

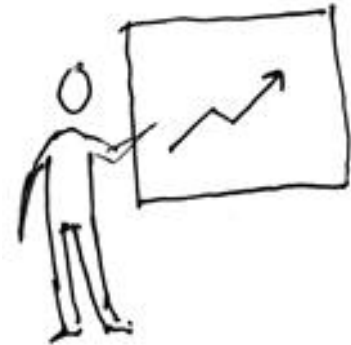
Non-profit = No profit?

Dispelling the myth

by Laura Huth, *do good Consulting* Principal Trainer & Consultant

Originally published in *Doing Good*, the e-newsletter of *do good Consulting*, December 2006, <http://www.dogoodconsulting.org/newsletter/december06.html>

Not long ago, I met a colleague for breakfast to discuss fundraising. She serves on the board of directors of a local non-profit organization. In discussing her group's needs, I asked about her organization's budget situation, namely what the group's income was last fiscal year. She thought a moment. "About \$600,000, I think," she replied. "And expenses?" I asked. "Why, the same, of course!" she laughed.



The idea that non-profit organizations cannot earn a profit - or that income and expenses must be exactly the same or that a non-profit cannot ever carry a surplus - is a widespread misconception among non-profit board members, staff, donors, and volunteers.

Just the opposite is true. As we continued to speak, I asked my friend how her non-profit would be able to precisely spend, come June 30, exactly the same amount that came in that fiscal year. "What if on June 29, your group received a \$500 check from a donor?" I queried. She scratched her head and admitted she had never really thought about non-profit finances that way.

The distinction between non-profit organizations and for-profit companies lies in what is done with the profits, not whether or can there be profits or not. In for-profit corporate settings, "earnings" are distributed to shareholders. In non-profit settings, these same earnings - called "surpluses" in non-profit lingo - are invested back into non-profit programs or purposes, retained in an organization's fund balance, or placed in an endowment, but are never distributed to shareholders or board members.

After discussing this further, my friend sighed saying, "So, nonprofit groups really should act like businesses. We should be trying to make a 'profit' to help save for the future?" "Bingo!" I replied.

Yes, non-profit organizations can - and should - earn profits. In fact, non-profits should strive to do so to ensure financial viability and create a long-term, sustainable organization.