ANA Nonprofit Federation Principles and 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 organization 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 proper assessment of an organization's achievements should prioritize the outcomes associated with the accomplishment of the mission. Transparency in all aspects of the organizations management help assure the public the outcomes achieved are in line with accepted standards and best practices that are detailed further in this document. Performance must be judged by impact and achievement of the mission.

The ANA Nonprofit Federation supports the incredible impact made by nonprofits every year through ethical fundraising and marketing and encourages its members to hold themselves and the industry to the highest standards of ethics.

Donors expect nonprofits to be operating at the highest level of ethical standards and transparency. Most importantly, the degree to which a situation is ethical or not ethical is not determined solely by financial results. Nonprofit mission impact is the best way to measure a charity.

1. General Principles:

a. Nonprofits should 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 should act in a way that furthers their mission. This includes responsible use of resources consistent with their stated mission objectives.
c. Messaging to donors should be accurate and transparent. A nonprofit organization should accurately describe how it spends its money and must do what it promises to do.
d. Nonprofits should apply good faith effort to comply with relevant federal and state laws and regulations.

2. Data Protection and Privacy Principles:

a. Nonprofit organizations recognize the need to protect data provided by their donors and supporters to ensure privacy protections are adhered to.
b. Ethical nonprofit organizations should act responsibly to steward data in their care and to be knowledgeable regarding industry standards including Payment Card Industry (PCI) compliance (see this link for an overview: https://www.forbes.com/advisor/business/what-is-pci-

compliance/, industry data security protocols. Nonprofits should seek to minimize the data they retain to only that needed for the types of transactions at the time of collection to mitigate data security risk.

c. Data should not be shared with unrelated entities unless the donor is provided notice and choice regarding such sharing in a transparent manner (either through notice and choice in the organization's privacy policy and/or through offline information provided to donors) and in compliance with state, federal and international data privacy laws as applicable to nonprofit organizations.
d. Industry data principles for both online and offline data includes those of the ANA (See ANA.net/accountability) and the Digital Advertising Alliance (See Youradchoices.com/control) and should be periodically reviewed and adhered to in the best interests of the organization to respect individual privacy.
e. Organizations should use ANA consumer preference tools (a.k.a. DMAchoice or the no-pander file) to remove names of caretakers' contacts, deceased and consumers that have opted out of future mail offers to reduce their organization's mail expenses and to honor consumer choices and avoid proposed do-not mail legislative restrictions. (See DMAchoice.org)

3. Use of Donated Funds for Marketing and Fundraising / Cost of Fundraising:

Fundraising outreach and communication to the 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 required part of doing business as is true for the commercial world.
b. Investment in fundraising strategies (acquisition) 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 fundraising 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 its mission delivery. Further, indications that an organization has, for example, a higher cost to acquire a donor does not mean this organization is less efficient; it may mean that it is working to grow faster, or that the mission itself needs development.
c. Most donors give unrestricted financial support, and funds will be used to best meet the needs of an organization. However, when donors give restricted or designated funds, a nonprofit organization must ensure the donor's intent is honored and ensure to manage the funds accordingly.
d. Most stable organizations have diversified sources of funding. Taken in total, in accordance with generally accepted standards, a nonprofit should spend a majority of its annual revenue on programs. Year over year fluctuations may occur. Should fundraising expenses exceed program

expenses in a financial reporting period, an organization should offer an 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. A nonprofit's effectiveness is best measured over time and on a combination of mission, impact, financial stability, and growth.

e. 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 and 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 and should be followed.
    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 current financial auditing standards and requirements.

Agreements between Nonprofit Organizations and Third Parties:

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 for organization growth. Written agreements need to be in place. At a minimum these should include documentation about payments due, what the nonprofit is getting, and the data ownership rights, and ownership of creative and other materials produced for fundraising campaigns.

The ANA Nonprofit Federation makes the following recommendations for agreements made between a nonprofit and a commercial partner:

a. The nonprofit organization should 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 should always be in control of and have immediate access to all donor names and contact information generated from efforts on its behalf, including by third-party fundraisers and platforms. 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 of a 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 to 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 to serve its own interests.
g. The commercial partner should meet all federal and state requirements for working with nonprofits on fundraising, and all required fundraising solicitation filings should be accurate, complete and up to date.