Elevating Impact
of the Full Cost Pilot
Key Findings from the Full Cost Community of Practice Pilot

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Nonprofit Finance Fund® (NFF®) advances missions and social progress in underserved communities through financing, consulting, partnerships, and knowledge-sharing.

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BACKGROUND

In 2015-2016, Nonprofit Finance Fund (NFF), California Community Foundation (CCF) and Weingart Foundation (Weingart) together launched the Full Cost Community of Practice Pilot (the Pilot), a partnership effort that was designed to test approaches and strengthen the capacity of nonprofits and funders to advocate for full cost recovery. Under the Pilot, a cohort of 12 nonprofit organizations, CCF, and Weingart engaged in dialogue, learned together as peers, and received individual technical assistance to accurately identify and communicate about full cost needs.

PURPOSE OF THIS REPORT

While an evaluation of this initiative was completed immediately after the end of the Pilot showing positive impact, questions remain about how this impact has evolved over time. More specifically, has the Pilot continued to create meaningful change to participating organizations’ operations, operating models, fundraising strategies, and successes? To what extent, if any, has the Pilot influenced other funders in the region?

METHODOLOGY AND APPROACH

With support from Weingart and CCF, NFF set out to answer these questions and explore the longer-term impact of the Pilot on the organization and their experiences with the broader funding field. To facilitate learnings, NFF reached out to all 12 participating organizations for one-hour, exploratory conversations. An interview protocol was established to ensure continuity across conversations. To enhance and complement learnings from the conversations, recent financial statements were used to update the financial trend analysis completed for each organization during the Pilot.

Note that since 2016, one organization has suspended operations and one organization merged with a larger nonprofit. Of the remaining 10 organizations, nine participated in the one-hour interviews and eight submitted financial information. We also interviewed three leaders who participated in the Pilot and have since transitioned to new organizations that did not participate in the Pilot.

A full list of evaluation participants, interview questions, and more details on methodology can be found in the appendix to this report.
What We Learned

Based on the stories shared with participating organizations, the Pilot seems to have led to meaningful change in organizational practices and leaders’ perspectives, indicated by stories that highlight shifts towards more inclusive financial management practices; greater understanding of, and confidence engaging with, financial data; and successes in advocating for full cost coverage either internally with board members and staff or externally with funders.

Stories also highlight barriers or challenges that continue to stymie greater full cost coverage across the nonprofit sector. More specifically, full cost has yet to be widely adopted by the funding community. Further, the way a funder is perceived, sector dynamics, and competition influence whether organizations ask for full cost funding.

Below, we present our learnings and highlight stories from our interviews that support these learnings. Where helpful, we also integrate financial data to complement these stories.

We have organized learning into three categories:

- **The Internal**: Shifts in Financial Management Practices and Communication
- **The External**: Experiences with and Perceptions of Funders, Sector Dynamics, and Competition
- **Other Learnings**: Capacity Building and Spreading the Full Cost Mind-Set

The Internal: Shifts in Financial Management Practices and Communication

CLEAR UNDERSTANDING OF THE COST TO DELIVER ON MISSION

Consistently, those interviewed in the Pilot expressed an increased level of confidence related to working with finances and financial data. The increased comfort levels around finance extended beyond those who attended the Pilot. All participants, to varying levels, brought back relevant content to their staff and board. The impact of spreading this information generally led organizations to interrogate what it takes to deliver programs in both the short- and long-term.

As a result, stories shared during the interviews often highlighted deeper engagement with financial information and data, particularly noticeable for non-financial staff. More than one interviewee illustrated how program staff were much clearer about the costs associated with their programs, after practices oriented towards full cost.

After the Pilot, Social Justice Learning Institute (SJLI) has gotten clear about what it takes to do the work, rather than ‘shooting for the bare minimum.’ To support this, SJLI undertakes budgeting exercises with program staff to ensure everyone understands their requests have financial implications beyond their program. Full cost has led to more responsible financial practices that ultimately benefits the organization and the constituents they serve.

At Youth Speaks Collective, after clarifying what it took to deliver each program, leaders were also
able to rectify internal biases that had influenced resource allocation. After orienting toward full cost and including financial and performance data into their decision making, program leaders were better equipped to determine a fair and equitable distribution of resources across cost centers.

**SHARED RESPONSIBILITY FOR FINANCIAL HEALTH**

Having deepened their understanding of what it really takes to deliver mission, interviewees reported strengthened confidence, most notably among staff whose roles don’t officially involve finance.

Manju Kulkarni, formerly Executive Director of South Asian Network (SAN) and now Executive Director of Asian Pacific Policy and Planning Council (A3PCON), reported the Pilot gave her greater confidence to engage with financial staff around financial data presented in her budgets. Trained as a lawyer, Ms. Kulkarni was used to viewing certain subject matters as best left to the experts. Finance seemed a subject matter where her perspectives wouldn’t be welcomed, since she hadn’t trained as an accountant or CFO. The Pilot validated her role in financial decision-making and strengthened her understanding of financial concepts. She now feels confident questioning the numbers presented to her by financial staff and working alongside them to set the financial strategy.

This confidence extended to how she communicated with funders, helping her see and take opportunities to make bolder requests. She offered an example: After realizing that a grant of $20,000 could not be spent on personnel costs, she reached out to see if this specific restriction could be lifted. The funder quickly agreed and mentioned that such a request was common, but that they would only lift restrictions ‘when asked.’

Almost all organizations interviewed echoed this increased level of confidence and shared with us different ways they have used knowledge about their full costs to negotiate from a position of strength and partnership, rather than from a desire to please. For some, pushing back on funding arrangements that are not beneficial and saying ‘no’ to grants that undermine the organization’s financial stability has become the norm.

**INCREASED FOCUS ON LONGER-TERM FINANCIAL PLANNING**

Multiple organizations, including Esperanza Housing Development Corp (Esperanza), Central American Resource Center (CARECEN), Council of Mexican Federations (COFEM), and Heart of Los Angeles (HOLA) mentioned the usefulness of full costs in helping organizations think about and plan for longer-term financial goals in more concrete ways. For these organizations, full cost helped them understand the relationship between longer-term goals and immediate needs, like how building liquidity on the balance sheet can stabilize operations throughout the year to avoid cash flow crises. For these organizations full cost served as a ‘north star’, keeping long-term priorities in leadership’s sight to help guide financial decisions even when facing tumultuous times on the ground.

As an organization that serves immigrants and advocates for immigrant rights, CARECEN has expanded its programmatic reach in reaction to the aggressive anti-immigrant stance taken by the Trump Administration. As a result, their expense base more than doubled since 2016. Offered by
CARECEN leadership during the interviews: “Often, the urgency of the moment and the response to crisis limits leadership’s ability to consider full costs.” Reserve planning and building maintenance, longer-term goals of the organization, fall second to immediately protecting the community. Yet, the Pilot has helped CARECEN keep longer-term priorities in view and has helped them make the case for full cost coverage when requesting programmatic grant support. While efforts and attention are largely placed to meet constituent need, reserves continued to be a priority for leadership. In the past two years, CARECEN has received $100,000 from Weingart Foundation to seed a reserve fund and successfully received a grant to cover the cost of a new elevator from the Ahmanson Foundation.

BOLD CONVERSATIONS ON BUSINESS MODEL CHOICES

Full cost language and concepts helped leaders more effectively communicate internal financial goals to board members and other staff members. A few organizations, including People Assisting the Homeless (PATH), CARECEN, and HOLA shared stories of how full cost language and concepts helped to legitimize and/or reinforce financial goals and strategies that were either already in place or in nascent form. Naming unfunded expenses for each organization, which for many included increasing existing wages to meet market demands, helped leaders advocate for budget changes in front of their board of directors. For others, full cost sparked deeper conversations about what is needed beyond actual labor to ensure organizations could innovate and evolve as funder demand, market constraints, and constituent need changed. For some, like Nurit Smith, former Deputy Director of Grand Performances and current Executive Director of Music Forward, full cost offered the exciting possibility for the organizations to support research and development.

The Pilot provided language to describe and delineate the financial needs that all organizations share. This gave nonprofit leaders the tools to more deeply interrogate what it would really take to fulfill the promise of their programs and mission, and to speak about the needs of their organizations in a newly transparent way. In more than one instance, leaders shared how the Pilot helped to initiate reviews of needed programmatic size and resources to have impact, and whether organizations were operating at the ‘right size’ (i.e., should be smaller). Youth Speaks Collective, as highlighted below, offers a notable story about the impact of deeper interrogation.

Pablo Garcia-Hernandez, former Executive Director of Youth Speaks Collective, reported that the Pilot helped him, his staff, and his board members better articulate and see what it actually took to support excellent programs. Full cost orientation led to a ‘paradigm shift’ after all organizational stakeholders reflected on their internal biases and how it impacted decisions related to programs and the larger enterprise.

Seeing the actual cost of programs, Mr. Garcia-Hernandez reflects, opened the board’s eyes wider so that they “looked beyond the trees and saw the forest” for the first time. Interrogation of the assumptions around ‘what it really took’ created the conditions to openly discuss whether the organization was positioned to continue as it was currently structured. These conversations, Mr. Garcia-Hernandez surmises, may have been one of many factors that led to the difficult and informed decision to suspend organizational activities and let go of existing staff, while the board decides how best to resurrect the organization.
EVALUATING EXTERNAL PARTNERSHIPS

Equipped with a deeper understanding of how much it really costs to deliver impact, some organizations reported seeing greater value in partnerships. After the Pilot, HOLA now more actively evaluates the prospect of partnerships when launching a new program and considers whether there is already someone in the space who has invested infrastructure they require. COFEM also offered that a stronger understanding of their programmatic full costs, as a result of the Pilot, has allowed them to be more transparent with their partners and has helped them choose which partnerships to decline.

The External: Experiences with and Perceptions of Funders, Sector Dynamics, and Competition

FOUNDATIONS SUPPORT FULL COST IN THEORY, NOT PRACTICE

Most leaders reported that, over time, foundation staff have become more open to having a full cost conversation. Many foundation staff agree that organizations need better cost coverage. In practice, organizations rarely see the conversation turn into full cost funding.

Dr. D'Artagnan Scorza, the Executive Director of SJLI described program officers “willing to come on the journey” of a full cost conversation, but that receptivity changes when the full costs are understood. Tony Brown, Executive Director of HOLA, has seen a shift over the last few years toward full cost, and observes institutional funders seem more likely to consider full cost than family foundations, small funders, or new funders. Even among institutional funders, there are mixed messages about providing greater cost coverage for longer-term priorities. One funder told Martha Arévalo, Executive Director of CARECEN, that they didn’t fund priorities beyond a 6 month period.

More than one interviewee reported that staff within the same foundation have noticeably different reactions and willingness to discuss full cost. This can become particularly frustrating and confusing for nonprofit leaders when new or junior foundation staff don’t understand full cost, but their foundation publicly supports it. One leader described a conversation with a newer program officer who wouldn’t entertain the idea of full cost. The leader told us what a difficult position this created. “I know their boss, and I know their boss would be totally open to funding what I’m talking about. But here I’ve got a junior program officer who doesn’t get what I’m talking about. What can I say?”

Leaders offered some possible reasons why the funding community is not ready to apply full cost coverage in their own giving practices. Many stories boiled down to a matter of trust. Dr. Scorza spoke about a power dynamic that exists between funders and their grantees and how advocacy for full cost coverage hits at the core of that dynamic. HOLA’s leadership calls it an ‘old guard mentality’ that has been passed on for generations. Even if trust is shared between the program officer and the grantee, foundations have yet to adjust giving processes and practices to support more flexible funding structures that allow for better full cost coverage.
PERCEPTION OF FUNDERS, SECTOR DYNAMICS, AND COMPETITION CAN ACT AS BARRIERS TO FULL COST ASKS

How nonprofits perceive a given funder impacts what information they will or will not choose to share. Nonprofits generally do not present full cost needs if they expect the answer to be “no,” but will provide more complete information to funders who signal they are open to full cost funding. Dr. Scorza shared an observation that foundation staff who come from the communities SJLI serves tend to be more willing to engage in full cost conversations. He adds that if the relationship with a funder is still building, there’s not a lot of space to share the full cost needs of his organization. For example, securing reasonable cost coverage for environmental justice organizing is particularly challenging.

Across organizations, different roles tend to have different perceptions of risk and different willingness to make a full cost ask. Those who act in the development or fundraising roles within their organizations were, not surprisingly, much more sensitive to funder priorities and seemed the most cautious when approaching funders with full cost requests. As more organizations begin presenting full cost information to their funders, we may enter a bi-furcated philanthropic world where funders who are not open to the full cost conversation have inaccurate information about grantee needs.

Sector dynamics acted, in some cases, as a barrier to asking for full cost coverage. Katie Luna, Director of Development of Grand Performances, acknowledged that funding cut backs in the art sector made her more reticent to ask for full cost coverage. Advocacy organizations for immigrant rights, like CARECEN, are facing an acute and growing demand and need for their programs. Although they have seen a rise in contributions, leadership feels more pressure to ask for cost coverage for immediate needs, rather than longer-term priorities inherent in full costs. This evaluation has highlighted that a full cost orientation does not immunize organizations against the impact of external dynamics.

Competition and funder requests for the ‘lowest, competitive price’ also work against full cost coverage. Commonly seen in bid processes for government contracts, this approach is intended to find the lowest and most ‘competitive’ price. This approach, however, incentivizes organizations against full cost asks. When there is a ‘fixed price’ in mind, offered Tony Brown, Executive Director of HOLA, full cost funding ‘goes out the window.’ Nurit Smith, Executive Director of Music Forward, says “It can be daunting to have a high-touch program that costs $2,500 per youth when you can find programs that are $10 per youth.” She addresses price competition and makes full cost asks in all her grants by focusing on their value proposition.

GOVERNMENT FUNDERS PROVIDE SUCCESSES AND CHALLENGES

Most organizations in the cohort receive funding from city, county, state, or federal government agencies. Government is notorious for high-compliance requirements and painfully low payments for services that can cripple an organization if not paired with other sources of funding. In theory, organizations should turn down contracts that undermine their financial health. In reality, organizations risk their reputation and being ‘shut-out’ of future funding opportunities when they say no. Dr. Scorza offers that full cost is not yet a mainstream conversation for the funding world and is particularly absent for most government agencies.
PATH, a homeless services agency, offers an example of a successful government contract negotiation.

When PATH joined the Pilot, leadership had already started making improvements to its business model that led to a stronger balance sheet. From FY2014 to FY2017, PATH almost doubled its expense base and simultaneously improved liquidity measures. PATH is again projecting further growth in FY2018.

PATH was able to achieve growth in its business model, while strengthening its balance sheet, due to a strong partnership with their largest funder and leadership’s willingness to leverage this partnership to negotiate for more favorable payment terms. One of PATH’s largest funders is the Los Angeles Housing Services Authority (LAHSA), the regional planning body that coordinates housing and services for families and individuals experiencing homelessness in Los Angeles City and County. LAHSA realized the important role of advances to help their partners build reserves, particularly during a time when a new program is being launched. During the Pilot, PATH recognized that their conversion rate of accounts receivables to cash was too slow, leading leadership to use funds set aside for longer-term priorities, like reserves or fixed asset additions, as working capital to bridge timing delays of reimbursement.

As a result of the Pilot, PATH was prepared to have a conversation about the levels of advance payments needed to implement a new program related to Measure H (click here to learn more), which represented $8-9MM of new funds for the organization. PATH initially asked LAHSA for a $6MM advance to support launch of this new program. LAHSA responded by advancing $4MM in the first year and the remaining $2MM in the beginning of the second year.

PATH’s CFO, Sandy Oluwek, believes that this new payment structure was a key event that helped them strengthen their liquidity, even as they continue to expand their programmatic reach. Since then, they have continued to advocate and negotiate for advances from other agency funders and have turned down opportunities to expand when the financial case no longer made sense.

PATH’s story contains important conditions that made their negotiations possible: locally controlled dollars with more flexibility; a government funder willing to partner, with additional motivation to deploy funds quickly due to the public nature of Measure H; PATH’s position in the market as a large nonprofit offering essential services that are needed immediately and that can’t be met by other organizations; and unified advocacy efforts from LAHSA partners. PATH also had the data to make the case for how much they needed and why. Knowledge of their full cost needs was not enough on its own, but it was an essential component in this successful negotiation.

For most organizations, negotiations for full cost coverage with government agencies are truncated and rarely reach beyond attempting greater indirect rate reimbursement.

A sector that is perhaps subject to the effects of political changes more than others are organizations that receive funding from federal and state government for health care services. Watts Healthcare, a Federally Qualified Health Center, pays close attention to Medi-Cal reimbursement rates, which are subject to significant political risk at the federal and state level. What is allowable to cover indirect costs can vary from agency to agency and change from administration to administration, year to year. Given this uncertainty, Watts has focused on building working capital and, where there are opportunities, negotiated for greater indirect rate coverage.
Other Learnings: Capacity Building and Spreading the Full Cost Mind-Set

ONE-ON-ONE CAPACITY BUILDING WAS ESSENTIAL FOR SOME

While all interviewees generally reported a positive shift toward the full cost mind-set, a few organizations acknowledged that full cost concepts were tough to fully digest on the outset. They also emphasized how the technical assistance that was offered as a part of the Pilot helped to offset this challenge and supported them to teach full cost concepts to supporting staff and colleagues and integrate within their own organizational contexts. Budgeting and cash flow planning represented a key area of focus for many in the cohort, and not surprisingly several interviews highlighted the impact of being trained to use a good, simple budget to keep financial priorities in mind.

FULL COST ‘LIVES ON’ WITH LEADERS AND SPREADS WITH TRANSITIONS

Executive transitions are common in the nonprofit sector, and this was no different for the cohort (SAN and Grand Performances.) Even in the face of executive transitions, full cost practices and perspectives remained with these organizations, very likely because other staff members who attended the Pilot remained with the organizations.

NFF was able to interview three leaders who attended the workshop and have now (or soon will have) transitioned to lead other nonprofits in Los Angeles. All three brought (or plan to bring) this orientation to their new place of work and have expressed excitement in sharing these concepts not only in their new workplaces, but also with a new set of external stakeholders, including new funders.
Conclusion

While stories provided by interviewees illustrate positive shifts towards stronger financial management practices, including communication with staff and funders, they also highlight barriers to full cost funding. How can funders and nonprofits support greater full cost adoption across the nonprofit sector?

**FUNDERS**

- **Trust grantees and engage them as partners.** Those closest to the problem are closest to the solution. When you partner with nonprofits, you will be given greater access to know the true needs in the sector and, therefore, be able to make smarter decisions and a bigger impact.

- **Ask your grantees what they really need and give funds that are flexible so nonprofits can efficiently turn money into mission.**

- **Interrogate your practices and policies.** Review the way you make funding decisions, structure contracts, and conduct site visits. Ask why particular approaches are in place. Be skeptical if the answer you get back is: we’ve always done it this way; this is a best practice; or the alternative would be too much work for us.

- **Signal that you are a full cost funder, then be one.** Plainly state your position. Provide values statements on your website, on your grant applications, in your contracts, and in conversations so nonprofits understand if you are willing to fund full cost. Align your practices with your intentions by allowing organizations to keep any savings they achieve with your grants, and filling funding gaps other funders won’t.

**NONPROFITS**

- **Know your costs.** There is power in advocating for your needs with the data to back you up. Whether or not your funders are ready to hear it, your organization benefits when you know your true funding goals and gaps. Interrogating what it really costs to deliver mission led participants to have deep and honest conversations about values and priorities. If and when needed, ask funders to support capacity building and training around full cost.

- **Ensure that all staff advocate for full cost.** An organization can best achieve the potential of a full cost orientation when there is full support from the full team - leadership and staff. When organizational wide support for the full cost approach exists, staff and leadership are better positioned to advocate for full cost coverage in all funder interactions.

- **Approach your funders as partners.** The inclination to ‘please’ rather than ‘partner’ with funders is strong, as it reflects the status quo. Noticing when you are pleasing rather than partnering is the first step in understanding what other options are available to you. As the stories above highlight, you won’t know until you ask.
• **Support capacity building around full cost.** As organizations evolve and staff change, additional and continued capacity-building around full cost concepts and practices will be important. Multiple stories highlighted the importance of technical assistance in helping staff and leaders both understand and better apply full cost practices within each organizational context.

• **Train your full team, regularly.** Make sure your message to grantees is consistent and upheld by staff at all levels. Ensure staff are appropriately aligned with your goal for offering greater full cost coverage. Increase staff awareness of the situations and challenges facing your grantees.

• **Advocate with peers.** Power in numbers. Although full cost remains a relatively novel idea to many in the funding community, funders do listen. As highlighted in PATH’s story, LAHSA listened to their community partners and adjusted how they structured their payments.

• **Make full cost your practice.** Orienting toward full cost coverage is more aptly described as a practice than as a strategy or solution. Full cost is a guide for balancing short-term needs with longer-term priorities. Full cost can offer new ways to communicate and advocate for resource needs in a more targeted and effective way. Practice presenting your true needs to your funders, honestly and unapologetically.

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**IMPLICATIONS FOR FULL COST CHAMPIONS**

• **Take opportunities to inform peers and colleagues.** Whether in one-on-one conversations, conferences, or thought-pieces, continue to spread the word on full cost to the sector.

• **Connect sector challenges back to full cost issues.** Where applicable, draw the connection between issues we are working to solve and the failure to cover full cost. Or draw the connection between major successes and the full cost needs that were met to bring about that success.

• **Keep going.** Changing long-entrenched processes and culture is slow work. Celebrate the small wins and keep up the fight for full cost coverage.
Appendix A: Who participated in this study? What information was collected?

- NFF reached invited all original members of the 2016 cohort to participate in this evaluation.
- We requested their most recent audits and latest board approved budget to update their Financial Situation Analysis. Of the 12 organizations, eight submitted updated financials.
- We completed 12 one-hour interviews of the following organizations, which included three executive leaders who participated in the Pilot but had since left the organization which was part of the pilot.

The original 2016 cohort participating in the pilot include the following 12 organizations. Nine organizations agreed to participate in the interviews. (Organizations that participated in the evaluation are bolded.)

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<tr>
<th>ORGANIZATIONS</th>
<th>KEY CAUSE AREA(S)</th>
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<tr>
<td>1 Bartz-Altadonna Community Health</td>
<td>Health</td>
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<td>2 Central American Resource Center (CARECEN)</td>
<td>Immigrants’ Rights</td>
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<td>3 Council of Mexican Federations (COFEM)</td>
<td>Immigrants’ Rights</td>
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<td>4 Esperanza Community Housing (Esperanza)</td>
<td>Community Development and Affordable Housing</td>
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<td>5 Grand Performances</td>
<td>Performing Arts</td>
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<td>6 Heart of Los Angeles (HOLA)</td>
<td>Youth Education</td>
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<td>7 Kids in Sports*</td>
<td>Youth Education</td>
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<td>8 People Assisting the Homeless (PATH)</td>
<td>Affordable Housing</td>
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<td>9 Social Justice Leadership Institute (SJLI)</td>
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<td>10 South Asian Network (SAN)</td>
<td>Immigrants’ Rights and Health</td>
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<td>11 Watts Healthcare Corporation</td>
<td>Health</td>
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<tr>
<td>12 Youth Speak Collective*</td>
<td>Youth Education</td>
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*Note on December 31, 2019, Kids In Sports will close as an organization and officially merge with The Friends of EXPO Center. Youth Speaks Collective has placed its operations on hold and, at the time of writing, it is not clear when the organization will resume.

NFF also interviewed additional nonprofit leaders who had, during the two years since the Pilot ended, transitioned into new leadership positions at nonprofit organizations. These leaders include:
- Pablo Garcia-Hernandez, former Executive Director of Youth Speak Collective
- Manju Kalkarni, former Executive Director of South Asian Network
- Nurit Smith, formerly Deputy Director of Grand Performances
Appendix B: Interview Protocol

To ensure continuity, NFF designed an interview protocol that was used to guide our conversations. The following questions were shared with participating organizations prior to the interview:

1. When you think about how the organization does its financial planning, what concepts or ideas from the Full Cost Pilot do you use (if any)?

2. Which of the full cost concepts have been the most relevant or accessible to others in your organization and why?

3. How have full cost concepts influenced the way you communicate your needs (monetary or non-monetary) internally to board members and staff?

4. In what ways has the pilot influenced the requests you make of funders, if at all?

5. What successes or challenges have you faced around incorporating full cost concepts into funder communication?

Questions were offered in advance to guide generative conversation and reflection related to how full cost concepts and language introduced in the Pilot had influenced financial management practices, communication about financial needs internally and externally, and funder dynamics. Facilitators were mindful to allow those interviewed to direct the conversation where they felt was most important, including what was most surprising to them or any additional opportunities participants yearn to see.
Join the Conversation!

Visit nff.org to learn more about our full cost work, and sign up here to join NFF’s mailing list for the latest news.