



OVERVIEW

Fundraising Effectiveness Project (FEP)

“Applying Activity-Based Management (ABM¹) to Fundraising”

A Fundraising and Accounting Profession Collaborative (FEP-ABM)²

As Of: March 15, 2019

FEP-ABM Toolkit

www.afpfep.org/tools

- (1) FEP-ABM Overview (PDF)
- (2) Fundraising Net Analyzer – FNA-v1 (xlsx)
- (3) “Applying Activity-Based Management (ABM) to Fundraising” (PDF).
- (4) Checklist of Fundraising Activities with Definitions (PDF)
- (5) IRS Form 990 and GAAP definitions for fundraising and functional accounting (PDF)
- (6) FEP-ABM Glossary of Terms and Definitions (Under Construction)

Contact FEP: fep@afpglobal.org, www.afpfep.org

Contact Thom M. Digman, Chair, FEP-ABM Task Force:

tdigman@DigmanNetwork.com

Contact Bill Levis, Manager, Fundraising Effectiveness Project (FEP):

grlevis@aol.com (240) 418-7984

All the Fundraising Effectiveness Project (FEP) work and analysis to date has focused on the revenue side of the fundraising performance equation.

Are there ways to look at revenues and expenses in order to produce a fuller analysis of performance and create opportunities to effectively measure and enable NPO’s to raise the net dollars they need to fund their program services and fulfill their mission?

This question is the focus of the **Fundraising and Accounting Profession Collaborative (FEP-ABM) Task Force**. In September 2018 a group was formed to study this issue and formulate a series of recommendations,

¹ “**Activity-based management** (ABM) is a method of identifying and evaluating **activities** that a business performs, using **activity-based** costing (ABC) to carry out a value chain analysis or a re-engineering initiative to improve strategic and operational decisions in

an organization,” https://en.wikipedia.org/wiki/Activity-based_management. ABM tracks and analyzes revenues and expenses while ABC is focused on costs.

²The AFP Research Council, Adventist Philanthropic Services to Institutions and Greater Washington Society of CPAs are leadership sponsors of the FEP-ABM Fundraising and Accounting Professions Collaboration Project and “Applying Activity-Based Management (ABM) to Fundraising”

proposed guidelines, and create a *Fundraising Fitness Test (FFT)*--like tool for wider consideration and use. This collaboration builds upon the Board Source, BBB Wise Giving Alliance, GuideStar and AFP collaboration on [“Measuring Fundraising Effectiveness” \(MFE\)](#) in 2017¹. The FEP-ABM Task Force thought there was a need to go deeper into the resources provided by *MFE* for professionals and practitioners in the fundraising and accounting professions.

AFP’s Research Council created one of the greatest analytical tools for our profession through the FEP—specifically the *Fundraising Fitness Test (FFT)* - www.afpfep.org/tools. FEP-ABM expands on the FFT (a revenue-based analysis tool) to include fundraising expenses in as robust but simple and meaningful way—with the creation of the Excel-based **“Fundraising Net Analyzer (FNA).”**

Table 1 - Gift Income, Expenses and Net Gift Income by Activity				
IncExpNet1 From "Fundraising Net Analyzer-FNA-v1 a Fundraising Cost Effectiveness Self-Assessment Tool				
	Gift		Net Gift	Net as %
Fundraising Activities	Income	Expenses*	Income**	Of Total
	(A)	(B)	(C=A-B)	(D=C/Ctot)
Activity A	\$ 499,921	\$ 128,835	\$ 371,086	12.0%
Activity B	\$ 110,865	\$ 52,950	\$ 57,915	1.9%
Activity C	\$ 644,080	\$ 46,100	\$ 597,980	19.3%
Activity D	\$ 149,170	\$ 34,800	\$ 114,370	3.7%
Activity E	<u>\$ 2,177,306</u>	<u>\$ 216,500</u>	<u>\$1,960,806</u>	<u>63.2%</u>
Grand total	<u>\$ 3,581,342</u>	<u>\$ 479,185</u>	<u>\$3,102,157</u>	<u>100.0%</u>

Understanding that the accounting profession is required to fully implement FASB ASU 2016-14 and the changes it requires in the presentation of financial statements for all organizations, we believed it was time the fundraising and accounting professionals and practitioners begin to look at things in the same ways, using the same language, and perhaps changing how they think about, plan for, and approach fundraising and reporting in cooperation with our partners in mission.

Fundraising Effectiveness Project

The goal of the **Fundraising Effectiveness Project (FEP)** is to help nonprofit organizations increase giving at a faster pace. **FEP** pursues this goal by providing nonprofits with tools for tracking and evaluating their annual growth in giving. The **FEP** basic concept--**Growth in Giving**--is the net of gains in giving from new, recaptured and upgraded donors minus losses in giving from lapsed-new, lapsed-repeat and downgraded donors. Nonprofits raise more money by investing more in growth-oriented fundraising strategies that both increase gains and reduce losses.

¹ <https://boardsource.org/research-critical-issues/measuring-fundraising-effectiveness/>

Challenges

Challenge---DEFINITIONS--creating a "commonly accepted" set of terms that are meaningful, distinctive, exclusive, and clear. We often find terms being used that are not necessarily precise and clear.

Challenge---TIME & EFFORT REPORTING--getting the commitment from both development staff and the accounting office to allocate hours to activities--***within each pay period/time sheet as recommended by accountants from GWSCPA serving on the FEP-ABM Task Force***, rather than just generally estimating salary across fundraising activities during the budgeting process.

Challenge---SCALABLE/FLEXIBLE--Smaller development shops may find it difficult to implement and utilize. The FEP-ABM Toolkit needs to be **"scalable" and "flexible."** Note that accountants from GWSCPA are applying GAAP activity-based accounting for multiple activities organization wide for small NPOs including daily staff time reporting for each pay period by activity. As part of this effort, we are enrolling several, varied NPO's to take part in a "Pilot Testing Program" to test the efficacy of these recommendations.

FEP-ABM Goal

To formulate a series of recommendations and guidelines to effectively measure and enable NPOs to raise the net dollars they need to fund their program services and fulfill their missions.

"Overall total fundraising expenses and related contributions are broken down into the fundraising activity structure needed for effective fundraising management: budgeting, accounting, reporting and evaluation."

KEY Concepts

Development office/accounting office partnership:

Developing ways that fundraisers and accountants can work together to raise the net dollars needed to fund the program services and fulfill the missions of the nonprofits that they jointly serve.

- (1) The development office designs the fundraising activity structure
- (2) The accounting office applies to these fundraising activities the same activity-based accounting procedures required by FASB, GAAP and 990 reporting requirements and guidelines.

DEFINITIONS

- ❖ (fundraising) **program** – FEP-ABM uses fundraising function or activity but does not use fundraising "program" because, in GAAP accounting and reporting, "program" only refers to an organization's "program" service function that consist of multiple "program" activities.
- ❖ (fundraising) **function** – FASB's ASU 2016-14 (GAAP) requires "reporting expenses by nature and function" where "the primary functional classifications of a not-for-profit entity are program services and supporting activities." Supporting activities consist of "management and general (M&G)," "fundraising" or "membership-development activities."
- ❖ (fundraising) **activities** – Just as ASU 2016-14 requires reporting the program function by multiple "program activities" (Table 2), the fundraising function can be managed and accounting for by multiple "fundraising activities" (Table 4) during the year.
- ❖ (fundraising) **tasks** - Activities are made up of various tasks to be performed. The tasks involved help define the activity. The core FEP-ABM fundraising activities (and other illustrative options) in "Guidelines for Designing Fundraising Activity Structures" include both solicitation tasks and non-solicitation tasks.

Applying Activity-Based Management (ABM) Concepts to Fundraising

Use of Activity-Based Management (ABM) by development offices can enable nonprofits to raise more money by making incremental increases in fundraising capacity -- staff and budgets – by activity. The results of incremental increased investments in existing and new fundraising activities are measured to inform growth-oriented fundraising capacity-building decisions - by activity.

GAAP financial statements of all charities that are audited must include a Statement of Functional Expenses (Table 2) that provides expense information at the major program activity level.

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14³

With FASB ASU 2016-14 now in effect for all nonprofits and for their financial statements to comply, GAAP financial statements of all charities to be audited must include a Statement of Functional Expenses (see Table 2) that provides expense information at the major program level and must disclose within the footnotes how the charity allocates costs. Nonprofits with accounting systems in compliance with GAAP can simply apply their systems for tracking expenses by multiple program activities to tracking expenses by multiple fundraising activities.

The requirement for detailed, verifiable staff time records for multiple program activities has been an OMB requirement since 1980's or before.

Table 2 – FASB's Illustrative Statement of Functional Expenses

FASB ASU 2016-14, page 66

	Program Activities				Supporting Activities			Total Expenses
	A	B	C	Programs Subtotal	Management and General	Fund-Raising *	Supporting Subtotal	
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	
Salaries and benefits	\$ 7,400	\$ 3,900	\$ 1,725	\$ 13,025	\$ 1,130	\$ 357	\$ 1,487	\$ 14,512
Grants to other organizations	2,075	750	1,925	4,750	-	-	-	4,750
Supplies and travel	890	1,013	499	2,402	213	22	235	2,637
Services and professional fees	160	1,490	600	2,250	200	52	252	2,502
Office and occupancy	1,160	600	450	2,210	218	31	249	2,459
Depreciation	1,440	800	570	2,810	250	15	265	3,075
Interest	171	96	68	335	27	2	29	364
Total expenses	\$ 13,296	\$ 8,649	\$ 5,837	\$ 27,782	\$ 2,038	\$ 479	\$ 2,517	\$ 30,299

* The fundraising expense figures have been changed for consistency with the other Tables and Exhibits in "Applying Activity-Based Management (ABM) to Fundraising"

³ https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168381847&acceptedDisclaimer=true

* Definition of **activity** as used by the FEP-ABM Project: a specific fundraising responsibility center for which a separate measurement of expense and/or revenue is desired. An activity is the lowest common denominator, lowest level of detail, or lowest grouping of revenues and expenses required for financial management of program activities and supporting activities, which include fundraising activities. Activity levels are determined on the basis of how minute separate measurements need to be for assessing performance against inputs of staff time and expense.

Accountants for even the smallest NPOs are helping their clients implement activity-based costing (ABC) allocation procedures in order to be able to produce the GAAP required report illustrated by FASB in Table 2 above.

The FEP-ABM Project is about applying ABM to the fundraising function, as illustrated in Table 3 below.

Table 3 - Illustrative Multiple Fundraising Activities Report

Expanding the single "Fundraising" Activity In

FASB's Illustrative Statement of Functional Expenses (Table 2)

	Fundraising Activities					Total Fundraising
	Activity	Activity	Activity	Activity	Activity	
	A	B	C	D	E	
Salaries and benefits	\$ 65,180	\$ 23,828	\$ 42,170	\$ 31,320	\$ 194,850	\$ 357,348
Supplies and travel	11,479	5,252	709	628	3,904	21,971
Services and professional fees	27,132	12,413	1,675	1,483	9,228	51,931
Office and occupancy	16,175	7,400	999	884	5,501	30,959
Depreciation	7,826	3,581	483	428	2,662	14,980
Interest	1,044	477	64	57	355	1,997
Total expenses	\$ 128,835	\$ 52,950	\$ 46,100	\$ 34,800	\$ 216,500	\$ 479,185

Resources and Tools

We have posted the FEP-ABM Toolkit with resources and tools for downloading, review, and comment on the Fundraising Effectiveness Project web site: www.afpfep/tools. We encourage you to forward your comments, observations and suggestions to:

Contact FEP: fep@afpglobal.org, www.afpfep.org

Contact Thom M. Digman, Chair, FEP-ABM Task Force:

tdigman@DigmanNetwork.com (314) 518-4167

Contact Bill Levis, Manager, Fundraising Effectiveness Project (FEP):

grlevis@aol.com (240) 418-7984

This is a preview of the subject matter content of our draft recommendations.

“Applying Activity-Based Management (ABM) to Fundraising”

Table of Contents

- I. Core Fundraising Net Analyzer⁴ Report (Table 1)
- II. Organization-Wide Activity-Based Management (ABM)
- III. GAAP Organization-Wide Statements of Functional Expenses Require Activity-Based Accounting (Table 2)
- IV. Organization-Wide Activity-Based Staff Time Sheet Reporting (Table 3, Chart 1)
- V. Applying Organization-Wide Activity-Based Management to Fundraising (Table 4)
- VI. Fundraising Income and Expense by Activity (Table 5)
- VII. Development Office Activity-Based Staff Time Sheet Reporting (Table 6, Chart 2)
- VIII. Designing multiple fundraising activities
- IX. Accounting offices provide all activity-based accounting services to development offices – Development Staff Have Limited Role (Table 7)
- X. Gift Income by Activity

- XI. The Board Source *Measuring Fundraising Effectiveness* Template (Table 8)
- XII. Development office duties and responsibilities, Hank Lewis
- XIII. Nine-Point Performance Analysis (Table 9)
- XIV. Special Considerations

Appendix A – Checklist of Fundraising Activities with Definitions

[Attached: Checklist of fundraising activities – DRAFT6.docx] *** under revision ****

Tentative timetable for our work:

- ✓ September 18, 2018—Initial Task Force Meeting at AFP
- ✓ October 18, 2018—Update Report to AFP Research Council
- ✓ December 7, 2018—Memo and HOLD THE DATE
- ✓ December 19, 2018—Draft 5 Responses Due
- ✓ December 20, 2018—Finalize January Conference Call Agenda
- ✓ December 21, 2018—Finalize Draft #6 and Send to FEP-ABM Team with Agenda
- ✓ January 16, 2019—Conference Call 2:00 to 3:30 EST
- ✓ March 15, 2019—Post DRAFTS for Comment www.afpfep/tools
- ✓ March 31, 2019—Update Report to AFP Research Council Meeting
- ✓ March 31, 2019—Share “Final Draft” at ICON Meeting
- April 2020—Finalize “Final Draft” Guidelines after ICON Meeting
- May 2020— Pursue AFP adding Guidelines to AFP Website Resources

⁴From Fundraising Net Analyzer – FNA-v1, a Fundraising Cost Effectiveness Self-Assessment Tool

FEP-ABM Team Members

<i>First Name</i>	<i>Last Name</i>	<i>Suffix</i>	<i>Company</i>
<i>Kari</i>	<i>Bedell</i>		<i>GWSCPA</i>
<i>Stan</i>	<i>Berman</i>		<i>GWSCPA</i>
<i>Jon</i>	<i>Biedermann</i>		<i>DonorPerfect</i>
<i>Elizabeth</i>	<i>Boris</i>		<i>Urban Institute</i>
<i>Jan</i>	<i>Brazzell</i>	<i>PhD ACFRE</i>	<i>Advancement Consulting</i>
<i>Robin</i>	<i>Cabral</i>	<i>MA, CFRE</i>	<i>Development Consulting Solutions</i>
<i>Jenny</i>	<i>Carrillo</i>	<i>MA, CFRE</i>	<i>Alexander Carrillo Consulting</i>
<i>Erik</i>	<i>Daubert</i>	<i>MBA ACFRE</i>	<i>Erik J. Daubert MBA, ACFRE</i>
<i>Andrew</i>	<i>Davis</i>		<i>BoardSource</i>
<i>Thom</i>	<i>Digman</i>	<i>CFRE</i>	<i>The Digman Network</i>
<i>Jon</i>	<i>Durnford</i>		<i>Datalake, Inc.</i>
<i>Robert</i>	<i>Edison</i>		<i>Arizona-Sonora Desert Museum</i>
<i>Randy</i>	<i>Fox</i>		<i>PSI/Adventist Church</i>
<i>Sharon</i>	<i>Gleason</i>	<i>CFRE, ACFRE</i>	<i>Society of Nuclear Medicine & Molecular Imaging</i>
<i>James</i>	<i>Greenfield</i>	<i>ACFRE FAHP</i>	<i>AFP Thought Leader</i>
<i>Simone</i>	<i>Joyaux</i>	<i>ACFRE, Adv Dip</i>	<i>Joyaux Associates</i>
<i>Mary</i>	<i>Lehman-Panek</i>		<i>Catholic Foundation of West Michigan</i>
<i>Wilson</i>	<i>Levis</i>	<i>Jr.</i>	<i>Fundraising Effectiveness Project</i>
<i>Barbara</i>	<i>Levy</i>	<i>ACFRE, FAHP</i>	<i>AFP Thought Leader</i>
<i>Wesley</i>	<i>Lindahl</i>	<i>Ph. D.</i>	<i>North Park University</i>
<i>Jay</i>	<i>Love</i>		<i>Bloomerang</i>
<i>Christine</i>	<i>Manor</i>	<i>CPA</i>	<i>GWSCPA</i>
<i>Heather</i>	<i>McGinniss</i>	<i>CNM CFRE</i>	<i>Concordia College</i>
<i>Ben</i>	<i>Miller</i>		<i>DonorTrends</i>
<i>Timothy</i>	<i>O'Brien</i>		<i>North Park University</i>
<i>Patricia</i>	<i>O'Malley</i>	<i>CPA</i>	<i>GWSCPA</i>
<i>Lori</i>	<i>Overmyer</i>	<i>MBA CFRE</i>	<i>Goettler Associates, Inc.</i>
<i>Anne</i>	<i>Quinn</i>	<i>ACFRE</i>	<i>Quinn Marketing</i>
<i>Sue</i>	<i>Sirkus</i>	<i>CFRE</i>	<i>Philanthropy Consultant</i>
<i>Lilya</i>	<i>Wagner</i>	<i>CFRE</i>	<i>Philanthropic Services to Institutions</i>
<i>Stephen</i>	<i>Wertheimer</i>	<i>M.A.</i>	<i>AFP Thought Leader</i>
<i>Cathlene</i>	<i>Williams</i>	<i>CFRE</i>	<i>FEP Coordinator</i>

FEP-ABM Team Members represent themselves and not their affiliations. Positions on recommendations and issues are established on a consensus basis; some members may disagree on some points.