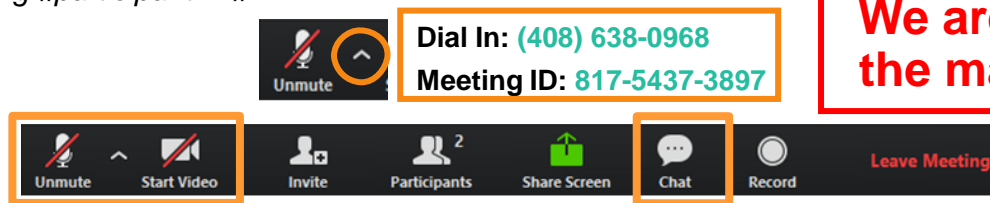


Welcome to the NFF Workshop!

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.

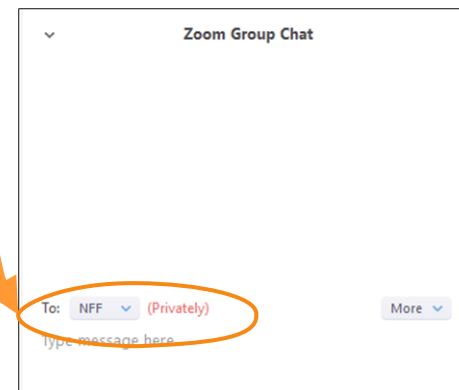
Find the microphone icon in your Zoom panel → click the 'up' arrow → select 'switch to phone audio' → dial in on your phone using the number and meeting ID → link your phone and video by dialing #participant ID#



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.**

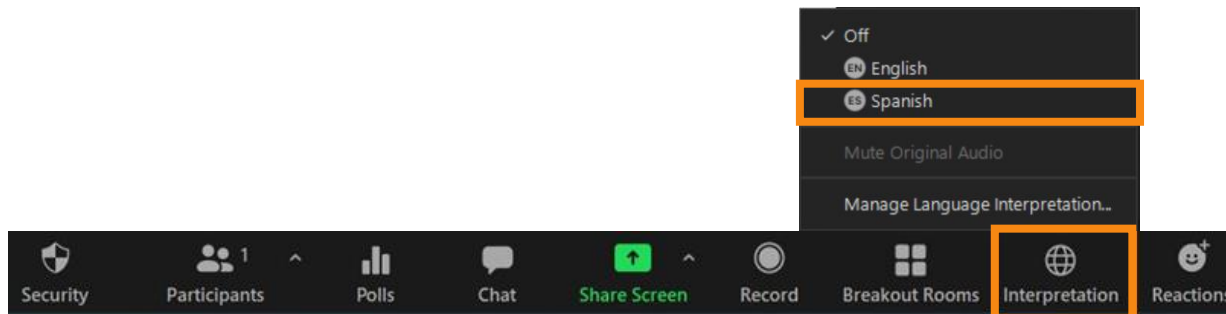


Interpretation Instructions

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 →



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

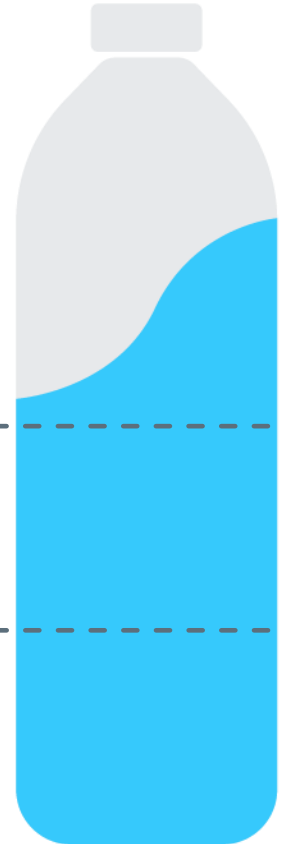
Build financial health over time

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?



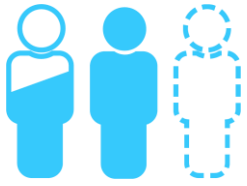
What is Full Cost?

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

What they **Are**

- Operating and non-operating expenses
- Direct and indirect
- Program and overhead expenses
- Depreciation
- Unfunded Expenses*

What they **are Not**

- Any purchase that is capitalized
- Repaying debt



*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

What It **Is**

- Dollars to cover predictable timing of cash ebbs & flows
- Maintains business operations if receivables are late or bills must be paid early
- Easily accessible to management; in the checking account, not restricted or strictly designated
- Needed by all organizations
- Amount needed varies by organization

What It **Is Not**

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



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

What It **Is**

- Purchase of NEW equipment, buildings, furniture, land, leaseholder improvements, etc

What It **Is Not**

- Replacement or simple maintenance of existing fixed assets
- Small equipment purchases that won't be depreciated

Change Capital



What It Is	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• Organic growth
How to Calculate	<ul style="list-style-type: none">• Detailed projections for a surplus-generating business model<ul style="list-style-type: none">• planning/up-front/startup costs for revenue generating activities, programs, and other infrastructure• Timeline to secure new revenue and revenue sources
Goals to Consider	<ul style="list-style-type: none">• 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

\$ **Expense**

Revenue

Former business model in
need of change

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

Business
as Usual

Business-Model
Repositioning

Fully-Funded
Operations

Defining Two Different Types of Money

Nonprofits need both to thrive

Buy (revenue)

- Needed every year
- Reliable, repeatable, and/or replaceable
- Covers annual operating costs
 - Pays for services and programs
 - Pays for organization overhead



Build (capital)

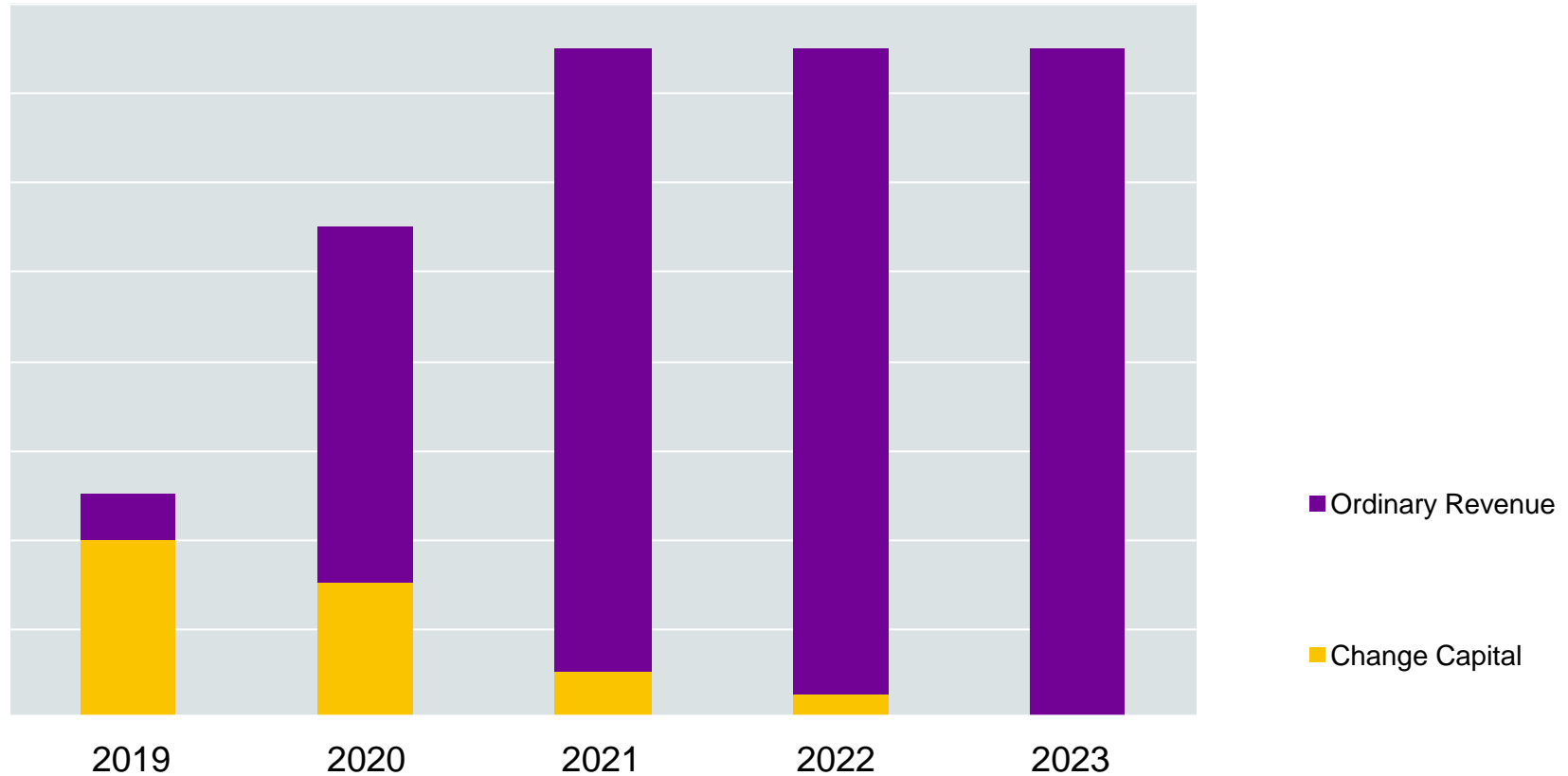
- Episodic in nature
- Pays for extraordinary needs
- Supports enterprise health
 - liquidity
 - adaptability
 - durability



Change Capital Is Intended To Support Business Repositioning

Build Capital Consumption Over Time

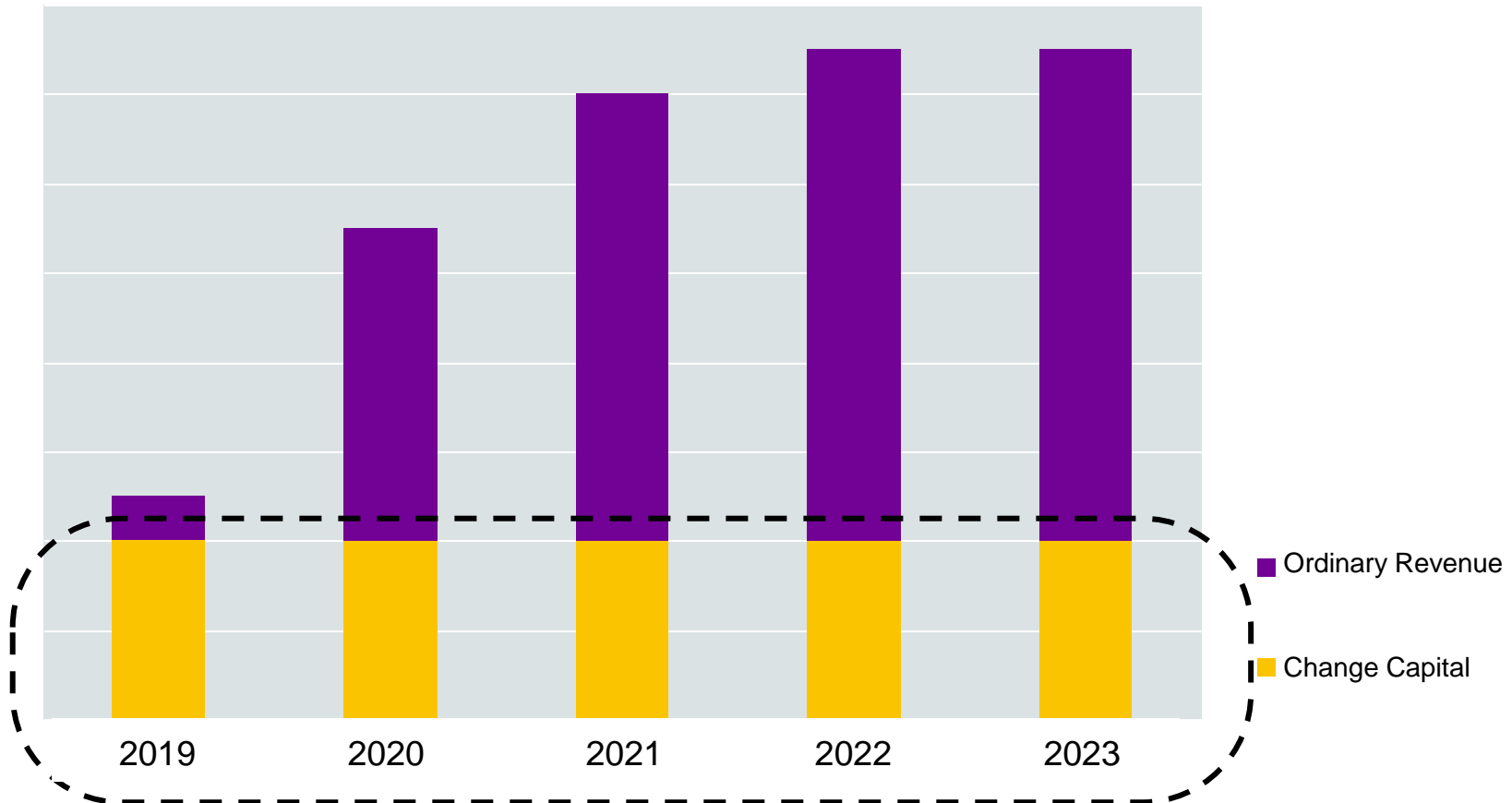
Total Budget: Successful Launch



When Change Capital is Mis-Applied

Build Capital Consumption Over Time

Total Budget: Chronic Bailouts



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

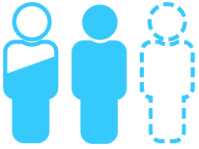





Negotiated and agreed to upfront

- 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

	Total Expenses Operating, non-operating, and unfunded expenses	Must haves for <i>all</i> organizations
	Working Capital Access to cash for day-to-day needs	
	Reserves Savings, a “rainy day” fund	
	Debt Principal Repayment Mortgage, line of credit, etc.	Sometimes needed by <i>some</i> organizations
	Fixed Asset Additions Money to purchase a new building, new computers, or new vehicles	
	Change Capital Resources to adapt, grow, partner, or down-size	

Transform the Conversation

One conversation at a time...

Advice for Nonprofits

- Be open to questions – they help build deeper understanding
- Avoid making assumptions
- Have 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 or reject something that doesn't work
- Know that we are all on the same team in our desire to benefit and positively impact the community

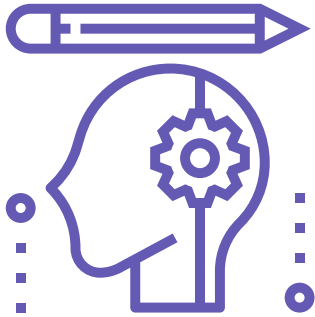
Advice for Funders

- Create a safe space by listening and building trust – and remember that trust is built slowly over time
- Set the tone for open dialogue and honest conversation
- Avoid making assumptions
- Remember that both debt and deficits can be a result of strategy
- Be transparent about your strategy, values, and internal processes
- Know that we are all on the same team in our desire to benefit and positively impact the community

Head, Heart, Feet

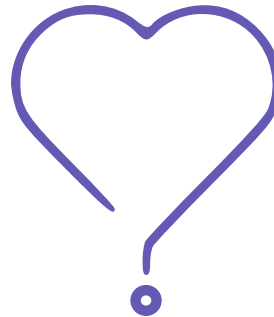
Head

What did you **learn** from this workshop?



Heart

How did this workshop make you **feel**?



Feet

What **actions** will you take?



Discover more full cost resources

Full Cost webpage:

nff.org/full-cost

Conversation Guide:

<https://nff.org/file/1159/download?token=Pvlop33H>

Full Cost Workbook:

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

Up Next

Economics of Partnership & Collaboration

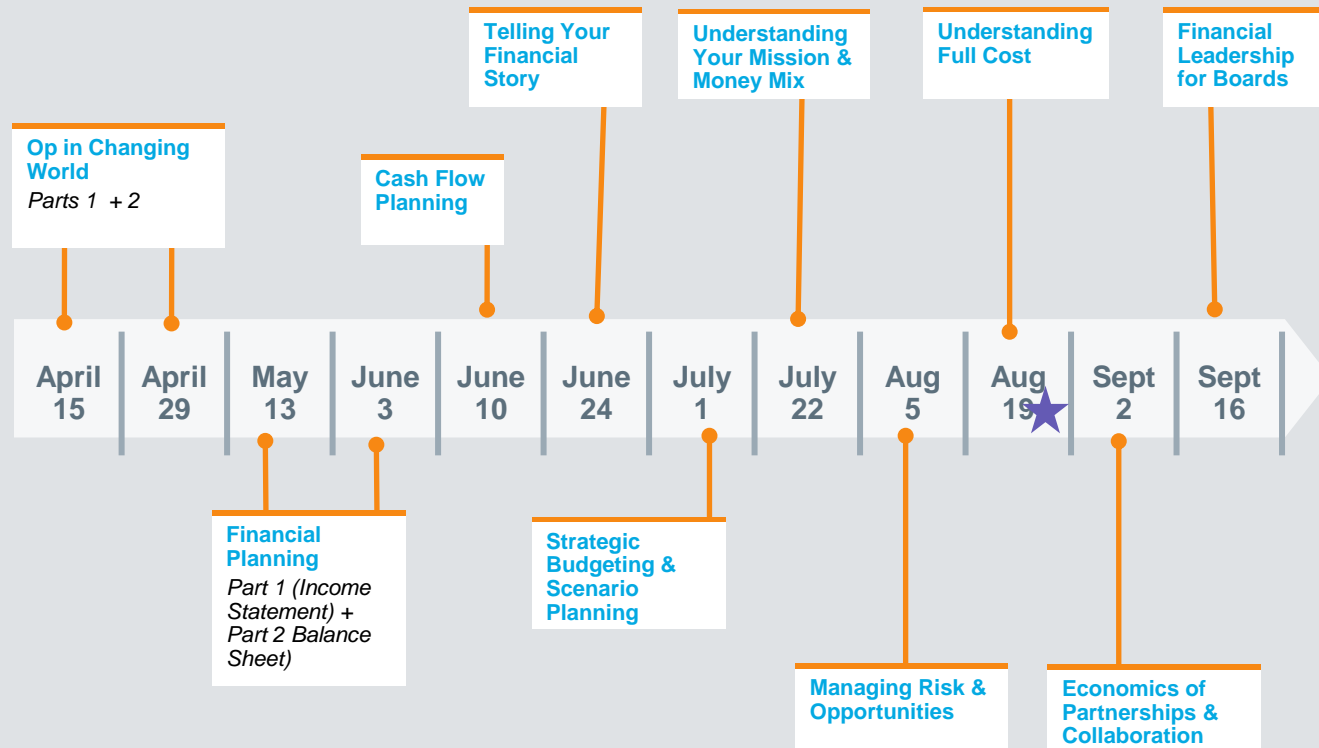
September 2, 2021, 1 – 2 pm EST

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



Thank You!

AFranks@nff.org

nff.org

