



Full Cost Funder/Grantee Pilot

Evaluation Summary Report

October 2016

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Background

The Weingart Foundation (WF), in partnership with the California Community Foundation (CCF) and Nonprofit Finance Fund (NFF), has begun undertaking an effort to promote funding for nonprofits that reflects the full cost of service delivery. This initiative aims to strengthen nonprofit capacity and organizational effectiveness by providing the tools to advocate for full cost recovery from funders. A key strategy in this initiative is to support skills building for nonprofit executives and funders to allow them to accurately account for full costs, clearly identify those costs, and discuss funding mechanisms that allow nonprofits to receive funding that takes those costs into account. Additionally, the initiative focused on improving communication and strengthening relationships between funders and nonprofits to support the advocacy of the Full Cost approach. To implement these strategies, WF, CCF and NFF developed the Full Cost Funder/Grantee Pilot.

To start designing the Full Cost Funder/Grantee Pilot, this partnership was able to leverage the Financial Sustainability Initiative that CCF and NFF were preparing to launch in the spring of 2016, which included a two-day Financial Leadership Clinic (FLC) facilitated by NFF (see Appendix I for additional information about the FLC) and one-on-one coaching by NFF staff. As 10 of the 12 small to mid-sized organizations who had committed to participate in the initiative were grantees of both WF and CCF, both funders felt the Financial Sustainability Initiative would be a great foundation for the pilot. All 12 of the nonprofit partners of the Financial Sustainability Initiative were invited to participate in the pilot, and all 12 agreed.

The final components of the Full Cost Funder/Grantee Pilot were:

- **Financial Training Workshop (April 2016).** NFF provided financial training to a group of twelve nonprofits, along with Weingart Foundation and California Community Foundation staff, on real cost concepts and methods.
- **Individual technical assistance and coaching.** Following the initial training, NFF coached many nonprofit participants and foundation staff with implementing full cost concepts in their organizations.
- **Follow-Up Convening (June 2016).** Nonprofit and funder participants reconvened to discuss successes and challenges in applying full cost concepts and to further build trust between funders and nonprofits.¹

Throughout the pilot, each component incorporated capacity building around communicating and advocating for full cost funding.


Full Cost Funder/Grantee Pilot Goals

1. Develop a **shared understanding of full costs** among participating organizations and funders.
2. Support participating organizations to **calculate and talk about their full costs**.
3. Coach program officers on **full cost conversations** with grantees.
4. **Build the communication skills of both program officers and nonprofit leaders** in order to engage in honest and transparent conversations around full-cost funding.

¹ While the June convening was initially intended to be a skill-building practicum, key learnings from the Financial Training Workshop demonstrated the need to further strengthen trusting relationships between funders and nonprofits. WF, CCF, and NFF decided to adjust the format and content of the June convening to be responsive to the needs of the pilot participants.

Evaluation Overview

The Weingart Foundation, California Community Foundation and Nonprofit Finance Fund hope that this pilot can serve as a model for nonprofits and other funders interested in incorporating a full cost approach in their financial models and grant making strategies. To this end, the partners asked Harder+Company Community Research to assess the implementation and early results of the pilot process. The following report summarizes our findings and elevates considerations for the future implementation and scaling of this and similar initiatives.

The evaluation focuses on assessing participant satisfaction and their ability to apply what they learned. Additionally, we sought to understand how the pilot promoted better relationships and communication between funders and nonprofits and how it can be scaled and expanded to other funders and nonprofits. This evaluation consisted of two online surveys and 12 phone interviews with participants from both nonprofit and funding agencies. Harder+Company collected data at two points – immediately following the financial training workshop in April 2016 and after the follow-up convening session in June and July 2016. 

Full Cost Funder/Grantee Pilot Evaluation Questions

- How satisfied were nonprofit and funder participants with the trainings and coaching?
- Are participants now more able to implement and apply the full cost concepts in their work?
- How did the pilot promote stronger relationships and communication between funders and nonprofits?
- How can the pilot be expanded to other funders and nonprofits?

Pilot Implementation

This section focuses on participants' experiences with the various components of the Full Cost Pilot. It includes findings about their satisfaction with the workshop content and format, what they learned, their experiences with technical assistance and coaching, and overall feedback on the sequencing of and content of the activities.

Financial Training Workshop

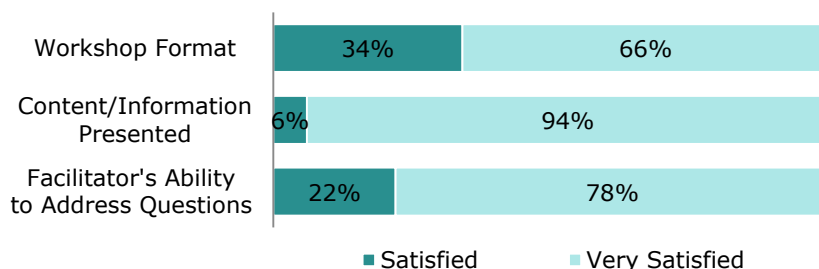
The goal of the Financial Training Workshop was to bring funders and grantees together to create a common language and understanding related to full cost funding. To this end, trained staff from NFF facilitated group discussions on defining "full costs," reframing overhead expenses, and capitalization. The Financial Training Workshop concluded with a case study activity working through the full costs of a fictional Food Bank and an exercise on communications and due diligence with a full cost mindset. Attendees were asked to prepare for the meeting by reading *Why Funding Overhead is Not the Real Issue: The Case to Cover Full Costs*, written by Claire Knowlton as part of the Real Cost Project. They were also provided the case study prompt as an optional pre-read (see Appendix II for Financial Training Workshop presentation slides).

Of the 51 individuals who attended, 20 were from funding agencies (i.e., the Weingart Foundation and the California Community Foundation) and seven were from the Nonprofit Finance Fund. The remaining 24 participants were from the following nonprofit organizations:

- Bartz-Altadonna Community Health
- Central American Resource Center (CARECEN)
- Council of Mexican Federations (COFEM)
- Esperanza Community Housing Grand Performances
- Heart of LA (HOLA)
- Kids in Sports
- People Assisting the Homeless (PATH)
- Social Justice Leadership Institute (SJLI)
- South Asian Network
- Watts Healthcare Corporation
- Youth Speak Collective

Overall, all Financial Training Workshop participants who completed the survey were satisfied with the workshop content, format, and facilitation (see Exhibit 1 below).

Exhibit 1. Financial Training Workshop – Participant Satisfaction (N=32)

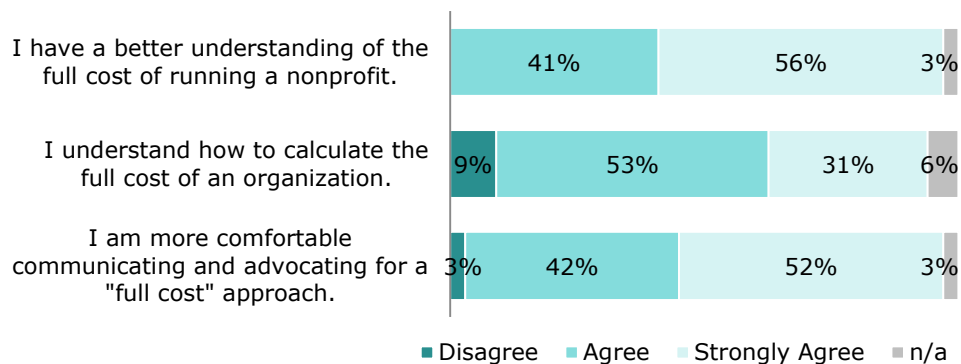


"[Full Cost] is more than a concept – we gained some early skill sets to use in implementing these concepts in our day-to-day development work."

–Nonprofit Participant

As a result of the Financial Training Workshop, a large majority of survey respondents agreed or strongly agreed that they had a better understanding of the full cost of running a nonprofit organization and how to calculate the full cost (see Exhibit 2 below). One nonprofit participant felt that “applying numbers to the concepts really helped me better understand full cost.” A funder staff member also appreciated the new insights that came from “breaking down all the different components that should be taken into account when calculating the full costs of an organization, like ‘unfunded expenses’, which I had never thought of.” Most of the participants also felt more comfortable communicating and advocating for a full cost approach in the sector. For example, one nonprofit participant felt that “the framing statements and question development exercise gave me a new place to start my conversations with funders from.”

Exhibit 2. Financial Training Workshop – Outcomes (N=32)

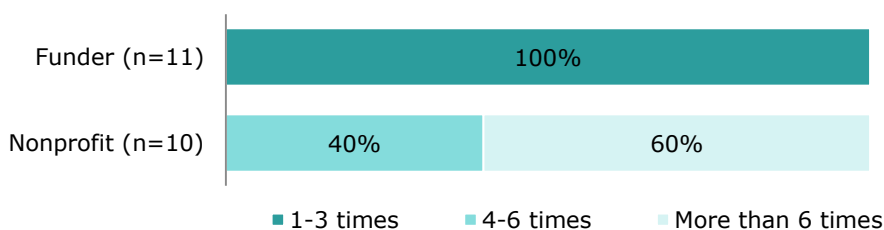


While it was not an official component of the Full Cost Funder/Grantee Pilot, representatives from all of the nonprofit participants had also attended the two-day Financial Leadership Clinic prior to the Financial Training Workshop. A large majority of those who attended felt that the clinic was a necessary introduction to the key concepts learned in the Financial Training Workshop and helped prepare them to contribute to the group discussions. According to one nonprofit participant, “the exercises where we analyzed the faux nonprofit were not as useful to the two people at my table who did not attend the Financial Leadership [Clinic] the month before. I had background information, so I knew what to do.”

Technical Assistance and Coaching

After the training workshop, NFF staff offered ongoing individual training and coaching sessions to help both nonprofit and funder participants begin to apply the concepts learned to their specific organizational needs. Of the 26 participants surveyed after the second workshop, most (81%) had received individual coaching from NFF staff. Nonprofit participants met with their NFF coach in person or over the phone more frequently than funders did (see Exhibit 3 below).

Exhibit 3. NFF Coaching Frequency (N=21)



“The workshops were a great general working space, but the coaching and the individual support we received in evaluating our financial tools were critical.”

–Nonprofit Participant

Many nonprofit participants felt that the individual coaching they received was an indispensable element of the pilot. According to one nonprofit participant, “the workshops were a great general working space but the coaching and the individual support we received in evaluating our financial tools were critical.” Funders also felt the group coaching they received was particularly useful in helping them know what questions to ask nonprofits about their financials, and how to ask. As one funder participant put it, “[about the coaching] it was very helpful to have that time to dive more deeply and raise questions on things that were brought up at the workshops and how our foundation would use the information we learned.”

While many participants left the workshops feeling energized about the full cost concepts, some felt the next steps for incorporating it in their work were unclear. The coaching was therefore a key aspect of the pilot that helped show many participants how to begin applying the skills and concepts they had learned. “I really liked that there was individual coaching after the trainings and workshops so you can begin applying the learnings to your own organization’s fiscal needs.”

Follow-Up Convening

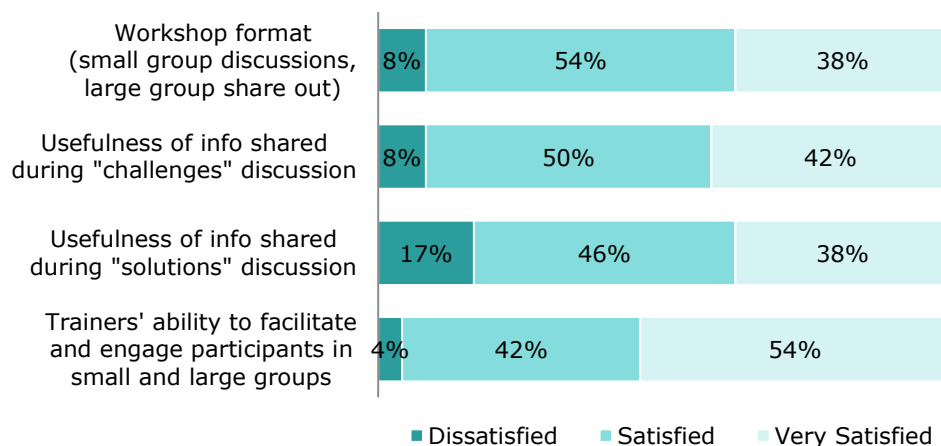
Nonprofits and funders reconvened for a half day in June 2016 for a more informal session to continue building trust and to reflect on discussion points from the Financial Training Workshop. During the Follow-Up Convening, NFF staff facilitated small and large group discussions between funders and nonprofits regarding the successes and challenges of applying full cost concepts in their work and brainstormed solutions (see Appendix III for NFF’s summary of what was discussed). These exercises aimed to further capacity building around effective communication and advocacy for full cost funding.

Of the 48 individuals who attended the Follow-Up Convening, about three-fourths (77%) had also attended the Financial Training Workshop; the rest were from organizations represented at the Financial Training Workshop. Overall, a large majority of participants who completed the survey were satisfied with the Follow-Up Convening (see Exhibit 4 below). Participants were most satisfied with the NFF facilitators’ ability to engage and guide the large and small group discussions. Additionally, almost all (95%) survey respondents agreed or strongly agreed that the format of the second workshop allowed for meaningful discussions regarding the successes and challenges of applying, communicating and advocating for a full cost approach.

“[The Follow-Up Convening] provided another great opportunity for nonprofits and funders to have a meaningful dialogue about the restraints of the current system and offered a chance to consider the alternatives through a valuation of full costs.”

–Nonprofit Participant

Exhibit 4. Follow-Up Convening – Participant Satisfaction (N=24)



When asked about the timing of the Follow-Up Convening relative to the Financial Training Workshop, most participants felt it was conducted at the right time considering their organization's progress on incorporating full cost concepts. However, some felt that they or other organizations they spoke with during the Follow-Up Convening had not yet been able to apply the concepts learned at the Financial Training Workshop. As one funder participant put it, "I think perhaps there wasn't enough time for participants to fully apply the concepts learned in the first workshop to be able to discuss to a great extent or with specific detail the types of challenges and solutions they may have faced in trying to implement full cost practices." Additionally, some participants had not yet received individual coaching, which many felt was a key element to begin applying full cost concepts to their own organization.

In general, nonprofit staff members were more satisfied with the Follow-Up Convening than funder staff were. A few funder participants mentioned that they greatly appreciated the willingness of participants to open up and speak about difficult topics during the Financial Training Workshop, and that the Follow-Up Convening did not provide the same opportunity or safe space to do so. As one put it, "the most valuable aspect of the April session was the unexpected and honest shares by the nonprofits. There was no time in [the second workshop] to foster similar openness from the funders." Another funder felt that some nonprofit participants were less willing to share in the large group share-outs and needed further encouragement.

Overall Pilot Feedback

Participants generally felt that the sequencing of content and activities worked well. While participants reported that many aspects of the pilot were very useful, some key elements rose to the top as the most helpful. In particular, respondents felt the development of shared full cost terminology was critical in fostering effective communication around full cost concepts. As one nonprofit participant put it, "I think the language that this whole project has given me has been empowering – how to talk about finances and how to facilitate this discussion." Many respondents felt that redefining terms and making sure both funders and nonprofits were on the same page regarding the various components used to calculate the full cost of running a nonprofit was very helpful.

They also valued hands-on activities that reinforced the concept of full cost. Several mentioned how breaking down full cost using a pie chart helped them consider components they often left out of their funding considerations (e.g., reserves, change capital, and unfunded expenses). Others mentioned that the small group case study exercise was a good way to solidify their understanding of how to calculate full cost.

Additionally, many participants felt that having representatives from both nonprofit organizations and funding agencies engaging in this conversation together was a very powerful element of the pilot. Nonprofit participants felt it was important to see that funders were open to engaging in this conversation, and viewed the workshops as a safe space to do so. Many also appreciated the opportunity to practice speaking about their finances using the full cost lens with funders and other nonprofits. For many nonprofit participants, it was refreshing to be able to explain the issues and challenges they face directly to funders using the full cost lens. Participants from funder organizations agreed that having clear definitions of what full cost means helped foster effective communication with the nonprofit organizations they work with. 📌

Most Useful Elements of the Pilot

- Creating a shared understanding of full cost terminology
- Using visual aids to break down the various components of "Full Cost"
- Engaging in small group exercises to practice full cost concepts
- NFF individualized coaching to apply full cost concepts to specific organizational needs
- Structuring the pilot as a joint learning space for both funders and nonprofits

Applying the Full Cost Model

This section focuses on the successes and challenges participants faced when applying the concepts learned throughout the pilot to their individual organizations. Their combined feedback provides increased understanding on the barriers organizations must overcome to fully implement the Full Cost model in their work.

Early Successes

Participants in the Full Cost Funder/Grantee pilot experienced varied levels of success in applying full cost concepts in their organizations. Some felt that they were immediately able to more clearly and confidently discuss the financial needs of their organization with other staff or board members and even funders using the full cost lens. One nonprofit representative said “it is refreshing to hear that I’m not alone in my frustrations with calculating overhead – it has been really helpful in communicating this within our organization.” Others mentioned that being able to calculate full costs allowed them to do long term planning and prioritization. For example, one nonprofit participant feels that they can begin to combine activities from the strategic plan with the financial elements discussed throughout the pilot, resulting in better predictions and goals.

Because organizations were still in the early stages of understanding and applying the full cost approach, they did not yet have enough time to begin seeing the results and benefit of this work. We expect that additional follow up at a future date might more fully demonstrate participants’ ability to successfully implement the Full Cost approach. However, many participants felt that the Full Cost Funder/Grantee Pilot was a critical step in strengthening their organizations. As one nonprofit participant said, “For us, it really has been transformative. This training has been a catalyst that will take this organization to a healthier and more sustainable place.”

Key Challenges

The most common challenge in applying the full cost approach, for both nonprofits and funders, was having the time and capacity to incorporate new tools, systems, and procedures. According to one nonprofit participant, “it takes us time to adapt the tools we’ve had and then to be able to make sure they’re applicable and useful, and that my team is trained on them.” Additionally, some nonprofit participants mentioned having difficulties adapting their existing funding categories for other funders within their financial tracking systems to match the full cost “buckets.” For example, one nonprofit uses the Data Arts tool (formerly known as the Cultural Data Project tool) to track their financials. Arts-focused organizations and grantmakers can use this tool to share and access grantee finances in a streamlined process. Adjusting to a full cost model has been difficult for organizations using this database because it classifies expenses differently. For one nonprofit organization, “the problem is that we built all of our account listings and accounts based on the categories on the Data Arts tool. ‘Internet’ for us is like a utility. ‘Website’ is something very different, a marketing tool. But they’re lumped together on the Data Arts tool. [...] This has made it a little difficult to implement the full cost approach.”

“We have a very comprehensive strategic plan, but one missing element was the cost. Now I can begin to combine some elements and activities from the strategic plan with the financial elements, so I have better predictions and goals.”

–Nonprofit Participant

A few of the nonprofit interviewees also described the difficulty of speaking to funders who were not informed or engaged in the full cost discussion. One nonprofit asked to expand the training to focus on outreach and communication with other funders: “Who are those funders? How do you talk to those funders about what you are going through? What are the next steps? You’ve gotten all this learning and knowledge, but what do you do now? I would have liked more coaching and training on interacting with new funders and identifying them.”

Funder participants felt that they needed to allocate more time to incorporating full cost discussions into their communication with current and future grantees. As one said, “it would be helpful to have [the full cost] conversation with everyone in our portfolio who could use this [information] when they go to other funders.” Another funder mentioned, “Organizations that already understand what Full Cost is have a lot of questions when we do our reviews and site visits. How do I succinctly explain that it is not at that point [during site visits], when I already have limited time, that I need the details?” 🇺🇸

Challenges in Applying the Full Cost approach

For Nonprofits:

- Limited time and capacity to adapt internal tools, systems, and procedures
- Adapting current financial tracking systems while still meeting other funder requirements
- Identifying and working with funders who are not using a full cost approach

For Funders:

- Incorporating full cost discussions into their communication with current and future grantees

Strengthening Relationships and Communication

One of the primary goals of the Full Cost Funder/Grantee Pilot was to help strengthen the relationship and level of communication between nonprofit organizations and funding agencies. This section focuses on the elements of the pilot that were most beneficial in accomplishing that goal.

Face to Face Engagement and Co-Learning

Almost every interviewee felt that having funders and nonprofits in the same room at the same table was crucial in building a trusting and positive relationship. One nonprofit participant said that “[the Pilot] is almost like an equalizer. It brings funders and grantees on the same level when it comes to communication.” Because the workshops provided a space for funders and nonprofit staff to interact in person, participants were able to open the conversation to broader issues and build higher levels of trust. “The funders have come away knowing each organization,” said one nonprofit participant, “and the people that run those organizations, in a deeper way. That facilitates the funding process. Usually our communication with funders is via email, phone, or proposals in the mail. But we hardly ever are able to sit face to face and talk about not only immediate issues, but bigger issues together as thought partners.”

While it was challenging for some, most nonprofit participants mentioned that they felt safe speaking about their financial weaknesses due to this level of trust. As one funder noticed, “it was great that a lot of them [nonprofit participants] were open to speaking about things that are difficult to say when a funder is in a room. It demonstrated how hard it is for nonprofits to talk candidly in front of funders.”

Increased Capacity and Willingness to Communicate about Full Costs

Nonprofit interviewees felt that the pilot helped them engage in an open discussion with funders about the true costs of running a nonprofit. Some nonprofit participants already recognized the value of using the full cost lens to view their finances, but were unsure if funders felt the same way. For some, the pilot showed that funders were interested in learning about the true costs of running a nonprofit organization. “Going into this was really a breath of fresh air,” said one nonprofit participant, “to hear from a funder’s perspective, and hearing them recognize that there is a little bit of a cultural flaw in how we’re communicating about [overhead costs].”

Additionally, many nonprofit participants felt that simply knowing how to talk about their finances using the full cost lens made communicating with funders significantly less daunting. According to one nonprofit participant, “the coaching and training helps you to really be able to fully understand your own financial story and how confident you are telling it. We are able to estimate the true cost of running [our organization] so when we are applying to grants we actually know what gaps we have and what we can have funded by certain funders.”

“Simply having everyone in the same room has been really powerful. It was interesting and helpful to talk to grantees and hear their perspective. It was great that a lot of them were open to speaking about things that are difficult to say when a funder is in the room.”

–Funder Participant

Funders' Role in Creating a Safe Space

For many nonprofit participants, the funders played an important role in ensuring that all the participants felt safe to discuss challenging topics throughout the pilot. While the power dynamic between funders and grantees could have inhibited open communication, several nonprofits recognized that the funders participating in the pilot were genuinely interested in learning and improving the way they worked with grantees. One nonprofit participant felt that “the opportunity to sit down with funders and think with them has been amazing. I feel more confident and empowered that these are folks that I could talk to honestly and even present challenges to. They are my thought partners in helping us solve challenges we need to meet.” Funder participants agreed that demonstrating their willingness to consider the full costs of a nonprofit organization helped nonprofit participants feel comfortable speaking about their financial challenges. According to one funder participant, “the fact that a funder would pay for a training that promotes the idea of full cost, and invites the grantee into the conversation with the understanding that funders want to look at the full cost, that in and of itself encouraged nonprofits to participate because the funders are saying ‘we want to understand you better’. The nonprofits feel appreciated for what they do.” 🏠

“The humility of both funders and nonprofits going into that room was key – their willingness to just learn, and being willing to admit that both funders and nonprofits can do this better.”
–Nonprofit Participant

Expanding the Full Cost Initiative

As efforts to advocate for full cost recovery continue to spread throughout the state and beyond, one key area of learning from this pilot is how it could be expanded to new audiences and at a larger scale. This section summarizes the advice and recommendations provided by nonprofit and funder participants on next steps to take to promote the full cost approach to broader audiences.

Promoting Full Cost Thinking in the Sector

Both nonprofit and funder participants noted that future efforts to expand the full cost approach should focus first on promoting an ideological shift toward full cost thinking in funders and nonprofits. "The full cost conversation," said one funder participant, "has to be presented within the context of the larger approach to be empathetic to nonprofits, the question of overhead and how we think about it, et cetera. It requires a much broader context for getting to why the full cost is important." Several participants also suggested that demonstrating the benefits of incorporating the full cost model through case studies or by highlighting nonprofit stories would increase other nonprofits' and funders' interest in the full cost approach. "I think that the idea of presenting the benefits of this initiative, presenting some case studies on how this initiative has been benefiting the organizations that participated, will show others [the initiative's] worth."

Strategic Selection of Participants

Many participants felt that this pilot could be appropriate for a different group of funders and nonprofits, as long as they were all willing to learn and prepared to have this conversation. For this reason, several interviewees felt that the selection of who attends this type of discussion needs to be very intentional in order to create a safe space and to foster positive relations. One funder participant suggested that "there might need to be an assessment of funders to determine if they would be a good fit for this discussion. A question to ask might be 'How comfortable would you be talking to a grantee about their debt repayment or their limited lack of reserves?' It depends on what the culture is at the funder [agency]."


Participants also recommended that nonprofits participating in future iterations of the pilot send a variety of staff and board members to help introduce the full cost approach to people at every level within their organization. "It was critical to have my board involved," said a nonprofit participant. "Having my board member attend helped enormously. He was able to effectively communicate the concepts to the board throughout the process, which kept them engaged."

Ongoing Training and Information Sessions

Several participants felt that ongoing or regular trainings and informational webinars would be useful in promoting the full cost approach to other nonprofit organizations and funding agencies. One nonprofit participant suggested requiring grant applicants "to attend a 2-3 hour webinar or training that helps define full cost." Other participants suggested holding monthly or annual webinars in order to keep the dialogue open and further promote these discussions.

"As complex as it is, it's that deeper philosophical shift towards Full Cost that needs to be approached first, ideally by someone who has stature or leadership capacity in the sector, like the Weingart Foundation, that starts to bring people over who haven't thought about it or aren't naturally inclined to think about Full Cost."

—Funder Participant

As shown in the Financial Training Workshop survey results, the FLC also appeared to be an important precursor to the pilot for several of the pilot participants as a way to prepare them for the full cost training. Additionally, as part of the FLC, NFF conducted financial diagnostics on all pilot participant organizations. These analyses detailed three to five years of participating organizations' financial performance and helped NFF identify trends and insights around revenue, expense, profitability, balance sheet composition and liquidity. Having this information helped NFF provide targeted support during the Full Cost pilot. Future full cost capacity building efforts would likely benefit from having this level of information about their participants' financial backgrounds. 

Conclusion

When the Weingart Foundation, the California Community Foundation, and the Nonprofit Finance Fund developed the approach for the Full Cost Capacity Building Pilot, they hoped to address the following needs:

1. Nonprofits needed training and tools to help them correctly calculate the full costs of their programs.
2. Funders needed to examine their current practices and policies – both formal and informal – to better understand how these practices are impacting the health, sustainability, and effectiveness of their grantees.
3. Funders and nonprofits needed to engage in more honest and transparent conversations about the full cost of the programs they both want to support.

As found through the participant surveys and interviews, the Financial Training Workshop, Follow-Up Convening, and ongoing individual coaching largely met these needs. Participants in this pilot learned how to calculate full cost and received individual tools and training to help them apply what they learned. The workshops brought funders and nonprofits together to develop a shared understanding of full cost concepts in a safe space. Overall, the pilot was an effective way to build the capacity of nonprofits and funders to begin incorporating the full cost approach into their work and to communicate and advocate for full cost.

However, during the early stages of implementation, the impact of this pilot seems to be largely limited to those who attended. Both nonprofit and funder participants indicated that while they were more comfortable applying full cost concepts within their organizations and speaking about it with others who participated in the pilot, there were still barriers to engaging with funders and grantees that did not. Nonprofits continue to struggle to find and work with funders who focus primarily on programming costs. Funders have to adjust their grantmaking procedures to allow time to discuss full cost concepts with current and future grantees. Overall, more training, information-sharing, and nonprofit/funder conversations will be required to further promote the full cost approach and expand this initiative to others in the sector.

Helping nonprofits and funders to understand the full cost of programs and operations is critical to building a stronger and more effective nonprofit sector. The findings of this evaluation can be used to inform the development of this and future initiatives to support the work of local and statewide full cost initiatives. 🏠

Appendix I: Financial Leadership Clinic Background

Financial Leadership Clinics (FLCs) are a **market-tested, peer-learning approach first launched in the fall of 2007 as a way to provide cost effective intervention for small to mid-sized organizations for the Greater Springfield Community Foundation in Massachusetts**. NFF has continued to refine the FLC model, and has successfully implemented FLCs around the country with funding from foundations such as Kellogg, the William Penn Foundation, the Ford Foundation, the James Irvine Foundation and the Boston Foundation. Through the FLCs, NFF works with up to 6 organizations per cohort in a peer-based, peer-learning setting to learn fundamental finance concepts that drive nonprofit adaptability and strength. Nonprofit leaders apply these concepts to their individual organizational realities through the development of a data-based narrative that tells the financial story of their organizations. This two-day session, generally attended by the organization's Executive and Finance Director as well as a Board Member, will include the following components:

- A financial diagnostic prepared for each organization, detailing three to five years of financial performance, specifically identifying trends and insights in revenue, expense, profitability, balance sheet composition, and liquidity;
- Training attendees on core financial concepts including interpreting financial statements and identifying business model drivers from financial information;
- Introduce financial planning approaches and management tools that help leadership and management make sound decisions for the overall health of the enterprise and its programs, including budgeting and cash flow management;
- Presentations by each organization to the larger cohort on the second day of the clinic detailing their current financial condition and opportunities and risks for the coming year(s).

Optimally, organizations that have audited financial statements are best suited for NFF's FLCs (and follow on one-on-one technical assistance). Organizations with audited financials often indicate a size and institutional capacity necessary for partnering with NFF in both the FLC and the follow on customized technical assistance. Additionally, our ability to use audited financials generally results in better data analysis and trend information.

Prior to the FLC, we collect 3 to 5 years of financial information on the organizations and prepare slides that graphically depict the trends for each organization's financial information. Within the context of the FLC, the slides are a tool that help leaders immediately apply conceptual financial information to the context of their own organization. FLC participants work with their slides and their own colleagues, with support from NFF staff, to "tell the story" of their organization's financial situation. Learning is enhanced by hearing other organizations tell their financial stories using their slides. Beyond the FLC, the slide presentations can be refined for use in ongoing conversations with their Boards,

staff and other stakeholders. It has been our experience that many FLC participants use their slide presentations soon after the FLC at board, staff, or funder meetings.

Through the use of real-life case studies and the participants' specific financial information, NFF provides nonprofit leaders with an improved understanding of their organizations' core capacities, underlying business dynamics and financial condition. Leadership will leave the FLC with new ways to analyze and interpret financial assessments as well as language and frameworks to articulate the organization's story and resource needs to staff, board members, potential funders and other stakeholders. It is the intent of the FLC, and all of NFF's work, that financially-based data will equip leaders to plan for the future and make decisions that strengthen the overall health of their organization.

In addition, the peer learning, conversation, and strategic sharing that occurs as part of these conversations has been market tested over several years and has been uniformly very well received. The FLC is designed to encourage feedback and discussion of common challenges faced in the sector.

All of the grantee organizations fully engaged in the FLCs can expect the following outcomes:

- A greater awareness and understanding of their organizations' financial health and trends;
- Improved capacity to employ better planning and budgeting practices;
- An electronic copy and instruction in the use of a PowerPoint presentation detailing their organization's financials in various charts;
- A workable knowledge and preliminary practice in the use of nonprofit strategic financial management concepts and practices; (This will establish the basis for productive conversations on the individual organizational assessments, scoping and work plans for the one-on-one engagements each organization will have with NFF following the FLCs.)
- A framework (that includes the graphs, observations and next steps) that serves as a tool for communicating its financial condition and needs to board members, staff, funders and other important constituencies.

Appendix II: Financial Training Workshop Slides

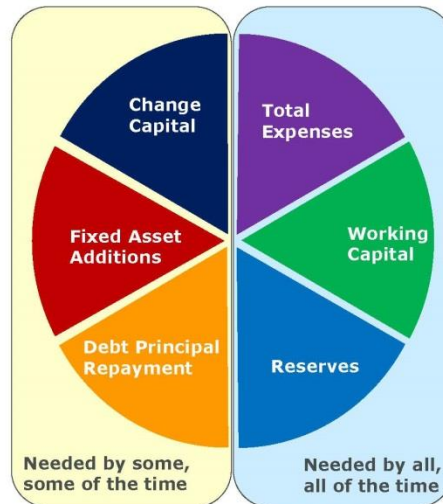
Applying Full Cost in Context



- Full cost needs are unique to each organization
- Full cost needs change over time

Invitation to stop and ask:

- Which full cost 'slices' apply to my organization/grantee?
- In what way?
- Which 'slices' do I/they have covered?
- Which 'slices' are priority?



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About Expenses



Expenses

- Found on the income statement
- Include:
 - Operating and non-operating expenses
 - Depreciation
 - Ongoing cost of impact measurement and some upfront costs of impact measurement
 - 'Direct' program expenses
 - 'Indirect' / 'overhead' expenses
- Unfunded expenses



Total Expenses are NOT

- Any purchase that is capitalized
- Repaying debt

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1

Defining 'Unfunded Expenses'



Unfunded Expenses = Expenses that are not currently incurred, but, if covered, would allow the organization to work at their current level in a way that is reasonable and fair.

- 'Sweat equity' – overworking and underpaying staff – is the most common example, such as:
 - The gap between current wages and fair wages *for the exact same amount of work*
 - The cost to hire a 20hr/week assistant that would allow the ED to reduce her time from 60hr/week to 40hr/week
- Other examples: sub-par supplies, slow internet

Unfunded expenses are NOT

- Expenses to expand or do more

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2

About Working Capital



Working Capital

- Dollars to cover *predictable* timing of cash ebbs and flows
- Dollars to continue business operations if receivables are late or bills must be paid early
- Needed by all organizations
- Amount needed varies by organization
- Easily accessible to management (i.e. in the checking account, not restricted or strictly designated)
- Connected to cash flow planning/projections



Working Capital is NOT

- Dollars to cover lost revenue, unplanned expenses, or deficits

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3

About Reserves



Reserves

- Dollars used and eventually replenished
- Often board designated
- Example of intended uses
 - *Operating reserve* to protect the organization from risk by covering short-term deficits
 - Lost funding, unexpected expense, leadership transition
 - *Facilities reserve* to maintain building and equipment, pay for repairs and/or replacement
 - *R&D reserve* to allow for trial and error
 - Take artistic risk, investigate new program approach
 - *Investment reserve* to generate revenue



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About Reserves (continued)



Reserves

- Reserves are need by all, but size and purpose varies by organization
- Accessible to management under certain conditions
 - May require board approval to spend
 - May be held as cash in savings account, or as investments that can be liquidated in a reasonable timeframe



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About Debt Principal Repayment



Debt Principal Repayment

- Dollars to pay down debt
- Debt can be
 - Line of credit
 - Mortgage
 - Loans from board members
 - Other forms of borrowing
- Debt can be a valuable financing tool, but there must be a plan to repay it
- Repayment is commonly financed through year-to-year surpluses



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About Fixed Asset Additions



Fixed Asset Additions

- Purchase of new equipment, buildings, furniture, land, leaseholder improvements, etc.

Fixed Asset Additions are NOT

- Replacement or simple maintenance of existing fixed assets
 - Save for replacement in reserves
- Small equipment purchases that won't be depreciated
 - Small purchases are expensed



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About Change Capital



Change Capital

- *Periodic* reinvestment into the organization to change its business model (i.e. the size or reach of mission and/or how it makes and spends money)
- Covers up-front costs of change *and* deficits until new business model revenue exceeds new business model expenses
 - Should include funds for the launch/scale of revenue-generating activities that will sustain organization when change capital is spent
- Typically large, flexible, multi-year funding from an external source



Change Capital is NOT

- Self-funded, organic growth

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Prioritizing Full Cost Needs



First Priority: Expenses

- Pays for year-to-year mission delivery
- Sector is generally stuck discussing expenses:
 - Concerns about 'overhead' have limited ability to pay for necessary day-to-day expenses
 - Wages and benefits are unsustainably low



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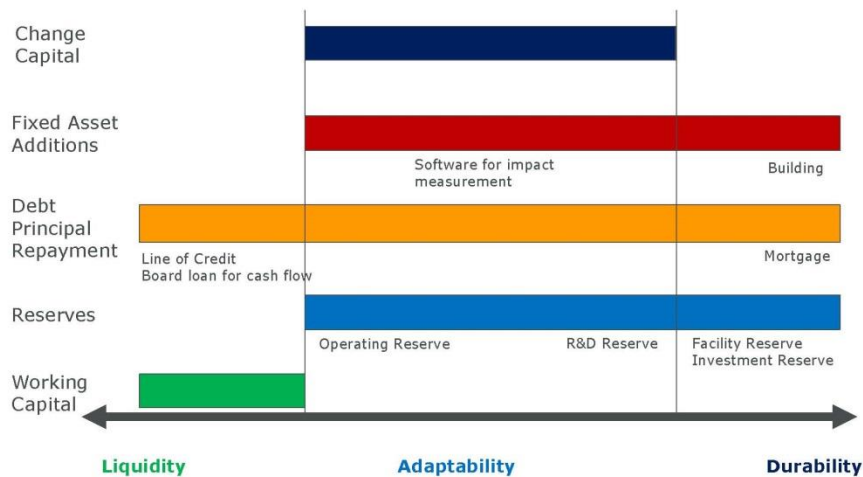
Prioritizing Full Cost Needs (cont.)



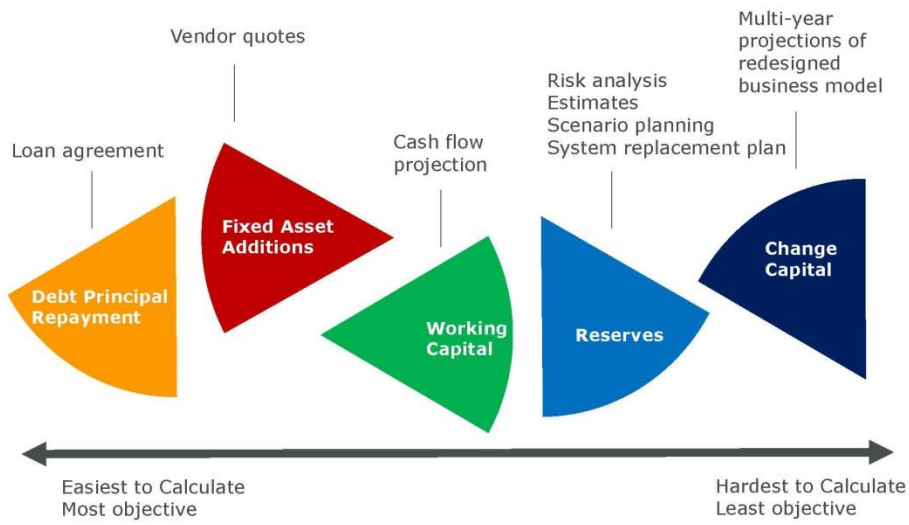
Capitalization has a hierarchy of need

- **Liquidity**
 - Does the organization have adequate cash to meet its month-to-month operating needs?
- **Adaptability**
 - Does the organization have flexible funds that allow for adjustments, growth, or change?
- **Durability**
 - Does the organization have access to funds to address a variety of future needs to deliver mission over the long-term?

How do Full Cost 'Slices' Meet Capitalization Needs?

Calculating Full Cost Needs



Appendix III: NFF

Summary Notes of Follow-Up Convening

Full Cost Pilot: Building a Community of Practice
Session #2 Notes
June 14, 2016

Challenges

- Overwhelming feeling of "what comes next" and how do we get there?
- Staff hiring, retention (expertise compensation)
- Covering operations expenses alone is a challenge
- Balancing and prioritizing (competing) demands (time!) to calculate, implement, etc.
- Conversation focusing on what's "sexy"
- Engaging in full cost work is time intensive – how do we involve others in this work? (Other funders, nonprofits, accounting orgs.) Bring it to SCALE
- Limitations of certain funding policies (single vs. multi-year; gov't funding, etc.)
- Culture of "unfunded" activities
- NPO systems accessing the right data to calculate and track full cost (in a timely manner) (ex: accounting systems and requirements)
- Dynamic of evolving funder priorities (given long-term horizon of full cost coverage)
- Funder requirements imposed without (or prior to) discussion with nonprofits
- Covering full costs when managing change, growth and meeting rising demand
- Funders having access to the right data to discuss full costs

Successes

- Changing budgeting to include components of full costs (examples: depreciation, reserve)
- Educating staff and board
- Embracing full costs among program and executive staff
- Discipline around funding that may not cover full cost (negotiation/decline)
- Using framework of full costs to approach different supporters (i.e. venture philanthropy)
- Leveraging the FC pilot in conversations with funders and covering FCs
- Developing and using a common language and understanding importance of conversation
- Deeper understanding of implications of business choices
- Recognizing and addressing "unfunded" activities
- Incorporating FC in earlier stage discussions around staffing, program changes, as well as strategic planning (ex: growth)
- Shifting conversation to an organization's broader needs (vs a single program or grant)

Solutions

- "Flip" your funder
 - Funders create safe space – be transparent
 - Be honest
- Familiarity with metrics
- Ask and talk about these issues
- Boards and foundations to be more familiar
- Collective action (nonprofit and funders)
- Embrace awkwardness
- Funders walk the walk

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Full Cost Pilot: Building a Community of Practice
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- Communications
 - Orgs talk to other orgs
 - Funders talk to other funders
- Funder education on full costs
 - More education on nonprofit financials
 - Ask grantee for financial story
- Change culture (board, staff, funders)
- Change policies on funding nonprofits
 - Advocacy
 - Public awareness
- Advocacy (nonprofits and funders together)
- Common language (glossary across funders)
- Multi-year budgeting – for orgs
 - Multi-year funding from funders
- Integrate full costs to strategic planning
- Funders provide support and resources
- System shift – funders take the lead
- Nonprofit consultants – bring them along
- Spread the knowledge to other funders
 - Southern California Grantmakers
 - Grantmaking associations
 - Education/training
- Work with “big” orgs to shift the conversation
- “Resetting” expectations as a funder - don’t expect perfection
- Move from nonprofit to “for purpose” sector
- Funders give capacity building grants to help orgs build understanding
- Board members with financial expertise to help
- Budgeting process to include full costs
- Change government funding practices
- Flexible, multi-year funding
- Funders ask about full costs
- Get accountants and auditors on board

Solutions (by table)

TABLE 1

- Flexible multi-year unrestricted support
- Build in full-cost into programmatic asks
- Get auditors on board

TABLE 3

- Communication - to spread concepts
From org internally to: org to org; funder to funder; and org to funders

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- Transition funding, unrestricted funding, etc. – funder convenings of other funders
- More understanding and knowledge of finances (nonprofits by foundations and by business models)
 - Ask nonprofits for financial story rather than just financial docs

TABLE 4

- Collective action by 1) nonprofits and 2) foundations – we are partners
- Budget time as well as money
- Embrace awkwardness
- Funders: walk the talk
- Know/ "flip" your funder
- Capitalize on growing awareness of full cost
- Honesty with funders, funders create a "safe space"
- Familiarity with metrics
- Just ask, initiate conversation
- Board/foundations need to be supportive
- Find root cause of structural cash flow difficulty (indirect costs, reimbursements, etc.)

TABLE 5

- Changing minds and hearts (culture change)
- Education and information (funders, board members, and staff)
- Understand policy change
- Advocacy to change policy on government grants **to cover full cost** in timeline of payments
- Having more trainings like Full Cost Pilot with more nonprofits and foundations
- Public awareness to the FCP
- Organize a nonprofit sector to advocate for policy and culture change to cover full cost
- Nonprofits allied to foundations who understand full cost
- Start with the nonprofits and foundations in this group
- Expand our network

TABLE 6

- Planning – integrated plan to get to full cost/funding
- Cultivate shift in how dollars are spent – policy needed to guide how dollars are allocated to cover full cost
 - Requires involving all board/staff
- Funders need to provide money/TA to continue this work - fundraising, investing seed money to invest time
- Funders need to remain partners
- Engaging funders in understanding implications of sweat equity – being understated – lost opportunities b/c staff overworked
- Funder/donor mentality needs to shift - nonprofit staff needs to be professionally compensated – whole system shift: funders, donors all need to shift to understand full cost and implications of status quo
- Funders need to take lead in education rest of sector (funders/donors)
- Funders/donors need to understand full cost

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- Strategic planning needs to include full cost piece as part of what we do more from just focus on program goals (Consultants don't even bring this up when helping on strategic planning)
- Funders need to be transparent about what they are willing to support

TABLE 7

- Influencing contracts and negotiations – with larger organizations in sector who drive the conversations “too big to fail”
- Changing Board culture
 - Board development and training
 - Having POs help reinforce the message, if/when appropriate
- Present concept at Southern California Grantmakers conference, foundation convenings
- Fine tune ways that funders request financial information (Qs that give permission to get into full cost conversation)

TABLE 8

- Building shared language/glossary
- Multi-year budgeting **and** multi-year funding
- Educate funders (peer education)
- Integrate full-cost conversation w/strategic planning processes

TABLE 9

- Candor, trust, impact? Consequences?
- Re-setting expectations around nonprofit financial norms
- Resetting these expectations plus education reframe and empower the “for-purpose” sector
- Financials only give questions, not answers
- Funders supporting core infrastructure and capacity
- In the interim...other resources available? TA? Volunteers?

Table 10

- Change budgeting process to include full cost
- Connect strategic plan to full cost
- Change government funding practices (method TBD)
- More educational workshops for funders that include nonprofits telling their stories of why it's tough
- Shortened training for board and staff

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Personal Action Steps

- Revisit budgets with staff so that they have a better understanding of what goes into "keeping the doors open" ☺ Invite them to be a part of full cost conversations within the budgets they work in for more buy-in
- Replace assumptions and silence with thoughtful questions
- Approach work with full costs lens and perspective
- Raise full cost in conversations with peers in "for-purpose" sector
- Share NPQ full cost article
- Reinforce importance of full cost conversation with Board members at site visits (give support to EDs who are working to change Board culture)
- More intentionally communicate our full-cost needs with current funders
- Better understand what our full-cost is and how to effectively communicate it
- Plug NFF and the full cost pilot/language/understanding in meetings with other nonprofits to empower our partners to name and ask for what they actually need
- Start referring to ourselves as "for-purpose" organizations
- Work with Southern California Grantmakers to make sure some of the nonprofits in this cohort can share their challenges and successes with more funders in the region
- I will prepare a "full cost" budget for FY 2017 and present it to management team
- Have full cost conversation with other funders about opportunity to support this
- Fully utilize 1-1 with Brian Kellaway (NFF coaching)
- I am committed to ensuring that I have tough conversations with private donors in order to extend the opportunity for them to help strengthen the work
- Ask NFF for an example of what a full cost grant proposal (or grant) would look like
- Link full cost article in my email signature
- Train consultants in other initiative on full cost #fullcostrevolution
- Continue to share the full cost story with all peer funders
- Ask a fellow funder: "What are you doing/learning about the full costs of your partners?"
- Present full costs budget to Board
- Share learning of the workshops with staff
- Mention full cost to at least one other funder (other than CCF and Weingart) to trigger a discussion
- Consider full costs during all steps of the budgeting process
- Continue to learn the differences of the full cost pie
- Continue to ask grantees if their budgets reflect the "full costs" and ask how to else we can be supportive
- Continue to find ways to articulate that our organization works by way of collective action, and our budgets should reflect that
- Work with CARECEN board to understand the need to 1) integrate full cost in the budget and 2) help fundraise to meet the challenge
- Publish the full cost article in both my personal social media page as well as our organization's page
- Share it with my nonprofit friends as well as those I know in the accounting and financial sector
- Share with fellow staff members and member organizations
- Improve budget planning to make sure departmental leaders include all costs to run their programs and do an audit of the building to see what expenses will come out
- Meet with managers to go over full costs that we need to keep in mind
- Share Claire's full cost article with all my applicants

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- Compile a list of "full cost" resources for myself and my applicants and grantees
- Start the full cost conversation with our longtime funders (who know us and what our org looks like) as we renew – getting the ball rolling on educating!
- Encourage the 8 community foundation partners within the Community Philanthropy Initiative to hold a full-cost training as part of an upcoming convening
- Better understand full costs myself
- Help org identify unfunded expenses/hidden costs
- Develop fundraising plan to meet targets (that may have increased b/c of full costs) by: 1) identifying funders who will offer flexible support; and 2) begin conversations regarding full costs w/ existing funders
- To create the proper team so the organization can best embrace the full cost work model
- Have a "full cost" conversation with next cohort of grantees (Dec docket)
- Begin to look at opportunities to engage other funders in conversation
- Encourage and inspire staff to be confident, engaged, and excited about full costs #fullcostrevolution
- Be aware for every new project or grant what the full cost actually is and push to make sure we have some idea of how the full costs will be funded
- I will do my best to inform the board of what I learned today until all of them, or the majority, see our point of view regarding Full Cost
- Be confident to present the full cost to different audiences
- Email everyone in the room SSIR article and NFF-Weingart response and give anyone interested in the getting more involved a way to do so
- Think about how to incorporate other parts of the system: CPAs, consultants, auditors, MSOs, higher education programs
- Post article on LinkedIn
- Bring up full cost with nonprofit networks I belong to
- Start strategic planning with full cost planning
- Train all program managers and board members on FC framing
- Orient new key staff in Finance and Development on new framing (making lemonade from lemons)
- Invite NFF to address nonprofit community at Mercado la Paloma (critical mass of diverse nonprofits)
- Describe our full costs in an upcoming meeting with a funder (not Weingart or CCF) and the value of NFF's process these past 6 months
- Continue my education of full costs to further understand its implications on the nonprofit organizations applying for grants
- Include a full cost conversation in our current strategic planning work
- Convene a small group of supporters and individual donors to talk about our organization's full costs and secure their help to raise money for working capital and reserve
- Continue to increase my knowledge about full costs – ask nonprofits for finance story rather than just financial documents
- Multi-year budget with full cost objectives for fundraising
- From a funder side, I will work to change how my department has conversations with orgs around financials and full cost #Forpurposeorg
- Share and explain full cost "terms" with all of the nonprofits / applicants I engage with in order to begin to build a shared language

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