NATIONAL COUNCIL OF NONPROFITS

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Own Your Own Costs

Understanding a nonprofit's costs is necessary in order for charitable nonprofits to be financially sustainable. Rather than reporting artificially low costs, or ignoring what it really costs to deliver programs and services, the National Council of Nonprofits is encouraging all nonprofits and board members to model transparency of full costs.

Being transparent requires first, that a nonprofit knows its costs (which is not always easy), as well as allocates them properly, and second; that charitable nonprofits help donors and others understand that its costs are essential in order to advance the nonprofit's mission.

For nonprofits that provide services to governments and receive federal government dollars (whether directly in a contract or grant from the federal government or passed through state or local governments) knowing what the costs are is even more important, due to federal rules, the OMB Uniform Guidance [1], that require the federal government to reimburse nonprofits for indirect costs. (The requirement is useful, but if you don't know what your costs are, how can you ask for reimbursement or negotiate an appropriate "indirect cost rate"?)

Practice Pointers

- Consider how to change the culture around costs. Candor is a place to start. Too many people have a negative impression of "overhead." Instead let's engage individual donors, foundations, and nonprofit staff and board members in discussions about the fact that overhead is not "bad" [2] – and that while donors have the right to restrict their donations, capping or limiting the amount of a donation that pays for administrative or indirect costs may rob nonprofits of the ability to deliver its programs in a financially sustainable way.
- In order to maintain the donating public's trust it's important to be transparent about your nonprofit's finances and also the outcomes of your nonprofit's activities. Having candid conversations with donors and others about costs and progress towards goals shifts the focus off of meaningless ratios, onto what matters: outcomes and effectiveness.
- Not only is transparency the right approach, but by "owning your own costs" your nonprofit is more likely to be financially sustainable – You'll build more accurate budgets [3] and, when, for example, your nonprofit submits a proposal for grant funding, the proposal will be based on actual costs, which means it will be less likely that your nonprofit will be caught in a starvation cycle [4].
- Before pursuing a grant opportunity make sure you know what it will really cost to produce that program/fulfill the grant's requirements. You can use this funding opportunity assessment tool [5](FMA).
- In connection with government grants and contracts, the Uniform Guidance provides only the *promise* of improved treatment; it is incumbent upon each organization to (1) take action to own its own costs, (2) learn its responsibilities and rights under the new rules, and (3) protect those rights through advocacy, both on its own behalf with each grant and contract, as well as by engaging in efforts with the broader nonprofit community.
  - Know Your Rights … and How to Protect Them [6] (National Council of Nonprofits)

  …Organizations need to educate their donors. Be honest with donors about what it takes to get the job done, why the expenditure is required, and be transparent in where the dollars are going.

- Tom Tierney, chairman and co-founder of Bridgespan Group

Resources

- [The Overhead Project](#) [7] (CalNonprofits)
- *[True Program Costs: Program budget and allocation template and resource](#)* [8] (Nonprofits Assistance Fund)
- [Program-based budget builder](#) [9] for identifying full costs (FMA)
- [Overhead cost definitions](#) [10] (Nonprofits Assistance Fund)
- Guidance on [reporting nonprofit operating expenses](#) [11] (NOLO)
- [Tackling Overhead Together](#) [12]: Grantmakers and nonprofits must come to a mutual understanding of the true costs of change (Stanford Social Innovation Review)
- [Investing for Impact: Indirect Costs are Essential for Success](#) [13] (National Council of Nonprofits)
- [Grantmaking should be grounded in real costs](#) [14] (Stanford Social Innovation Review)
- [A Board Member's Guide to Nonprofit Overhead](#) [15] (Blue Avocado)
- [A Funder's Message to Other Funders About Overhead](#) [16] (Blue Avocado)
- A grantmakers' [statement on its commitment to full cost funding](#) [17] (Donors Forum)
- [New Regulations Spotlight Nonprofits' Overhead](#) [18] (Exponent Philanthropy)
- [The Third Rail of Nonprofits: Overhead](#) [19] (Interview with Tom Tierney, co-founder of Bridgespan Group)
- [Changing the Conversation About Overhead](#) [20] (NTEN Change, June 2014)
- [Video Discussion Guide for Nonprofits + Funders](#) [21] (PDF)
- [Video Discussion Guide for Nonprofits (more ideas specifically for nonprofits!)](#) [21] (PDF)

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[17] https://donorsforum.org/sites/default/files/resources/Commitment%20to%20Full%20Funding.PDF

[18] http://www.exponentphilanthropy.org/resources/blog/

[19] https://www.wsj.com/news/articles/SB10001424052970203611404577046171703664012

[20] https://issuu.com/ntenorg/docs/nten_change_june2014_final/16?e=11383070/8364413

[21] http://realcostproject.org/wp-content/uploads/2016/02/Video-Discussion-Guide-longer-version-for-nonprofits.pdf

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