



# Nonprofit Financial Management

## UNDERSTANDING FULL COST

Name: \_\_\_\_\_

Organization: \_\_\_\_\_

# Nonprofit Financial Management

## Understanding Full Cost

Full cost refers to the true cost of doing business for nonprofits, including total expenses, working capital, and reserves. In this workbook, we will explore the full cost of operating your organization and communicating that cost to funders. We'll define the components of full cost, develop language that names and claims nonprofits' full cost needs, offer tools for prioritizing your organization's hidden costs, and share tips for discussing full cost with key stakeholders.

---

## Learning Goals

- Build shared awareness about the structurally inequitable system in which nonprofits 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 in our organizations and in the sector
- 

## Defining Full Cost

'Full Cost' practices were designed to name and claim all of the financial resources it takes to run an effective organization for the long haul. This way of approaching and communicating about not-for-profit financials:

- Helps lift the sector out of the false dichotomy of program vs overhead
- Captures both short- and long-term needs
- Is holistic, grounded in context, allows for nuance and change over time
- Provides a tool to advance racial equity

In general, Full Cost budgeting follows a hierarchy of needs: **Durability, Adaptability, and Liquidity.**

## Exploring Full Cost More Deeply

Which of the following are considered 'Full Cost' expenses?

- Unfunded expenses
- Debt repayment
- Program and Overhead Expenses
- Any purchase that is capitalized
- Depreciation

Take a moment to reflect on what expenses are 'unfunded' in your organization. These are 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:

Generally, the categories in addition to unfunded expenses that we consider when building out a Full Cost framework are

- Working Capital
- Reserves
- Debt Principle Repayment
- Fixed Asset Additions
- Change Capital

Which of these are currently reflected in your budget?

If you do have reserves and they are not yet designated, how might you designate these reserves to appropriately support organizational needs both present and future?

## Exploring Sustainability and Adaptability

In order to manage risk in the present and future, an organization needs to cultivate both sustainability and the capacity to adapt.

Sustainability means having enough resources to \_\_\_\_\_ now and in the future.

Adaptability means having enough resources to \_\_\_\_\_ now and in the future.

## Building Long-Term Financial Health: Liquidity, Adaptability, and Durability

Match one of the following terms – **liquidity, adaptability, and durability** – with the appropriate key questions:

	Does the organization have access to funds to address a range of future needs to achieve the mission in the long term?
	Does the organization have enough cash to meet its day to day needs?
	Does the organization have flexible funds that allow for mitigating risks, growth, or change?

The metric that allows us to measure liquidity is \_\_\_\_\_.

The metric that allows us to gauge adaptability is \_\_\_\_\_.

What is the ideal number of months of cash an organization should have in reserve at any given moment?

- 1 to 3 months
- 3 to 6 months
- Over 6 months
- It depends on the organization's structure and business model

## Build vs. Buy: Two Types of Capital Organizations Need to Thrive

Let's explore two broad categories of capital that organizations need at any given time: Build capital and Buy capital.

Which of the following applies to 'Build' capital?

- It is episodic in nature
- It is only used for construction and equipment
- It pays for extraordinary needs

Which of the following applies to 'Buy' capital:

- It is needed every year
- It covers annual operating costs
- It cannot be used for salaries

When pivoting, adapting and shifting in response to current events or community needs, organizations may need what's known as 'change capital.' The primary purpose of change capital is to support the organization in shifting its business model to support operations.

Is 'change capital' an example of build money or buy money?

What are the risks of confusing 'build' and 'buy' capital in your organization?

## Reflection: The Challenges of Communicating about Surpluses, Sustainability, and Adaptability

Having a reserve allows organizations to build sustainability, adaptability, and durability. However, some funders and key stakeholders require that an organization present a 'zero budget,' where income and expenses balance each other perfectly.

**Two strategies can help overcome this challenge:**

- Explaining the need for surpluses and how you plan to use them.
- Presenting a budget that includes your reserves and related expenses 'below the line.'

**Let's explore how you might communicate your need for and use of reserves:**

How much do you currently have in reserves?

How much do you plan to contribute to your reserves this year?

How will these reserves contribute to your liquidity, adaptability, and durability in the short and long term?

To what, if any, specific areas or long-term expenses will you designate these reserves (e.g. an opportunity fund, equipment replacement, etc.)?

*Want more information about full cost – and how you can use full cost principles to change conversations with your funders? [Visit the full cost page on NFF's website.](#)*

## Notes