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How Much for Fund-Raising?

Myths About Ministry Efficiency

One of the most confusing topics in the nonprofit community, both secular and religious, is the evaluation of fund-raising costs. Should fund-raising costs be calculated as a percentage of total income or contributed income? Should the data include gifts-in-kind, grants, or estates? These questions barely take us past the starting point in a maze that has regulators and practitioners at odds. However, it is an issue that everyone acknowledges as important.

Comparing fund-raising expense to total revenue is especially dubious. Total revenue often includes many significant non-gift elements. Some examples of non-gift revenues include: rental income, product sales, and net gains or losses realized and unrealized on investments. Therefore, fund-raising as a percentage of total revenue is often skewed.

Too much emphasis is placed on fund-raising costs. Fueling the problem, editors, authors, and self-styled critics continue to use the calculation of fund-raising costs from audited financial statements as the primary barometer for gauging the efficiency or effectiveness of a ministry. Applying the general and administrative overhead percentage – cousin to the fund-raising percentage – frequently compounds the issue.

Why is too much emphasis often placed on fund-raising costs?

- Some nonprofit organizations have shown wanton disregard for the public's interest by incurring enormous fund-raising and overhead costs in carrying out their mission.
- Some charities have adopted their own interpretation of expense allocation guidelines when determining what constitutes fund-raising or overhead costs. Varying interpretations have resulted in not just slight differences but, in many cases, significant differences in the reported percentages. This makes some organizations appear to be better run than others.
- The public seems to like a convenient way to compare or rank charities. It just doesn't realize it's not getting an "apples to apples" comparison.

Inconsistent application of accounting principles. Aren't accounting procedures consistent throughout nonprofit organizations? No. As a part of accounting principles generally accepted in the United States (GAAP), the AICPA issued a Statement of Position (SOP) 98-2, "Accounting for Costs of Activities for Not-for-Profit Organizations and State and Local Governmental Entities that Includes Fund-Raising.” This was to assure that uniform reporting of fund-raising, program, and management and general costs would result in fair treatment by external users of the public sector entities’ financial statements. Even though this is a serious attempt to address the problem, it has produced a mixed bag of responses that are anything but conclusive.

Preoccupation with fund-raising percentages can produce the opposite of what is intended. Such preoccupation often forces “creative” financial reporting as nonprofits scramble to put “their best face on” the financial statements because they know people are judging them on the numbers.

Nonprofits often allocate expenses in different ways. For example, a secretary’s salary in the development department may be allocated to fund-raising in one organization, to general and administrative in another, or maybe even to program (ministry) services in another because the job description spans multiple disciplines. These variations in allocation methods produce differences in overhead ratios when comparing one charity versus another.

Legitimate reasons why overhead ratios differ between charities. There are very legitimate reasons why fund-raising ratios – and, for that matter, general and administrative ratios – differ among organizations.

Let’s look at a few examples:

- **Type and visibility of a ministry.** The ministry’s mission itself may create a different type of fund-raising requirement. With publicity help from the news media when a crisis occurs, disaster relief organizations may require less effort to gain support. For example, the September 11, 2001 terrorist attacks in New York and Washington, D.C. produced an outpouring of over $1 billion in support to charities. Recipients of this money, in most cases, spent little to raise it. On paper, they look like efficiency heroes.

  Other important but perhaps lesser-known causes, such as fighting pornography, may require greater education of the public and, therefore, a higher cost of fund-raising. By its very nature, a regular radio or TV broadcast ministry may spend less to gain public support for its work than a mission agency with no regular means of communication with the public.

- **Types of contributions.** Some organizations may be blessed with ongoing foundation grants or endowments that significantly lower fund-raising needs. If the fund-raising percentage is used as a measure of competitive effectiveness, such organizations would have an unfair advantage over a ministry that is not so endowed. Yet the purpose of the two organizations may be very similar. For that matter, the one that is not endowed may actually be doing a better job at fund-raising and running an efficient operation. Similarly, an unusually large gift in any one year, the benefit of which extends into the next year, can distort the percentage for both years.

- **Maturity of a ministry.** An organization's age can play a part. An older ministry with an established, regularly contributing donor base very likely does not require as much fund-raising as a new organization trying to get its mission before the public. In its first few years, MADD's (Mothers Against Drunk Driving) fund-raising costs were extremely high. However, its very efficient use of funds for program services has resulted in changing the laws of this country regarding drinking and driving. Today, as a more mature organization, MADD's fund-raising percentages are relatively low. If the higher fund-raising percentages early in MADD's existence had discredited its effectiveness, the good it has accomplished might never have happened. Who can deny MADD has been effective in accomplishing its mission?

- **Capital campaigns.** Occasionally an organization requires a special capital campaign to raise funds for a building or other one-time need. In any given year, this could raise its normal fund-raising costs and adversely affect the percentage calculation as compared to another organization that was not conducting a special capital campaign. Some small ministries could even be affected by individual fund-raising events. Suppose a fund-raising event is canceled, resulting in a loss after the ministry committed a large sum to secure a banquet hall or an arena. Such a circumstance could undercut the funds it expected to raise from that event, even though the cost to hold the event turned out to be the same.

Summary. Scripturally, we are assured that it is a blessing to give. In fact, the very act of giving is a type of worship, and yet one survey indicated that the public would rather receive crank calls or "wrong number calls" than a charitable solicitation call.

For all these reasons, ECFA cautions donors not to overemphasize the percentages. Rather, each organization is encouraged to define the accomplishment of its mission through accountable reports, measuring ministry outcomes, and openness with the public.