

COST SUSTAINABILITY TOOL

Developed by Council of Michigan Foundations and IPA

What is Activity Based Costing?

- A tool to better understand the cost of delivering value to our community (value= our products)
- It involves determining the actual cost and actual revenue for each product and comparing the two figures

Why is Activity Based Costing Important?

- Assists board and staff in understanding the cost for each product provided to the community
- What products cover the cost to administer and which are subsidized with other forms of revenue
- Analyze how our products fit within the community foundation's mission and goals

What is a Product?

- Ways in which you add value to your community
 - Philanthropic tools to assist donors (our funds)
 - Philanthropic programs to assist grantees (our grants)
 - Convening and collaborating (our leadership)

What is an Activity?

- Time spent to produce the products that add value to our community
 - Donor visits
 - Committee organization and administration
 - Monthly accounting
 - Marketing and communication
 - Receipt of gifts
 - Processing and disbursing grants

How do we figure cost?

- Time data is gathered and traced to activities
- Time is converted to dollars
- Determine expenses which are directly related to a particular product (direct costs)
- Determine expenses which support many products or the general operations of the community foundation (indirect costs)

Two methods to collect staff time

- Simple method - Estimate staff work spent on processes
- Time Tracking Study

How is revenue allocated?

- Allocate admin fees generated by each type of fund
- Allocate operating/administrative distribution based upon allocation of indirect costs
- Allocate operating/administrative distribution to community leadership

SUSTAINABILITY COSTING TOOL SUMMARY

- Understanding your costs will assist in making the case for fee changes
- Understanding cost of the product and its impact will assist in future planning
- Will allow your board to better understand the decisions they need to make
- Sample spreadsheets and instructions will be provided
- It will take time to do this right. TAKE THE TIME