



STATEMENT ABOUT NONPROFIT OVERHEAD COSTS

HURRICANE KATRINA DONORS ADVISED NOT TO RESTRICT RELIEF GIVING

EXPENSES FOR MANAGEMENT, FACILITIES AND FUNDRAISING ARE VITAL TO DELIVERING CHARITIES' SERVICES

Some people think a charity's overhead costs should not be funded by donors' contributions. Yet credible research finds that organizations that spend too little on organizational infrastructure and administrative costs are often ineffective at getting services to those who need them. Donors making gifts in response to Hurricane Katrina are advised to consider the importance of basic organizational operations and avoid limiting their contributions.

"Donors should not ask or expect relief organizations to dedicate 100 percent of their contributions to victims," said Gene Tempel, executive director of the Center on Philanthropy at Indiana University. "Reasonable expenses for management, facilities and fundraising are vital to charities' ability to respond immediately and to meet victim's urgent and long-term needs."

Relief organizations must pay for expenses such as staff, offices and communications infrastructure so that they are prepared in advance to respond to each disaster and to be able to adjust staffing to manage volunteers, staff and resources in larger-scale disaster relief organizations.

When donors restrict their giving to "100 percent for programs" or "all for the victims," they create a situation that can force charities to trim overhead expenses, sometimes beyond what is advisable for effective operations. In a national study of more than 1,500 charities, researchers at the Center on Philanthropy at Indiana University and the Urban Institute's Center on Nonprofits and Philanthropy found that organizations with an overemphasis on having low or "no" expenditures for organizational operations do not deliver "more" or "better" services.

"Organizations that do not adequately fund so-called overhead costs are likely to reduce their effectiveness or eliminate systems that should be in place for accounting and for accountability to the public," Tempel said. "Donors need to know that some expense for overhead is required in order for the organization to function well and to respond when needed, and that these costs can legitimately vary widely from organization to organization."

The Nonprofit Overhead Cost Project, which was conducted by the nonprofit research centers at Indiana University and the Urban Institute, found that overhead costs can reasonably be 10 percent or 20 percent or sometimes even 35 percent of an organization's budget, depending on the organization's work and its size. Funding for overhead is needed. Whether a given donor pays a

portion of that or not, there are costs for the organizational infrastructure that supports a program or service. Overhead is the rent, electricity, heat, telephone, and furnishings. It's the cost of a qualified management team, the cost of communicating with and convening a board of directors, and the cost of recruiting and training qualified staff members and volunteers. It's accounting, human resources, and information technology. And it's the cost of tracking gifts and expenses and then communicating to donors about how the organization has used their contributions.

Overhead is the Web site you visit, the annual report you read, and the time that nonprofit organization staff members take to talk with you when you call. Reasonable spending on overhead isn't waste; it's the basis for mission effectiveness and the way you get the information you need and want to evaluate how the organization performed.

The Nonprofit Overhead Cost Project investigated how nonprofits raise, spend, measure, and report funds for fundraising and administration, and worked with practitioners, policymakers, and the accounting profession to improve standards and practice in these areas. This project is a collaboration between the Center on Philanthropy at Indiana University and the Center on Nonprofits and Philanthropy at the Urban Institute. For more information on the project, see <http://www.coststudy.org>.

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