Welcome to the NFF Workshop!
Below are a few housekeeping items to review before we get started:

Please try dialing in using your phone if you’re having trouble connecting to audio on your computer.

*Find the microphone icon in your Zoom panel → click the ‘up’ arrow → select ‘switch to phone audio’ → dial in on your phone using the number and meeting ID → link your phone and video by dialing #participant ID#*

**Dial In:** (408) 638-0968
**Meeting ID:** 817-5437-3897

**We are recording the main session**

*If you are able, please share your video by pressing ‘Start Video’ in your Zoom panel (shown above)*

You are currently muted to ensure the best possible sound quality. As questions/comments arise, please unmute yourself using the microphone icon in your zoom panel (shown above) or by pressing *6 on your phone. You may also reach out using the question box at any time.

We will answer your questions as you ask them, so please do ask! *If you have a questions, it’s likely someone else is wondering the same thing, too.*
Interpretation Instructions

We are offering Spanish interpretation in this webinar series.

If you would prefer to listen to today’s session in Spanish, you can enable this interpretation by selecting the Interpretation in your bottom bar on your screen, and then select Spanish.

You will be able to move between the Spanish and English audio channels at your convenience, and please note that you will still be able to unmute to ask questions and send messages in the chat at any time.
Understanding Full Cost
Webinar, August 19th 1pm

Facilitated by
Ashley Franks, Senior Associate
Nonprofit Finance Fund
Nonprofit Finance Fund: Where money meets mission

NFF envisions a society where money and knowledge come together to support just and vibrant communities.

Help mission-driven organizations achieve their communities’ aspirations through

- **Tailored capital**
- **Strategic Advice**
- **Accessible Insights**

Guided by our Core Values →

- Leading By Doing
- Rigor Without Attitude
- Equity in Action
- Responsiveness
- Generosity of Spirit
Learning Goals

**Build** shared awareness about the structurally inequitable system in which we operate

Learn how to **communicate** the full cost of an organization and learn how to think about our organizations with a full cost mindset

**Challenge assumptions** about accountability, reasonable costs, power dynamics and privilege to **advance equity and results**
Meeting Agreements

Contribute to a meaningful learning experience

- Every experience is valid; we are here as peers to learn from each other
- In this space, we accept that structural racism and other forms of structural oppression are real
- Invitation to share freely and candidly, and ask questions
- Take care of your needs first
Prioritizing Full Cost Needs
Build financial health over time

Full cost follows a hierarchy of need

3. **Durability** - Can the organization address a variety of future needs to deliver on mission for the long-term?

2. **Adaptability** - Does the organization have flexible funds that allow for adjustments, growth, or change?

1. **Liquidity** - Does the organization have adequate cash to meet its month-to-month operating needs?
What is Full Cost?  
A better way to talk about cost in the nonprofit sector

Full cost names and claims all the financial resources it takes to run an effective organization for the long haul

• Lifts the sector out of the false dichotomy of program vs overhead

• Captures both short- and long-term needs

• Holistic, grounded in context, allows for nuance and change over time

• A tool to advance racial equity
## Total Expenses

<table>
<thead>
<tr>
<th>What they <strong>Are</strong></th>
<th>What they <strong>are Not</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Operating and non-operating expenses</td>
<td>• Any purchase that is capitalized</td>
</tr>
<tr>
<td>• Direct and indirect</td>
<td>• Repaying debt</td>
</tr>
<tr>
<td>• Program and overhead expenses</td>
<td></td>
</tr>
<tr>
<td>• Depreciation</td>
<td></td>
</tr>
<tr>
<td>• Unfunded Expenses*</td>
<td></td>
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</tbody>
</table>
*Defining Unfunded Expenses

Unfunded expenses: expenses that are not currently incurred, but, if covered, would allow the organization to work at its 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: unfilled positions, sub-par supplies, slow internet

Unfunded expenses are not:

Expenses to expand or do more
## Working Capital

<table>
<thead>
<tr>
<th>What It <strong>Is</strong></th>
<th>What It <strong>Is Not</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Dollars to cover predictable timing of cash ebbs &amp; flows</td>
<td>• Dollars to cover lost revenue, unplanned expenses, or deficits</td>
</tr>
<tr>
<td>• Maintains business operations if receivables are late or bills must be paid</td>
<td></td>
</tr>
<tr>
<td>early</td>
<td></td>
</tr>
<tr>
<td>• Easily accessible to management; in the checking account, not restricted or</td>
<td></td>
</tr>
<tr>
<td>strictly designated</td>
<td></td>
</tr>
<tr>
<td>• Needed by all organizations</td>
<td></td>
</tr>
<tr>
<td>• Amount needed varies by organization</td>
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</table>
## Reserves

### What They Are

- Dollars used for a specific purpose; eventually replenished
- Accessible to management under certain conditions; often requires board approval to access
- May be held as cash in savings account, or investments that can be liquidated in a reasonable timeframe

### Examples of designations

- **Operating reserve** that protects from risk by covering short-term deficits
- **Fixed asset reserve** to maintain building & equipment, pay for repairs/replacement
- **R&D reserve** to allow for trial & error (e.g., take artistic risk reserve, investigate new program approach)
- **Investment reserve** to generate revenue
Debt Principal Repayment

What It Is

• Dollars to pay down debt.
• Debt how it may show up/form it:
  • Line of credit
  • Mortgage
  • Loans from board members
  • Other forms of borrowing.
## Fixed Asset Additions

<table>
<thead>
<tr>
<th><strong>What It Is</strong></th>
<th><strong>What It Is Not</strong></th>
</tr>
</thead>
</table>
| • Purchase of NEW equipment, buildings, furniture, land, leaseholder improvements, etc | • Replacement or simple maintenance of existing fixed assets  
• Small equipment purchases that won’t be depreciated |
## Change Capital

| What It **Is** | • Periodic reinvestment into the organization to change its business model (i.e., the size or reach of mission and/or how to make and spend money)  
| | • Typically large, flexible, multi-year funding from an external source |
| What It **Is Not** | • Organic growth |
| **How to Calculate** | • Detailed projections for a surplus-generating business model  
| | • planning/up-front/startup costs for revenue generating activities, programs, and other infrastructure  
| | • Timeline to secure new revenue and revenue sources |
| **Goals to Consider** | • Applying capital to change or build long term resilience and to modify or enhance business models  
| | • Covering up-front costs of change and deficits until new business model revenue exceeds new business model expenses |
When Change Capital Is Helpful

**Change Capital** covers Business Model Deficits: Incurred en route to new business model

**Goal:** Generate surpluses for current capital needs, future change and resiliency

Former business model in need of change

<table>
<thead>
<tr>
<th>Business as Usual</th>
<th>Business-Model Repositioning</th>
<th>Fully-Funded Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>$</td>
<td>$</td>
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</tbody>
</table>

Revenue

Expense
Defining Two Different Types of Money
Nonprofits need both to thrive

<table>
<thead>
<tr>
<th>Buy (revenue)</th>
<th>Build (capital)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Needed every year</td>
<td>• Episodic in nature</td>
</tr>
<tr>
<td>• Reliable, repeatable, and/or replaceable</td>
<td>• Pays for extraordinary needs</td>
</tr>
<tr>
<td>• Covers annual operating costs</td>
<td>• Supports enterprise health</td>
</tr>
<tr>
<td>▪ Pays for services and programs</td>
<td>▪ liquidity</td>
</tr>
<tr>
<td>▪ Pays for organization overhead</td>
<td>▪ adaptability</td>
</tr>
<tr>
<td></td>
<td>▪ durability</td>
</tr>
</tbody>
</table>
Change Capital Is Intended To Support Business Repositioning

Build Capital Consumption Over Time

Total Budget: Successful Launch

2019                2020                2021                2022                2023

- Ordinary Revenue
- Change Capital
When Change Capital is Mis-Applied

Build Capital Consumption Over Time

Total Budget: Chronic Bailouts

Ordinary Revenue

Change Capital

2019                2020                 2021                2022                2023
Confusing Buy and Build Makes Bad Funding Dynamics
Know what kind of money you need/give

• Our sector does not distinguish build money from buy money on financial statements (for-profits do!)

• Lack of clarity creates unrealistic expectations, frustration and disappointment for both nonprofits and funders

• Matching the right kind of money to the need sets us up for greater results and a successful grantor/grantee relationship
## Funder Rights Change with Type of Money Given

Don’t claim builder rights when you make buy grants

### Buyer Rights
What the organization already produces

- Budgets for the years they are funding
- Standard plans and reports (that the organization already produces) for the years they are funding
- Data/evidence for program success that is routinely collected by the organization, reported out on the organization’s standard schedule

### Builder Rights
Negotiated and agreed to upfront

- Multi-year budgets and projections beyond the term of the grant
- Strategic plans beyond the term of the grant, and plans for sustainability post-grant
- Input into data collection/evidence plans and reporting schedules
- Cash flow projections
- Knowledge of other builders and their terms
- Discussion about more than what the organization already does
Reflections

1. Are certain pieces of the full cost framework speaking to your work or organization right now? What does your organization need to thrive?

2. What has your experience been communicating with funders about full cost?

3. Have you thought about what the right-size is for your organization?

4. Describe your ideal organizational structure. How does it differ from your current reality?
### Three ‘Must Haves’ Apply to Every Organization

<table>
<thead>
<tr>
<th><strong>Total Expenses</strong></th>
<th>Operating, non-operating, and unfunded expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Working Capital</strong></td>
<td>Access to cash for day-to-day needs</td>
</tr>
<tr>
<td><strong>Reserves</strong></td>
<td>Savings, a “rainy day” fund</td>
</tr>
<tr>
<td><strong>Debt Principal Repayment</strong></td>
<td>Mortgage, line of credit, etc.</td>
</tr>
<tr>
<td><strong>Fixed Asset Additions</strong></td>
<td>Money to purchase a new building, new computers, or new vehicles</td>
</tr>
<tr>
<td><strong>Change Capital</strong></td>
<td>Resources to adapt, grow, partner, or down-size</td>
</tr>
</tbody>
</table>

**Must haves** for all organizations

**Sometimes** needed by some organizations
Transform the Conversation
One conversation at a time…

<table>
<thead>
<tr>
<th>Advice for Nonprofits</th>
<th>Advice for Funders</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Be open to questions – they help build deeper understanding</td>
<td>▪ Create a safe space by listening and building trust – and remember that trust is built slowly over time</td>
</tr>
<tr>
<td>▪ Avoid making assumptions</td>
<td>▪ Set the tone for open dialogue and honest conversation</td>
</tr>
<tr>
<td>▪ Have strong organizational strategy and communicate it clearly</td>
<td>▪ Avoid making assumptions</td>
</tr>
<tr>
<td>▪ Own your financial story and tell it with confidence</td>
<td>▪ Remember that both debt and deficits can be a result of strategy</td>
</tr>
<tr>
<td>▪ Don’t be afraid to ask for something different or reject something that doesn’t work</td>
<td>▪ Be transparent about your strategy, values, and internal processes</td>
</tr>
<tr>
<td>▪ Know that we are all on the same team in our desire to benefit and positively impact the community</td>
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## Head, Heart, Feet

<table>
<thead>
<tr>
<th>Head</th>
<th>Heart</th>
<th>Feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>What did you <strong>learn</strong> from this workshop?</td>
<td>How did this workshop make you <strong>feel</strong>?</td>
<td>What <strong>actions</strong> will you take?</td>
</tr>
</tbody>
</table>
Discover more full cost resources

Full Cost webpage:

nff.org/full-cost

Conversation Guide:

https://nff.org/file/1159/download?token=PvIop33H

Full Cost Workbook:

https://nff.org/file/1160/download?token=rWKB5_18
Up Next

Economics of Partnership & Collaboration

September 2, 2021, 1 – 2 pm EST

Nonprofits are exploring new ways to work with like-minded organizations. In this webinar, you will learn how to recognize the conditions for successful collaborations, evaluate mission alignment, assess prospects, and facilitate productive conversations with potential partners. NFF will cover the difference between partnership and collaboration, strengths and full costs in partnerships and collaboration, value propositions for collaboration, partnership and collaboration finances, and potential barriers to forming new partnerships.

Outcomes: At the end of this session, participants will be able to recognize the conditions for successful collaborations, evaluate alignment, assess prospects, and facilitate productive conversations with potential partners.
Upcoming Sessions

- **April 15**: Op in Changing World Parts 1 + 2
- **May 13**: Cash Flow Planning
- **June 3**: Telling Your Financial Story
- **June 10**: Understanding Your Mission & Money Mix
- **June 24**: Understanding Full Cost
- **July 1**: Strategic Budgeting & Scenario Planning
- **July 22**: Managing Risk & Opportunities
- **Aug 5**: Financial Leadership for Boards
- **Aug 19**: Economics of Partnerships & Collaboration
- **Sept 2**: Telling Your Financial Story
- **Sept 16**: Financial Leadership for Boards
Thank You!

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nff.org