

Feeding Nonprofit Effectiveness Must Not Starve Their Solutions

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Full Cost Project is a joint initiative of Philanthropy CA and NFF aiming to bring together education, advocacy, and skill-building to increase the number of funders that provide full cost funding. When surveyed, funders and nonprofits have different perceptions of what is "on the table" to openly discuss. This is likely due to power differentials and funders have much more openness than most nonprofits know. Funders should realize this power and create space for open, honest conversations to feed growth and dynamism in relationship.

Components of Full Cost (First 3 Needed/Last 3 Optional)

- Total Expenses - operating, non-operating, and unfunded expenses
- Working Capital - access to cash for day-to-day needs
- Reserves - 'rainy day' fund; need a purpose or will otherwise just sit around
- Debt Principal Repayment - mortgage, line of credit, etc.
- Fixed Asset Additions - money to purchase a new building, equipment, vehicles, computers, etc.
- Change Capital - resources to adapt, grow, and/or expand

Defining Unfunded Expenses

Critical to full cost is understanding what elements are not currently being paid for which leave the organization "operating on the edge." Operating at this capacity for too long creates a very real dynamic that is plaguing the entire nonprofit sector. Unfunded expenses like sweat equity and gap between current/fair wages for employees are not revealed on the financial statements.

3 Rules of Full Cost

1. Nonprofits Need Profits: Nonprofits need to cover the full cost of delivering programs, and only living for today will not allow the nonprofit to be sustainable tomorrow. Profits allow nonprofits to reinvest back in themselves and surpluses seed activity and growth in the other areas/components of Full Cost.

2. Conversation is Critical: While some funders/boards may require a year-end \$0 bottom line, there are still ways to budget beyond breaking-even to deliver on the organization's long term mission. Communicate about what "profits" and "surpluses" mean and indicate how they will be utilized in future years by thoughtfully showing clear plans for tomorrow (i.e. line item designated "contribution to capital asset purchase").

3. Match Expectations to Dollars: Funders and nonprofits need to effectively communicate about intention/use of money. Is it capital for change or operating expenses? Neither is better or worse than the other, but lack of clarity can create unrealistic expectations and frustrations for all parties.