Escaping the Starvation Cycle – Addressing Indirect Costs

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What are typical indirect/overhead costs?

(Overhead/indirect cost/shared costs/administrative costs..."I say po-tay-to; you say pa-toh-to...")

Source: Nonprofit Hub
Expense Reporting by Functional Areas -- Required by IRS (Form 990) and FASB (Financial Audits)

- Programs
- Management and General (Administrative)
- Fundraising
No administrative fees means that all money goes to local charities.

100% of your donation will go towards programs that help youth.

Our organization has remained lean, allocating nearly 90% of revenue directly to programs costs.
The 10% figure is totally unrealistic…

We’re having to raise pools of general support to pay for our real overhead costs.

13% overhead doesn’t nearly capture the reality of our administrative costs.
Myth:

Low overhead is a good measure of nonprofit effectiveness.
We don’t judge private companies on their overhead…
What can nonprofits do to help bust the overhead myth among the public?

- **Share data on impacts (it’s multidimensional)**
  - Be transparent, share financial info, build trust
  - Share how resources were used to deliver on mission

- **Reframe the language**
  - Instead of overhead, refer to “core mission costs” or “operational costs”

- **Understand your indirect costs** *(Protip: attend SVCreates upcoming seminar on this topic.)*

- **Consider alternative financial representations** *(pie vs. sphere)*
Moving from a fixed pie to a sphere

Unhelpful Graphic – the flat Earth model

A Better Image – the round Earth model

Source: Propel Nonprofits
Investments in the core are critical.

Source: Propel Nonprofits
Beyond Overhead: Full Costs of Great Outcomes

Source: The Real Cost Project
Full Cost-Friendly Practices of Government Arts Funders

- **City of San Jose, Office of Cultural Affairs**
  - Project Grants have an indirect cost line item and contingency line item
  - Surpluses are allowed with budget notes that indicate what surpluses are for (i.e., for reinvestment in the project - looked upon with favor; for organization-wide pizza parties - not so much)
  - Operating Grant program to complement project grants

- **California Arts Council (State)**
  - Indirect costs are allowed, no set percentage

- **National Endowment for the Arts (Federal)**
  - Indirect costs are allowed. Can claim under “Direct costs: Other” OR charge standard 10% of modified total direct costs (MTDC) OR negotiate an indirect cost rate
Resources

- [http://overheadmyth.com/](http://overheadmyth.com/)
- [https://www.philanthropyca.org/full-cost-project](https://www.philanthropyca.org/full-cost-project)
- [https://ncg.org/resources/real-cost-project-increasing-impact-philanthropy-california](https://ncg.org/resources/real-cost-project-increasing-impact-philanthropy-california)