

Full Cost Communication Guide

Conversations between funders and nonprofit organizations are an opportunity to have holistic conversations about supporting the financial health of an organization. This guide includes tips and scenarios based on common conversations with examples for how both sides can approach these topics from a more generative perspective.

THE FULL COST FRAMEWORK

Full cost is a framework we use at NFF to name what it takes financially for an organization to carry out its mission. This includes what's in the budget and on the balance sheet, as well as everything that doesn't show up but should – everything needed to keep a positive cash flow while waiting for reimbursements, saving for emergencies, making repairs or replacements to equipment before it becomes an emergency, and offering competitive pay that keeps up with the rising cost of living. NFF uses full cost as a tool to help funders and nonprofits identify what it really takes for an organization to do its work in a way that is healthy and mission-aligned. We also use it as a vehicle to show funders how their giving policies and practices help or harm their grantees' ability to operate effectively and sustainably.



HOW FULL COST ADVANCES EQUITY

Full cost is also a powerful tool to address resource disparities and advance equity. In our sector, funding has historically and systemically flowed in greater amounts and with less restriction to white-led and -serving organizations than those led by and serving people of color. Nonprofits operating with limited financial resources must develop strategies to keep the work going. These strategies often include underpaying staff, working long hours, offering low or no benefits, or foregoing paychecks altogether. Those costs are not captured on a financial statement, so they often go unseen by funders. However, they are often felt acutely by nonprofit staff, especially among nonprofits in communities that have been disproportionately under-resourced.

Historically, funding culture has been known to base grant size on the dollar amounts captured in an organization's current financial documents or previous budgets, penalize an organization for operating with a surplus or deficit, or set small and unrealistic overhead limits. These strategies have perpetuated existing inequities in our system and continued cycles of harm. Funding an organization's full cost needs, offering general operating support, and orienting toward trust rather than compliance are some of the ways funders can have greater impact and employ more equitable practices.

This Full Cost Conversation Guide is meant to be a resource for nonprofit organizations and philanthropic funders who are interested in learning more about how to have honest, generative conversations about costs.

Advice for Every Conversation

FUNDERS

When funders enter conversations with the nonprofits they support, it is critical that they acknowledge the interdependence within this relationship. Nonprofits need funding to continue and sustain their work, and funders need nonprofits in order to carry out their philanthropic missions. Because funders have resources that nonprofits need, and decide how those resources are distributed, they are in a position of power over nonprofits. Funders can make conscious decisions about how they approach these discussions with that power dynamic in mind. The tips below include suggestions for how to foster productive and honest conversations about full cost:



- Engage with the intention to build trust and from the position that we all desire to create lasting community-based solutions. Trust is built incrementally and over time.
- Set the tone for open dialogue and honest conversation by demonstrating transparency in how you ask questions, listen, and respond to what the nonprofit shares throughout the conversation
- Be mindful of the amount of work it might take a nonprofit organization to put together custom funding application materials; ask only for the information that you really need, and provide adequate lead time for them to proceed thoughtfully without overburdening their capacity
- Remember that both debt and deficits can be a result of strategy
- Acknowledge that surpluses are a critical strategy for nonprofits seeking to achieve sustainability, navigate the unexpected, survive a crisis, or act on a new opportunity
- Work to understand the full cost needs of your nonprofit partners, including: how much they currently rely on sweat equity from their leadership and staff; their use of and need for reserves; and plans for debt repayment and depreciation
- Provide general operating support (i.e., unrestricted funding) over restricted program-specific investment
- Look for opportunities to center effectiveness and impact over compliance and control
- Be transparent about your strategy, values, and internal processes (including timelines)

NONPROFITS

Calculating your full costs is about naming and claiming what it really takes to do your work the way you want to and being clear with funders about your holistic needs. Rather than presenting a budget that you think a funder will find palatable, embrace the idea that all nonprofits deserve to be financially healthy.

While funders hold a great deal of power in this relationship, they depend on nonprofits to carry out their own philanthropic missions. To support the causes they care about, they need nonprofits to be financially sustainable. So, nonprofits must name and claim all the financial resources it takes to run an effective organization for the long haul. Funders often won't know the types and levels of full cost needs unless nonprofits explicitly name them.

Tips for more meaningful and impactful conversations with funders:

- Engage with the intention to build trust and from the position that we all desire to create lasting community-based solutions. Trust is built incrementally and over time.
- Be transparent about your needs, values, and the role the funder plays (or could play) in your organization's financial health
- Have a strong organizational strategy and communicate it clearly
- Own your financial story and tell it with confidence
- Don't be afraid to ask for something different than what you've been offered, or to reject a suggestion that doesn't work
- If the funder insists on a break-even budget, consider including [below-the-line-budgeting](#) to address your full cost needs, if you are not already doing so

Scenario 1: Discussing Deficits

Funder wants to ...

- Understand the organization's challenges/ opportunities and identify ways to help
- Elevate any issues that haven't yet been disclosed that may influence how they approach funding decisions

Nonprofit wants to ...

- Share about funding challenges without being negatively judged
- Provide an explanation of the financials without feeling responsible for the systemic and structural challenges to nonprofit finance practices
- Talk about how deficits are not always a negative circumstance and may be connected to a specific strategy

DISCUSSION TIPS

By offering additional context and asking more specific questions, the funder can signal to the nonprofit their attitudes about deficits and what they are hoping to learn from the conversation. Likewise, the nonprofit can use this conversation as an opportunity to give the funder insights into its operating context by telling its financial story.

Funder tips:

- Proactively create a safer space and withhold judgment
- Communicate awareness of difficult sector dynamics and invite organization to share the ways those dynamics have impacted them
- Phrase questions to demonstrate support and curiosity for the organization
- Acknowledge your feelings and views regarding deficits and if this will impact the nonprofit's ability to get support

Nonprofit tips:

- Clearly articulate the circumstances behind any deficits (e.g., funds might have been received in December but used the following year, causing a deficit)
- Ask how funder views deficits

Scenario 1 Sample Dialogue

"I have a number of grantees who had deficits in recent years – some because of COVID disruption and subsequent inflation, some because of a tough fundraising environment, some because of a strategic choice. We understand that deficits can happen for a wide range of reasons, and we have supported grantees through tight financial times before. I'd like to hear more about your last two years of deficits. What was their cause? How have they impacted your organization?"

"We lost two key funders when they changed their strategies. We are seeking new funding in the following ways... Thankfully, we have been able to rely on our reserves as we develop new funder relationships. When your foundation sees a potential grantee with a history of deficits, how does that impact your thinking and decision-making?"



Scenario 2: Discussing Reduced Funding

Funder wants to ...

- Support organizations achieving community impact
- Spread smaller amounts of funding to more organizations rather than say no to organizations they want to support
- Set realistic expectations for funding within the foundation's available budget and priorities
- Avoid being the sole funder of an organization or program

Nonprofit wants to ...

- Avoid compromising the viability of the work by accepting less funding than what is needed, resulting in unfunded expenses and/or programmatic or organizational failure
- Prevent any possibility of damaging the funding relationship and future opportunities by rejecting funding

DISCUSSION TIPS

Funders and nonprofits should both go into this conversation understanding that reduced funding is not always feasible for the grantee. Both parties should also be clear that funding cuts do not always translate to a simple proportional reduction in outputs or deliverables (i.e., giving exactly half the requested amount does not necessarily mean that the organization will be able to do exactly half of the work proposed). The nonprofit will need to ensure that their full costs can be met within the framework of a reduced level of funds. Funders that provide general operating support, rather than program-restricted funding, create flexibility by allowing nonprofits to use resources where they are most needed.

Funder tips:

- Explain why a budget reduction is being requested
- Acknowledge that the project may not be feasible as originally conceived
- Encourage organizations to adjust their deliverables to meet funding available, and recognize that adjustments may not all be proportional to the original request
- Be mindful of the additional labor it will take for the nonprofit to revise the budget and deliverables
- Offer suggestions of and introductions to other funders who may be interested in supporting this work
- Consider offering general operating funds rather than program-restricted support, which will not require any additional budget revisions from the nonprofit
- Be aware that the nonprofit may need to decline the funding

Nonprofit tips:

- Adjust deliverables to reflect what's being offered
- Ask for the time you and your team will need to make this revision
- Assess your redesigned scope: ensure that you can still cover the full costs of delivering programming at this reduced funding level
- Consider rejecting funding that doesn't cover full costs

Scenario 2 Sample Dialogue

"Due to our internal budget constraints, we can offer only \$50,000, but this can be general operating support rather than restricted program support. We know this will mean that some of the original work proposed will be reduced or you may choose to use the funding for a higher priority purpose that is better supported with this level of funding."

Or (if funding must remain as project support)...

"We won't be able to fund your full ask because of our internal budget constraints. We can fund \$50,000, and of course we would only expect \$50,000 of work. Would you be interested in putting together a revised budget and deliverables based on a \$50,000 award?"

"Yes, let me talk with my team about how we might adjust. Unrestricted general operating funds would be ideal so we can invest in..."

If funding must remain project support...

There are some upfront costs that remain the same no matter how many [units of service] we deliver, so you will likely see deliverables reduced by more than 50% in the revised proposal."



Scenario 3: Discussing Surpluses and Reserves

Funder wants to ...

- Better understand the organization's current financial practices and situation
- Understand the value of the grant in the organization's financial context

Nonprofit wants to ...

- Build and maintain a business model and capital structure that supports their long-term sustainability
- Have coverage for uncertain funding cycles
- Ensure a healthy cash flow to cover cost reimbursement expenses, etc.
- Express how important ongoing funding is to a healthy financial outlook

DISCUSSION TIPS

In personal finance, people are strongly encouraged to build savings accounts while still covering day-to-day expenses. Nonprofits are no different in their need to build savings on top of operating expenses. Surpluses and unrestricted dollars are critical in building these savings that are necessary for supporting cash flow needs, covering emergencies and unforeseen expenses, and making investments in the future. Financial statements document what resources an organization currently has, but they do not explain the organization's long-term plans and strategies for those resources, which is why these conversations are so important.

When considering how to approach conversations about surpluses and reserves, it helps to acknowledge the legacy of harmful mindsets that prevail in our sector. Many nonprofits are afraid of being penalized for investing in their futures by generating surpluses or accumulating even marginal savings. By focusing instead on the role these resources play for the organization's financial health and what the requested funding could accomplish, funders and nonprofits can have much more dynamic conversations.

Funder tips:

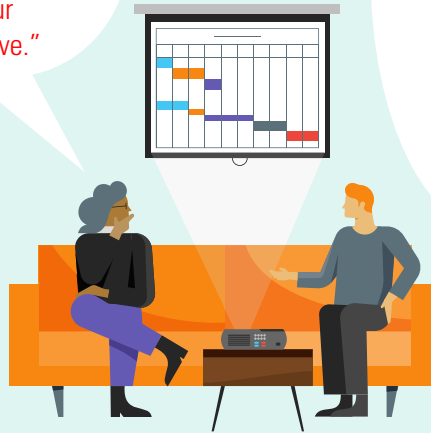
- Acknowledge the benefit of surpluses, reserves, working capital, etc.
- Assume that an organization with reserves is holding them for the purposes of cash flow and sustainability; only ask about the purpose or need for savings if questions or concerns remain
- Orient the discussion around the organization's goals and needs, and how the requested funding fits into their overall strategy

Nonprofit tips:

- Share your values along with the purpose of cash balances/net assets and how they benefit the mission and organizational structure (savings, working capital, reserves, etc.)
- Share your strategy for using surplus/unrestricted cash (working capital, reserves, etc.)

Scenario 3 Sample Dialogue

"I was really impressed that you have been able to generate surpluses, and I noticed you have significant cash balances. I'd love to hear more about how you are thinking about this cash and how it supports your mission, and what our funding would further enable you to achieve."



"Thanks! It has taken lots of work by staff and board to build up that safety net. \$60,000 is used to manage our receivables. We have many reimbursement-based contracts that require us to do the work upfront before being paid. \$40,000 is a board designated reserve for facility repairs and upgrades. Our goal is to save another \$200,000 over the next five years to replace our roof and HVAC system. Your grant would enable us to contribute to that goal without sacrificing any programmatic activity, so that we can be here to provide a safe and comfortable space for the community today and into the future."

Scenario 4: Negotiating Funding Terms

Funder wants to ...

- Answer to foundation trustees regarding the success of grants
- Maintain program integrity and avoid a reputation or practice of "playing favorites"
- Move forward with an already-approved granting program structure
- Assess desired outputs/outcomes

Nonprofit wants to ...

- Maintain funding relationships
- Secure terms that allow them to pay for the staff and expenses required to meet their mission and serve the community
- Preserve a healthy cash flow while meeting the terms of the grant agreement/contract

NEW APPROACH

Funding policies have a significant influence over the way nonprofit organizations carry out their work. Depending on the nature of the funding, these policies may be very challenging to change, and the point of contact who works directly with nonprofits may not have decision rights over these policies. That said, when funding programs are structured in a way that compromises nonprofits' ability to carry out the work effectively, it is worth explaining the issue, exploring what is possible, and looking for creative solutions. If one organization expresses that they are facing challenges facing challenges due to the structure of a grant program, it is likely that others are too but have been afraid to ask for changes.

Funder tips:

- Be open to new ideas: the organizations you fund are experts in the needs of their communities and can offer substantial insights into how your funding can best support those needs
- Emphasize the need to meet your own philanthropic mission and answer to trustees or policy makers
- Respect that the nonprofit is asking for good reason, and may be afraid of negative consequences for speaking up about their challenges
- Acknowledge who has decision rights over requests of this nature

Nonprofit tips:

- Connect any requests you make to the desired outcomes you're hoping for, and what impact those outcomes would have
- Ask where there may be flexibility with funding terms to support the organization's ability to better serve the community
- Offer stories that demonstrate the impact of the challenges you've identified

Scenario 4 Sample Dialogue

"I want to hear about your needs and how we can better structure the grant to meet them. I'd like to do what I can. I also want to be clear that I can't make that decision unilaterally, and would need to get buy-in from our CEO and the board of trustees. This process may take some time, and I cannot make guarantees. Would you be willing to share more about your request so I can share your perspective with these stakeholders?"

"We appreciate your willingness to hear our proposal and recognize that what we are asking may not fall in line with this particular grant; however, operating fully on a reimbursement basis has meant that we are required to self-finance the work that you are funding us to do. Payment delays have posed significant challenges for our working capital, and we are not in a position to scale our work under this funding structure. We believe that we can provide better outcomes if you can give an advance of at least one month of project expenses upon contract execution, which would let us begin the project with funds for up-front investments, reducing strain on our cash flow."



Learn more and explore additional resources at nff.org/full-cost.