DMA Nonprofit Federation

Principles & Best Practices for Accountability in Fundraising

While a nonprofit does not, by definition, have shareholders, it is similarly accountable to both its donors and the constituencies it serves through its mission. The nonprofit has an obligation to make solid business decisions to help it meet both short- and long- term objectives that will, in turn, make the world a better place. The DMANF supports the incredible impact made by nonprofits every year and encourages its members to hold themselves and the industry to the highest standards of ethical accountability.

Donors expect nonprofits to be operating at a high level of standards and transparency. While a given practice or action may not be unethical, it may not meet the standards of these principles and best practices. Most importantly, the degree to which a situation is ethical or not ethical is **NOT** determined by financial results.

General Principles

a. Nonprofits must have a well-defined mission statement describing what they do and why. Clear articulation of mission helps donors determine whether this is a cause and organization that they will choose to support.

b. Nonprofits must act in a way that furthers their mission. This includes responsible use of resources consistent with their stated mission objectives.

c. Messaging to donors must be accurate and transparent. A nonprofit organization must accurately describe how it spends its money, and must do what it promises to do.

d. Nonprofits must apply good faith effort to comply with relevant federal and state laws and regulations.

Use of Funds / Cost of Fundraising

Fundraising to the general public is a key function of nonprofits because in most cases this is the primary source of unrestricted financial support. Without donors, and without fundraising activities to acquire and retain these donors, nonprofits could not remain active and their mission delivery would no longer be viable. Fundraising is both a short- and long-term investment in the mission of the organization.

a. Management and fundraising costs are a normal part of doing business.

b. Investment in fundraising strategies may not pay off until future fiscal years. Efficiency measures of a fundraising program, then, can only be based on the organization's overall program and not on a discrete campaign's cost ratio. Analysis should be conducted over a financial reporting period or longer; reporting metrics may include, as examples, the cost to raise a dollar, cost to acquire a donor, long-term donor value, and net revenue available for the organization to spend on mission delivery.

c. Most donors give unrestricted financial support, and funds will be used to best meet the needs of an organization. When donors give restricted or designated funds, a nonprofit organization must ensure the donor's intent is honored and manage the funds accordingly.

d. Most stable organizations have diversified sources of funding, each with its own cost of fundraising ratio. Taken in total, in accordance with generally accepted standards, a nonprofit should spend a majority of its annual revenue on program. Year over year fluctuations may occur. Should fundraising expenses exceed program expenses in a financial reporting period, an organization should offer explanation. Circumstances could include a start-up period for a new nonprofit, or a period of intense new donor acquisition to meet long-term sustainability goals or to rebuild after a prior period of cost-cutting and donor attrition. Again, as explained above, a nonprofit's effectiveness is best measured over time and on a combination of mission, impact, financial stability, and growth.

e. In order to provide the most accurate understanding of how contributions are used, circumstances may compel a nonprofit to allocate joint costs that include fundraising and/or to perform valuation of gifts in kind. These are legitimate and commonplace aspects of financial reporting, are subject to audit and GAAP accounting standards, and are reported on a nonprofit's IRS 990.

    i. Joint cost allocation divides the cost of an activity when more than one purpose is served and the activity includes a fundraising appeal. A CEO's salary may be divided among program, management & general, and fundraising functions. It is the same with a joint cost that includes fundraising costs. For example, an organization devoted to cancer prevention could send a mass mailing that includes both a brochure detailing lifestyle changes to reduce risk of cancer, and a letter and pledge form asking for financial support. The cost of the informational materials is considered a public education expense (a "program" expense), while the cost of materials asking for financial support is considered fundraising expense. Generally Accepted Accounting Principles (GAAP) Statement of Position 98-2 provides guidance on how to accurately allocate the cost of the multi-purpose activity across expense categories.

    ii. Gifts In Kind (also known as Value In Kind) valuation is an accounting of goods donated to an organization. For example, a food bank collects both financial contributions as well as nonperishable food donations. Accounting of the financial support alone under-reports the true extent of the food bank's delivery on its mission of feeding the hungry. Accounting of the goods donations helps donors understand the full picture of the food bank's services, i.e., amount of food distributed to local families.

As with any financial accounting, it is expected that an organization honestly and accurately calculates and reports both joint cost allocations and gift in kind valuations consistent with financial auditing standards and requirements.

Entering into Agreements with Commercial Partners

As a rule, nonprofit staff is primarily focused on delivering on the mission. Contracting with external agencies, consultants, and suppliers is often the most cost-effective means of accessing fundraising expertise. Written agreements need to be in place, and at minimum these should include documentation about payments due, what the nonprofit is getting, and the ownership rights of donor information and materials produced for a fundraising campaign. The DMANF makes the following recommendations for agreements made between a nonprofit and a commercial partner:

a. The nonprofit organization must always — both by terms of the agreement and in practice — be in control of the program, message delivery, and the collection of funds.

b. The nonprofit must always be in control of and have immediate access to all donor names and contact information generated from efforts on its behalf. There should be clear understanding of whether and how the commercial entity will use the donor names generated from campaigns.

c. A nonprofit should avoid all actual and perceived conflict of interest between nonprofit/client and partner/vendor. This includes organizational conflicts of interest, as well as those that may exist for any staff or Board member. For example, a principal within the vendor company should not also serve on the nonprofit organization's Board of Directors.

d. A contract needs to include a clearly defined, reasonable payment schedule for services and materials to avoid real or perceived conflict of interest. A conflict occurs when proceeds are tied to payment terms and the beneficiary of such proceeds (donations) is not in fact the nonprofit as the fundraising appeal states, but is the vendor.

e. It is incumbent upon the nonprofit to understand contract terms before signing an agreement, including payment requirements, and ensure contract terms will not hinder the nonprofit's ability to execute and further advance the mission of the organization.

f. A commercial entity partnering with a nonprofit organization should not knowingly or carelessly hurt or endanger the financial health and/or the good work or good reputation of the organization. For example, a savvy and unscrupulous vendor should not take advantage of inexperienced staff at a nonprofit to enter into what would be an ill-advised agreement if adequate legal and fundraising marketplace advice were brought to bear.

g. The commercial partner should meet all federal and state requirements for working with nonprofits on fundraising, and all required filings should be complete and up-to-date.