SUSTAINABILITY COSTING TOOL INSTRUCTIONS

CONTENTS

INTRODUCTION

Over the past decade, the community foundation
field has made great strides in understanding and managing
the sustainability of its operations. In the 1990s community
foundations began to struggle with covering operating costs.
In 2003, FSG released the results of a rigorous analysis of
revenue and expenses of community foundations.

The findings were eye-opening for the entire field.

What we all learned from the study is that we had been adding activities and services that were far more expensive to provide than anyone realized (for example, donor-advised funds, scholarships and community leadership) resulting in an unsustainable business model.

Over the subsequent years, many foundations have replicated internally the data collection and analysis FSG pioneered with its original study, using the CF Insights Activity-Based Costing Model. The Activity-Based Costing Model provides a community foundation with an in-depth understanding of its business model through a detailed examination of all costs and revenues at the product level. While the model's outputs allow for rich analyses that support a range of strategic and operational adaptations, it is a time and resource intensive process that can be challenging for small community foundations to take-on.

In 2014, the Indiana Philanthropy Alliance, Council of Michigan Foundations and Philanthropy Ohio began work on a derivative version of the CF Insights Activity-Based Costing Model that would allow for a simplified approach to conducting this analysis. We are pleased to share the result of these efforts with you, our Sustainability Costing Tool. It is our hope that this material will enable a community foundation of any size to develop a better understanding of its revenue and expenses.

When addressing sustainability, understanding the relationship between revenue and expenses is critical to provide board and staff with an objective analysis of the current situation. But it is only the first step in addressing sustainability. The real challenge comes in using the data to inform policy decisions. The results could cause a community foundation to reexamine the types of funds it offers, fund minimums, fees, etc. These can be hard conversations for both board and staff, but can lead to valuable strategic decisions for the future of the organization.

Even experienced board members might find it challenging to fully grasp what it means to examine a

WE HAD BEEN ADDING ACTIVITIES AND SERVICES THAT WERE FAR MORE EXPENSIVE TO PROVIDE THAN ANYONE REALIZED.

community foundation's business model, but it can be boiled down into two very important pieces. The first is that, like almost any other organization, a community foundation can be seen as offering discrete "products," which in this case, includes different types of funds for potential donors. The other is that, again like just about any other organization, it's crucial to understand where your staff's time is going. This tool will assist you in organizing both of these key pieces of information.

Addressing sustainability is a critical step in ensuring the future of your foundation. As you embark on this project, you will need to set aside some time and energy to gather the data and determine what the results mean. But the Sustainability Costing Tool is just the first step in the process. The real challenge comes in making policy decisions through the lens of sustainability. Community foundations which have gone through this process consistently report that this is ultimately a very positive and gratifying experience.

Indiana Philanthropy Alliance, Council of Michigan Foundations and Philanthropy Ohio are pleased to provide you the Sustainability Costing Tool. It is our hope that community foundations will use this tool to generate data that will empower them to develop a path toward sustainability.

USER EXPERIENCE

DANA BENSINGER

Executive Director,
Ostego County Community Foundation
Staff on team: Dana and a part-time assistant

WHAT PROMPTED YOU TO UTILIZE THE SUSTAINABILITY COSTING TOOL?

We utilized the Sustainability Costing Tool at a time when our organization and our board were in need of a hard data driven look at our operations. Our board has been heavily focused on fundraising, and we saw utilizing the Sustainability Costing Tool as not just an informative process, but an educating process which provided a full under-the-hood look at our operations beyond the narrow focus of just fundraising dollars.

WHAT WERE THE KEY LEARNINGS YOUR FOUNDATION TOOK AWAY FROM UTILIZING THE COSTING TOOL?

Even just in starting the process, we were able to pull up some findings that encouraged us to adjust our fee schedule, as well as implement fund minimums.

It helped us revise policies so we could be more sustainable and it helped us look at the future – what types of funds and services do we want to offer and where do we put our energy?

We found that utilizing the costing tool provided an "aha" to our board and valuable insight into the strategy beyond our lines of work that generate funds.

Before our staff may have complained about scholarships (administrative burden) but the board didn't get it. Then they saw the bar graphs of what it takes to administer vs. going to community vs. administrative revenue compared to other different fund types, and they were saying "Gosh, if we boosted our unrestricted dollars and could make sure that kids could read and succeed, would that change what our students do?"

We had been doing one particular fundraiser for years, and we always net well from it and people love it, but once you took a look at all the staff time that goes into it, it really shifts the bottom line. We now have some real measurable data points that will be helpful for us moving forward.

DANA'S TOP TIPS FOR FOUNDATIONS CONSIDERING THE COSTING TOOL

- **Allow for time to do it! Look a couple months out and block some dedicated time out to do it, and perhaps encourage people to start keeping track of what they're spending their time on.**
- **If your organization is not accustomed to tracking staff time, consider tracking time for a set period and then multiply or utilize as a proxy.**
- **Engage your board in the work.**
- **Lean on your regional association. The Council of Michigan Foundations' CFO Dave Lindberg was engaged with our organization throughout the process. It was overwhelming for me but Dave really walked me through it and made me feel at ease.**

PROCESS & TIMELINE

Allow 2-3 months depending on the amount of time staff & volunteer board members have to devote to data collection and analysis.

ADDITIONAL GUIDANCE

In analyzing data look for results that don't make sense. You may have estimated time wrong or need to conduct a time study to get more accurate numbers.

Look at the staff time allocations compared to the board priorities and role they see the community foundation needs to be playing in the community.

When entering data into the Excel Sustainability Costing Tool any cell that remains red means something needs to be fixed.

You must maintain the exact list of products that you've defined at the outset of the study throughout the entire process.

As the Sustainability Costing Tool is derived from the CF Insights Activity-Based Costing Model, many of the terms, processes, and outputs are shared between the two tools. It should, however, be noted that methodological differences do exist between the two. Thus, users should take care when making comparisons between data generated using different models.

SUSTAINABILITY COSTING STEPS

1 Establish team roles.

DESIGNATE STAFF MEMBER(S) RESPONSIBLE FOR EACH OF THE FOLLOWING TASKS:

- Gathering community foundation data (described in more detail in step 6)—operating costs, revenue by fund, and detailed fund, gift and grant analysis

- Administering survey process (described in more detail in steps 7)

- Aggregating all staff survey or estimated time data into matrix template (described in more detail in step 10)

- Completing analysis using the cost and revenue model (described in more detail in steps 10 and 11)

- Synthesizing data into relevant presentations to share with staff and Board (described in more detail in steps 11, 12 and 13)

2 Create a timeline for completing the activities listed in Step 1.

3 Planning meeting with staff.

COMMUNICATE GOALS OF PROJECT AND ACTIVITIES INVOLVED WITH STAFF MEMBERS. DISCUSS MAJOR QUESTIONS THE ANALYSIS CAN ANSWERS.

- Identify and discuss the high-priority questions you want the cost-revenue analysis to answer. Some questions that other foundations have answered with the analysis:

    How much do the different funds and products we offer really cost?

    Which products make money for the Foundation and which do we subsidize?

    How do our costs compare with other foundations?

    Where can we cut back spending while still supporting our mission?

    In an increasingly competitive market, how does the Foundation best position itself for sustainability?

- Identify additional ongoing or planned initiatives that the study can inform.

- Determine which type of staff time analysis will be used:
    - Timecards
    - Review of annual calendar of activities

4   Identify products to include in analysis.

- The **cost-revenue analysis** will identify the full cost of delivering each of your products. Some of these will be fee-based products such as donor advised funds, scholarships, competitive grantmaking funds (unrestricted and/or field of interest)—others may be supporting organizations, unique large funds, planned giving products, or initiatives without any clear associated revenue such as convening and community leadership efforts.

> **NOTE:** You must maintain the exact list of products that you've defined at the outset of the study throughout the entire process.

- In a typical foundation the average number of products range from 8–12.

- A default set of common products has been identified and pre-populated into the worksheet, you only need to add additional products that are unique to your organization.

- Use the following suggested criteria for identifying a distinct product:

  1. Bundled set of services delivered to customers/donors for a published fee (such as donor advised funds, designated funds, scholarships)
  2. Customized set of services delivered to customers/donors for negotiated fees
  3. Unique set of activities which represents a significant amount of the community foundation's staff time, are designed to serve the community or the field, but which may not generate revenue (such as proactive initiatives or community leadership initiatives)
  4. Set of funds that need to be separated from another product area because including them could distort findings. (For example, one large fund that requires significant staff time and customized processes, or donor advised funds advised by a committee)

5   Customize Sustainability Costing Tool spreadsheet to reflect your products and activities.

- The **Sustainability Costing Tool** is an excel worksheet that lists all of the community foundation's activities down the left side of the worksheet, and all of the community foundation's products across the top. This survey will be given to all staff members to capture the time each staff member spends on each activity and product.

- Revise the survey to ensure it captures all of the community foundation's unique activities, in the language that is most familiar to staff.

6   Gather foundation data.

- The **Sustainability Costing Tool** relies heavily on community foundation data for its accuracy and detail. This step gathers the data necessary for completing the spreadsheet and can take approximately two weeks to complete. The data gathered in this step will be used in many of the subsequent steps of the process.

REQUIRED DATA:

- Itemized operating expenses from the previous year, and next year's projected budget

- Fully loaded personnel cost (salary and benefits) for each staff position. Any individual training/education fees for each staff position can be included in your expenses. Filled and vacant positions* should be included

- Revenue by product (as defined in Step 4) from the latest year (includes fee revenue and any other non-fee revenue)

- Exports from the community foundation's database:

  1. A list of all funds active during the previous year summarized by fund type, with the following information on each:
     - Fund market value (end of previous year)
     - Fee structure applied, and fee collected previous year
     - Product category for the fund

  2. A list of all gifts from the previous year summarized by fund type, with the following information on each:
     - Amount of gift
     - Date of gift
     - Type of gift (i.e., cash, stock, real estate)
     - Product category for the fund to which gift was made

  3. A list of all grants/scholarships requested, approved and paid from the previous year summarized by fund type, to include the following information:
     - Amount and number of grants/scholarships approved
     - Amount and number of grants/scholarships paid
     - Number of applications for grants and scholarships
     - Product category for the fund from which grant was paid

NOTE:
- *Only include vacant positions if you intend to fill them within the next year.
- We recommend exporting the data into Excel.
- It is important to remember to use the products as they were defined in Step 4, which may be different than the designation in the community foundation database.

7   Schedule and complete staff survey.

- This section assumes staff are estimating their time for each activity and products/services.

- The staff **"Time Entry Template"** worksheet provides insight to the daily activities of the staff as they relate to the efficiency and effectiveness of the community foundation.

- Assign every staff member to a facilitated group session to explain the process. Optionally you may also want to schedule times during the session for staff to work with the facilitator to complete the time entry template with the employee. The facilitator should be available to provide instructions and clarify activity and product definitions.

- Instruct staff on how to complete their time entry template, remember to leave Salary and Benefits blank until ALL staff have completed the templates in excel.

- For vacant positions that you intend to fill within the next year, determine process of completing the survey to accurately represent responsibilities (e.g. mirror the survey of someone in a similar position, use an average of the department's surveys, assign time allocation using predefined allocation methods on subtasks, or use the allocation by Activity only and skip using sub-task level calculations, etc.).

- After the survey has been administered, the facilitator is responsible for checking responses (in particular checking to make sure that each staff person's total time adds up to 100%). This can be easily verified using the status indicators on the Checklist sheet or the status indicators located in towards the top left of each individual employee's time entry sheet.

8   Review allocation rules.

PRE-CONFIGURED TIME ALLOCATION METHODS HAVE BEEN BUILT IN TO HELP WHEN MANUAL ESTIMATES ARE DIFFICULT TO DO, AND WILL BE USED TO ASSIGN UNALLOCATED TIME TO PRODUCTS.

PRE-CONFIGURED ALLOCATIONS AVAILABLE:

- **Based on New Funds:** Allocates based on the number of new funds in your products
- **Split Based on Funds per Type:** Allocates based on the total number of funds in each product
- **Split Based on Assets:** Allocates based on the products assets relative to the total assets of all products
- **Split Based on Gifts:** Allocates based on the number of gifts to each product
- **Split Based on Grant Apps:** Allocates based on the number of applications to products (not awards)
- **Split based on Apps and Awards:** Allocates based on the total number of applications and awards for each product

- It is recommended that staff use **"Estimate of Time"** allocation method for the most accurate analysis.

- Pre-configured allocation rules are used on two occasions: a) whenever staff members can identify the time spent performing a specific activity, but not allocate that time across the product categories; and b) to allocate direct costs associated with specific activities.

- Review the suggested allocation rules.

- Allocation rules will be applied in step 11. When you are finished, each allocation rule will distribute a total of 100% of time for each sub-task across the community foundation's products.

9 Categorize operating expenses.

- Determine which non-staff expenses to assign directly to specific activities (i.e. direct costs), and which to allocate indirectly to the community foundation's entire list of activities and products (i.e. indirect costs) based on the distribution of staff time. These cost should be available by running financials by fund type.

- Base costs on the previous year, but adapt personnel costs, direct non-staff costs, and indirect non-staff costs to best represent one year of the community foundation's costs going forward.

10 Understanding the Simplified Sustainability Costing spreadsheet.

- This spreadsheet is built with many formulas and locked cells to ensure the integrity of the data and calculations, as such many items are color coded or dynamic to inform you of the data that needs to be entered, where to enter data, and display alerts when information is incomplete.

- Each Sheet is Color Coded (Blue, Green, Red)

  BLUE—Summary/Review Information

  GREEN—Data Entry is required on these worksheets

  RED—The placement of these sheets is important; all time entry templates for employees must reside between these two sheets for the calculations to work properly

- Adjust FTE Calculation (if needed), Go to the TimeEntry worksheet and confirm that the Full Time Employee (FTE) scale is correct. By default, it is assumed that 1 FTE =40 hours/week. This can be adjusted to another value if your scale is different

- Instructions to copy the **Time Entry Employee Template** (used in Step 11)
    1. Right-Click on the Template worksheet and choose "Move or Copy."
    2. Choose to place the copy before TimeEnd.
    3. Choose to make a copy.
    4. Rename each worksheet to represent an employee's name or employee ID.
       (i.e. "Time Entry—Jane" or "Time Entry Emp 2")
    5. All Time Entry worksheets must be placed between TimeEntry and TimeEnd worksheets
       for the calculations to work correctly.

11 Complete Simplified Sustainability Costing spreadsheet to perform analysis.

- **This step represents the bulk of the analysis, and the amount of time required is dependent on the number of staff and level of detail that you enter into this tool.** In this step, all of the community foundation's costs—including staff, direct non-staff, and indirect non-staff costs—are aggregated to determine the cost for each product and activity.

- The first sheet of the Excel file includes a checklist that you can use to track your progress and direct your path to completing this analysis.

INSTRUCTIONS TO COMPLETE SPREADSHEET:

1. Before you begin, decide on the level of detail you want to achieve in your analysis. You can choose to analyze using only the five high level activities that have been identified for a quicker but less accurate analysis, or we recommend that you choose to use these activities and up to 10 sub-tasks per activity to calculate each employee's time allocation and cost. It is also recommended that the facilitator review the **Time Entry Template** and configure the subtasks by adding additional tasks to the template before you copy them (see Checklist Step 4 in Excel).

2. Assist and/or assign staff to complete **Time Entry Templates.**

3. Review each staff **Time Entry Template** to identify activities for which the staff member allocated time. You can do this easily by checking the **Time Entry Completion Status** on the Checklist worksheet and also the status fields located towards the top left of each **Time Entry Template**. Repeat this process for each employee. At the end of this step in the process, you will have a worksheet for each staff member with a value in each cell, and 100% of time allocated.

> **NOTE:** Once all the staff Time Entry Templates are complete and status indicators are all green, the data will be aggregated and available for review on the Staff Summary worksheet with the full community foundation's time allocated to products and activities, but all monetary calculations will not be calculated until after the next step.

4. The facilitator should now restrict employee access to the Excel Workbook so confidential salary and benefits data can be entered on each staff's **Time Entry Template** worksheet. Enter each staff member's total compensation into a worksheet.

> **NOTE:** Staff time is calculated into dollars and displayed by activity in the Staff Summary worksheet. There is an additional table displayed to the far right on each individual Time Entry Template if you want to see the cost to perform a detailed sub-task for the individual. If Estimate of Time allocation is used, you will have a dollar amount for each cell in the worksheet.

5. Enter **Revenue, Direct Expenses,** and **Indirect Expenses** into the corresponding worksheets using the data exported from your accounting software.

6. On the **Financial Summary** worksheet, you can choose how to distribute indirect expenses across your products; 1. by "Hours" worked on each product and allocate based on staff effort; 2. by "Wages and Benefits" to allocate based on the cost to perform these activities.

7. Compare the costs for each product to the revenue generated for each product. This last step will indicate the contribution generated or subsidy required for each product.

12 Review initial results and implications.

SCHEDULE A MEETING WITH STAFF TO DISCUSS FINDINGS AND IDENTIFY AREAS FOR FURTHER ANALYSIS.

- Once you have finished the model, you can identify the cost for each product, and whether each product is requiring a subsidy or generating a contribution. Typically, community foundations have found it helpful to prepare a presentation of the quantitative results from the model.

- If results don't seem to make sense revisit the staff allocations to determine if adjustments should be made.

- If you estimated staff time, for certain areas you may want to conduct actual time studies as the phase II of this project.

- Upon reviewing the analysis, foundations typically focus on the following areas of implications:
  1. Specific product pricing adjustments
  2. Opportunities to reallocate resources based on strategic priorities or reduce high cost activities, particularly around policy or structural changes that would improve operations
  3. New revenue or product opportunities

13 **Determine implications and develop recommendations where appropriate.**

- Based on feedback from staff discussions, prioritize areas where the cost analysis data can be adapted to illustrate possible changes to pricing, policies, or products—if additional strategic, market and customer information is available, explore possible recommendations.

- On the **Financial Summary** worksheet, you can test new fees by inserting additional revenue dollars into the **"Fee Adjustments"** row. These new fee will then update the **Revised Net Income** values.

- Review information with key committee or board members.

14 **Prepare and deliver board presentation.**

- Develop a presentation to be delivered to the Board or Board Committees, as appropriate.

- Basic reports have been provided as a starting point, but it is recommended that additional reports be built using data shown on the summary worksheets.

DEFINITIONS

ACTIVITY BASED COSTING

Determining the net income (loss) for each product the community foundation provides to the community.

PRODUCT

Ways the community foundation provides value/impact to the community.

Examples:

- Philanthropic tools to assist donors (Funds)
- Philanthropic tools to assist grantees (Grants)
- Convening and collaborating (Leadership)
- Philanthropic education programs
- Youth programs

ACTIVITY

Time spent by staff and board to produce the products that add value to our community.

Examples:

- Acquiring/Establishing Funds
- Maintaining Funds
- Making Grants
- Providing Non-grant and Community Services
- Other Activities

SUB-TASKS

Individual tasks that represent a sub component of the Activity.

Examples:

- Donor visits
- Committee organization and administration
- Monthly accounting
- Marketing and communication
- Receipt of gifts
- Processing and disbursing grants

REVENUE

Income from operating activities.

Examples:

- Administrative fees generated from funds
- Distribution from operating or administrative endowment
- Investment income
- Fee for service income
- Contributions or fundraising event income
- Grants from other foundations

DIRECT EXPENSES

Expenses directly related to a specific product.

Examples:

- Grant processes
- Scholarship processes
- Maintaining and accounting for funds
- Donor acknowledgement and gift posting
- Donor development
- Donor stewardship
- Providing non-grant services

INDIRECT EXPENSES

Expense not directly related to a specific product but encompassing the entire foundation.

Examples:

- Occupancy costs
- Board meeting preparation
- Annual audit
- Accounting services
- Annual report costs
- Insurance
- Maintaining website