to received contributions during the observed periods. In all observed periods was the fundraising spending only around 8% of the total contributions value. The organization's possible strategy was not too high spending on fundraising due to low expected outcome of that.

⁵⁹ PCAN. *Achievements* [online]

The PCAN had the highest fundraising expenses on organization of its fundraising events- *Evening with the Stars* and *Walks and Runs*.

Fiscal performance ratio

Table 19 - PCAN Fiscal performance ratio

Period	Total Revenues	Total Expenses	Fiscal Performance
2011	\$ 13 107 368	\$ 12 446 012	105.3%
2012	\$ 16 539 464	\$ 15 153 700	109.1%
2013	\$ 20 049 500	\$ 19 038 020	105.3%
Average			106.6%

Source: IRS forms 990 of PCAN, own calculation

The PCAN had in all observed periods, very desirable results of the Fiscal performance ratio. The value of total revenues was always higher than value of total expenses.

The highest share of revenues came from received contributions in all observed periods. Worth noticing is a fact that in all periods comprised revenues from fundraising events around 60% of received contributions.

Regarding expenses, the PCAN had the highest spending on *Grants and other assistance to governments and organizations in the United States* and on salaries in all observed periods.

Public support ratio

Table 20 - PCAN Public support ratio

Period	Total Contribution	Total Revenues	Public Support
2011	\$ 13 267 432	\$ 13 107 368	101.2%
2012	\$ 17 395 483	\$ 16 539 464	105.2%
2013	\$ 21 450 795	\$ 20 049 500	107.0%
Average			104.5%

Source: IRS forms 990 of PCAN, own calculation

The situation for PCAN in case of the Public support ratio is very rare, as in all observed periods were its total contributions higher than total revenues. The reason for this is a fact that the PCAN had negative value of other revenues. This negative value was in all periods

caused by negative net income from fundraising events. An interesting fact is that even though the revenues from fundraising events represented around 60% of received contributions, the net income from those events was negative. That influenced the final value of total revenues.

Program efficiency ratio

Table 21 - PCAN Program efficiency ratio

Period	Program Service Expenses	Total Expenses	Program Efficiency
2011	\$ 10 338 871	\$ 12 446 012	83.1%
2012	\$ 12 560 477	\$ 15 153 700	82.9%
2013	\$ 15 969 867	\$ 19 038 020	83.9%
Average			83.3%

Source: IRS forms 990 of PCAN, own calculation

The results of the Program efficiency ratio are sufficient. The organization spent on its programs in average 83.3% of its total expenses- that is good information for potential donors and in terms of this ratio it possible to say that PCAN operated efficiently.

4.4.3. Horizontal analysis of income statement

Table 22 - Horizontal analysis of PCAN's income statement

Revenues	2011/2012		2012/2013	
	Absolute	Relative	Absolute	Relative
Contributions and grants	\$ 4 128 051	31.1%	\$ 4 055 312	23.3%
Program service revenue	\$ 4 025	40.4%	\$ -6 035	-43.1%
Investment income	\$ -17 546	-3.8%	\$ -65 755	-14.6%
Other revenue	\$ -682 434	-107.2%	\$ 1 146 514	86.9%
Total revenue	\$ 3 432 096	26.2%	\$ 3 510 036	21.2%
Expenses	2011/2012		2012/2013	
	Absolute	Relative	Absolute	Relative
Grants and similar amounts paid	\$ 800 000	30.2%	\$ 1 600 000	46.4%
Benefits paid to or for members	-	-	-	-
Salaries, other compensation, employee benefits	\$ 1 157 625	24.0%	\$ 1 107 986	18.5%
Total fundraising expenses	\$ 293 323	25.3%	\$ 282 970	19.5%
Other expenses	\$ 750 063	15.1%	\$ 1 176 334	20.6%
Total expenses	\$ 2 707 688	21.8%	\$ 3 884 320	25.6%
Revenues less expenses	\$ 724 408	109.5%	\$ -374 284	-27.0%

Source: IRS forms 990 of PCAN, own calculation

As indicate the results above, there was a growth in received contributions and grants both between 2011/2012 and 2012/2013. At the same periods the PCAN increased its expenses on fundraising. That confirms the second hypothesis, as with higher fundraising expenses appeared higher received contributions and grants.

There was a growth in both the development of revenues and expenses. The PCAN also managed to distribute more money via grants and similar amounts paid- between 2012 and 2013 was the growth of the amount of distributed help almost 50%.

According to the horizontal analysis it seems that the PCAN is able to operate successfully as there was a positive trend of overall growth.

4.5. Summary of the results

In the previous subchapters were calculated selected efficiency ratios for 4 different NPOs. The aim of this subchapter is to comment the obtained results according to the table below. The table shows the average of calculated ratio result for each selected NPO and calculated overall average for each ratio for all 4 NPOs.

Table 23 - Average values of calculated ratios for selected NPOs, periods 2010-2013

	CC	CCRF	NCCS	PCAN	overall average
Fundraising efficiency	17.7%	15.9%	15.6%	8.4%	14.4%
Fiscal performance	91.3%	101.6%	98.1%	106.6%	99.4%
Public support	93.0%	99.4%	97.0%	104.5%	98.5%
Program efficiency	79.6%	78.5%	83.0%	83.3%	81.1%

Source: own calculations

Regarding the fundraising efficiency it is obvious that selected NPOs did not spend that much money to raise the contributions compared to the amount raised.

One of the possible explanations is that in all cases the NPOs are well established and known, therefore there is no need for them to spend so much resources on fundraising. None of the selected NPOs exceeded the 35% value recommended by general guidelines; the overall average of the NPOs during observed periods is 14.4%.

Another explanation of quite low fundraising expenses is the development of technologies. With the beginning of World Wide Web it is much easier and especially cheaper to reach potential donors via e-mail or social networks. All observed NPOs have clear and transparent web pages where they inform in great detail about their programs and operations.

To sum it up, the author is of an opinion that all selected NPOs were efficient with regards to their fundraising efficiency.

For the next calculated ratio- fiscal performance, the obtained results were sufficient with the overall average ratio of 99.4%. It shown, that the selected NPOs were able to maintain similar values of their revenues and expenses. That is certainly a good sign; the management of the NPOs should be able not to bring the NPO to a deficit. According to the obtained results was the management of the selected NPOs successful however longer observation would be needed to fully judge the fiscal performance ratio.

Public support ratio shows how much is an NPO dependent on received contributions. For all selected NPOs represented the received contributions and grants the biggest source of their revenues, and the most significant one. In case of PCAN the value of received contributions and grants was even higher than the value of total revenues. It is obvious that the NPOs were concentrated the most on their own programs and did not put much focus on investment activities which could be for them further source of income. As is generally known, any organization should have more sources of income to remain more stable and to avoid a situation of getting to serious financial trouble in case of losing one revenue stream. Even though high dependency on just one type of income is a bit risky, selected NPOs are able to successfully deal with that and it seems like their donor base is very stable.

Regarding the program efficiency ratio, the overall average of it is 81.1% that is a very good result. Each of the selected NPOs managed to keep the ratio on the value of around 80% during the observed periods meaning that their other spending (on fundraising and administration) was around 20%.

The main aim of the thesis was to confirm or reject 2 hypotheses:

H1: Selected NPOs operating in the same field will have similar efficiency ratings.

This hypothesis was confirmed by calculation of chosen efficiency ratios. Among all the obtained results, there was not any that would significantly differ from the others. All selected NPOs had overall good efficiency results.

What are crucial to mention with regard to this hypothesis are results of Public support ratio. All selected NPOs had pretty high values of the ratio during the observed periods- however the obtained results are a good example of the fact that even with a high value of Public support ratio NPOs can operate successfully.

H2: *Increase in fundraising expenses leads to increase in received contributions and grants.*

This hypothesis was confirmed in 7 out of 8 observations. The only case where the hypothesis could not be confirmed was in the case of CancerCare however with decrease of 12.9% in total received contributions was the relative value of increase in fundraising expenses only 0.4%. In the other 7 cases there was visibly a strong relationship between the values of received contributions and fundraising expenses.

Even though the results of the calculated ratios showed a good performance, there is still room for improvement of the NPO's efficiency, for example by using the following procedures:

- **Higher diversity of income**

As implies from the results, all selected NPOs were during the observed periods extremely dependent on just one type of income- received contributions and grants. It would be worth considering some other type of revenue ideally obtained on a regular base so that any possible financial troubles connected to losing one type of income would not endanger the existence of the NPO. One of the possible ways could be increase of investments or purchase of securities.

- **More fundraising spending**

As it was confirmed in 7 out of 8 cases, there was always an increase of received contributions and grants with increase in fundraising expenses. Therefore the NPOs could consider increasing the volume of their fundraising expenses – up to an acceptable height that would not have a negative influence on the functioning of the NPOs.

There were several limitations while writing the thesis. One of them is definitely the period of time for which were the ratios calculated and the horizontal analyses made. It would have been interesting to see whether the selected NPOs will be able to maintain their satisfactory levels of efficiency in next years as well. That is connected to further development of the obtained results. Another limitation is that the outcomes of this thesis are based on the NPO's IRS 990 forms. It would have been definitely worth it to interview current and past CEOs and financial managers of the selected NPOs and obtain their opinions regarding current situation of the NPOs and their plans for future.

There is enough space for further research that could be done. The calculations were done for data of 4 American NPOs; one of the possibilities would be to calculate the same ratios for European NPOs and make a comparison. The number of examined NPOs could be higher- including NPOs from different fields, not only healthcare. Further research could discover whether there would be similarities in results of NPOs operating within same field or not.

5. Conclusion

The main aim of a theoretical part of this thesis was to introduce the nonprofit sector with special emphasis on the USA and illustrate the role of NPOs in health care sector there. The aim of the practical part then was to calculate relevant efficiency ratios of 4 selected NPOs and to calculate a horizontal analysis of their revenues and expenses, comment them and provide further recommendation on how to maintain or increase their efficiency.

To obtain the desired results, 4 relevant efficiency ratios were used: Fundraising Efficiency ratio, Public Support ratio, Fiscal Performance ratio and Program Efficiency ratio. The ratios were calculated for each selected NPO for 3 periods. The results of them were sufficient and confirmed that all the selected NPOs play an important role in US health care nonprofit sector. Additionally, horizontal analyses of revenues and expenses from selected NPOs were calculated. A strong relationship between the values of total received contributions and fundraising expenses was found.

Even though the main aim of NPOs is not to gain profit but to serve the society, their financial results should be observed - to provide information for public and donors in order to simplify their decision making process about whom to trust and donate. However it is essential to comment the financial and efficiency results to understand what are the reasons and background for such values. In this thesis, it was shown the possible ways of how to analyze and evaluate efficiency of selected NPOs by using information from IRS 990 forms, annual reports and internal financial reports. This thesis could serve as a guide for either potential donors and NPOs' CEOs or employees working in the finance department. The selected NPOs show how important role NPOs can play in health care sector. The variety of services and programs provided by them is wide and they represent a suitable complement of services provided by for-profit sector. It is good that the American government has several tax reliefs for such organizations, as their position in the society is irreplaceable.

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7. Annexes

Annex 1: Calculation of horizontal analysis- *CancerCare*

Annex 2: Calculation of horizontal analysis- Children's Cancer Recovery Foundation

Annex 3: Calculation of horizontal analysis- The National Children's Cancer Society

Annex 4: Calculation of horizontal analysis- Pancreatic Cancer Action Network.

Annex 1- Calculation of horizontal analysis- CancerCare

Revenues	2011	2012	Absolute	Relative	2012	2013	Absolute	Relative
Contributions and grants	\$ 17 704 553	\$ 14 553 433	\$ -3 151 120	-17.8%	\$ 14 553 433	\$ 12 674 590	\$ -1 878 843	-12.9%
Program service revenue	-	-	-	-	-	-	-	-
Investment income	\$ 519 055	\$ 444 168	\$ -74 887	-14.4%	\$ 444 168	\$ 776 992	\$ 332 824	74.9%
Other revenue	\$ 605 638	\$ 568 737	\$ -36 901	-6.1%	\$ 568 737	\$ 425 068	\$ -143 669	-25.3%
Total revenue	\$ 18 829 246	\$ 15 566 338	\$ -3 262 908	-17.3%	\$ 15 566 338	\$ 13 876 650	\$ -1 689 688	-10.9%
Expenses								
Grants and similar amounts paid	\$ 5 223 525	\$ 5 678 587	\$ 455 062	8.7%	\$ 5 678 587	\$ 3 684 716	\$ -1 993 871	-35.1%
Benefits paid to or for members	-	-	-	-	-	-	-	-
Salaries, other compensation, employee benefits	\$ 7 774 699	\$ 7 578 499	\$ -196 200	-2.5%	\$ 7 578 499	\$ 6 808 658	\$ -769 841	-10.2%
Total fundraising expenses	\$ 2 656 672	\$ 2 565 958	\$ -90 714	-3.4%	\$ 2 565 958	\$ 2 576 109	\$ 10 151	0.4%
Other expenses	\$ 5 307 852	\$ 5 319 484	\$ 11 632	0.2%	\$ 5 319 484	\$ 5 423 429	\$ 103 945	2.0%
Total expenses	\$ 18 306 076	\$ 18 576 570	\$ 270 494	1.5%	\$ 18 576 570	\$ 15 916 803	\$ -2 659 767	-14.3%
Revenue less expenses	\$ 523 170	\$ -3 010 232	\$ -3 533 402	-675.4%	\$ -3 010 232	\$ -2 040 153	\$ 970 079	32.2%

Source: IRS forms 990 of CancerCare, own calculation

Annex 2- Calculation of horizontal analysis- Children's Cancer Recovery Foundation

Revenues	2011	2012	Absolute	Relative	2012	2013	Absolute	Relative
Contributions and grants	\$ 7 652 702	\$ 17 130 106	\$ 9 477 404	123.8%	\$ 17 130 106	\$ 33 469 142	\$ 16 339 036	95.4%
Program service revenue	-	-	-	-	-	\$ 68 213	\$ 68 213	-
Investment income	\$ 158	\$ 340	\$ 182	115.2%	\$ 340	\$ 594	\$ 254	74.7%
Other revenue	\$ 83 876	\$ 78 303	\$ -5 573	-6.6%	\$ 78 303	\$ 28 608	\$ -49 695	-63.5%
Total revenue	\$ 7 736 736	\$ 17 208 749	\$ 9 472 013	122.4%	\$ 17 208 749	\$ 33 566 557	\$ 16 357 808	95.1%
Expenses								
Grants and similar amounts paid	\$ 3 013 989	\$ 10 052 805	\$ 7 038 816	233.5%	\$ 10 052 805	\$ 21 756 966	\$ 11 704 161	116.4%
Benefits paid to or for members	-	-	-	-	-	-	-	-
Salaries, other compensation, employee benefits	\$ 155 322	\$ 179 939	\$ 24 617	15.8%	\$ 179 939	\$ 236 365	\$ 56 426	31.4%
Total fundraising expenses	\$ 1 624 772	\$ 2 443 637	\$ 818 865	50.4%	\$ 2 443 637	\$ 4 075 882	\$ 1 632 245	66.8%
Other expenses	\$ 3 026 468	\$ 4 188 711	\$ 1 162 243	38.4%	\$ 4 188 711	\$ 10 659 897	\$ 6 471 186	154.5%
Total expenses	\$ 7 760 647	\$ 16 809 161	\$ 9 048 514	116.6%	\$ 16 809 161	\$ 32 656 230	\$ 15 847 069	94.3%
Revenue less expenses	\$ -23 911	\$ 399 588	\$ 423 499	1771.1%	\$ 399 588	\$ 910 327	\$ 510 739	127.8%

Source: IRS forms 990 of CCRF, own calculation

Annex 3- Calculation of horizontal analysis- The National Children's Cancer Society

Revenues	2011	2012	Absolute	Relative	2012	2013	Absolute	Relative
Contributions and grants	\$ 31 277 575	\$ 27 275 919	\$ -4 001 656	-12.8%	\$ 27 275 919	\$ 33 181 823	\$ 5 905 904	21.7%
Program service revenue	-	-	-	-	-	-	-	-
Investment income	\$ 418 554	\$ 62 946	\$ -355 608	-85.0%	\$ 62 946	\$ 247 097	\$ 184 151	292.6%
Other revenue	\$ 506 933	\$ 748 331	\$ 241 398	47.6%	\$ 748 331	\$ 630 600	\$ -117 731	-15.7%
Total revenue	\$ 32 203 062	\$ 22 087 196	\$ -10 115 866	-31.4%	\$ 22 087 196	\$ 34 059 520	\$ 11 972 324	54.2%
Expenses								
Grants and similar amounts paid	\$ 23 670 131	\$ 15 249 828	\$ -8 420 303	-35.6%	\$ 15 249 828	\$ 26 455 425	\$ 11 205 597	73.5%
Benefits paid to or for members	-	-	-	-	-	-	-	-
Salaries, other compensation, employee benefits	\$ 1 313 554	\$ 1 238 339	\$ -75 215	-5.7%	\$ 1 238 339	\$ 1 226 600	\$ -11 739	-0.9%
Total fundraising expenses	\$ 4 902 329	\$ 4 000 829	\$ -901 500	-18.4%	\$ 4 000 829	\$ 4 059 413	\$ 58 584	1.5%
Other expenses	\$ 3 695 323	\$ 3 087 391	\$ -607 932	-16.5%	\$ 3 087 391	\$ 3 353 269	\$ 265 878	8.6%
Total expenses	\$ 32 712 879	\$ 22 799 245	\$ -9 913 634	-30.3%	\$ 22 799 245	\$ 34 392 972	\$ 11 593 727	50.9%
Revenue less expenses	\$ -509 817	\$ -712 049	\$ -202 232	-39.7%	\$ -712 049	\$ -333 452	\$ 378 597	53.2%

Source: IRS forms 990 of NCCS, own calculation

Annex 4- Calculation of horizontal analysis- Pancreatic Cancer Action Network

evenues	2011	2012	Absolute	Relative	2012	2013	Absolute	Relative
Contributions and grants	\$ 13 267 432	\$ 17 395 483	\$ 4 128 051	31.1%	\$ 17 395 483	\$ 21 450 795	\$ 4 055 312	23.3%
Program service revenue	\$ 9 970	\$ 13 995	\$ 4 025	40.4%	\$ 13 995	\$ 7 960	\$ -6 035	-43.1%
Investment income	\$ 466 579	\$ 449 033	\$ -17 546	-3.8%	\$ 449 033	\$ 383 278	\$ -65 755	-14.6%
Other revenue	\$ -636 613	\$ -1 319 047	\$ -682 434	-107.2%	\$ -1 319 047	\$ -172 533	\$ 1 146 514	86.9%
Total revenue	\$ 13 107 368	\$ 16 539 464	\$ 3 432 096	26.2%	\$ 16 539 464	\$ 20 049 500	\$ 3 510 036	21.2%
Expenses								
Grants and similar amounts paid	\$ 2 645 000	\$ 3 445 000	\$ 800 000	30.2%	\$ 3 445 000	\$ 5 045 000	\$ 1 600 000	46.4%
Benefits paid to or for members	-	-	-	-	-	-	-	-
Salaries, other compensation, employee benefits	\$ 4 828 442	\$ 5 986 067	\$ 1 157 625	24.0%	\$ 5 986 067	\$ 7 094 053	\$ 1 107 986	18.5%
Total fundraising expenses	\$ 1 157 567	\$ 1 450 890	\$ 293 323	25.3%	\$ 1 450 890	\$ 1 733 860	\$ 282 970	19.5%
Other expenses	\$ 4 972 570	\$ 5 722 633	\$ 750 063	15.1%	\$ 5 722 633	\$ 6 898 967	\$ 1 176 334	20.6%
Total expenses	\$ 12 446 012	\$ 15 153 700	\$ 2 707 688	21.8%	\$ 15 153 700	\$ 19 038 020	\$ 3 884 320	25.6%
Revenue less expenses	\$ 661 356	\$ 1 385 764	\$ 724 408	109.5%	\$ 1 385 764	\$ 1 011 480	\$ -374 284	-27.0%

Source: IRS forms 990 of PCAN, own calculation

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