Is Your Budget Bulletproof?

Not all money is created equal. Which should you pursue?

By Andy Robinson

A growing number of nonprofits have been asking these "What if . . ." questions:

What if we weren't so dependent on grants and government funding?

What if we had more money in the bank?

What if we created a more resilient mix of income?

Followed by, "Then we wouldn't be so freaked out." Indeed.

As you build your budget, you make many choices. Which grants will you pursue? How deeply will you engage with individual donors? Do you have the potential to earn money from your programs? Which mix of revenues will make you resilient and self-sufficient?

You've got lots of options – that's the good news – but not every option is relevant to every organization.

Consider the following facts and principles.

Who Gives You Money?

Broadly speaking, nonprofit organizations generate revenue in three ways:

1. Grants are provided by charitable foundations, corporations, and government agencies: federal, state, local, and so on. In addition, some service clubs and faith-based organizations offer grants.

Nearly all grants require an application or proposal. Some funders pre-select groups and invite proposals, and not everyone is invited.

2. Individuals give in many ways, ranging from membership and automatic monthly giving to major gifts. (You decide what "major" means, based on the budget and culture of your group. These gifts are usually solicited in person.)

People also contribute online, via crowdfunding sites, and at benefit events. Some give through their workplaces; others use donor advised funds. Many individuals include

> "Smart organizations weigh the pros and cons of each."

TABLE 1: PROS & CONS OF THE THREE TYPES OF REVENUE

PROS	CONS
Grants	
Large amounts; short-term, it's a good return on the time invested	Competitive; lousy odds of success
Good source for program funding	Mostly restricted money
Get organized! You need goals, impact metrics, budgets, etc. in your proposal	Possible mission drift: "chasing grants"
	Government grants are affected by outside forces that are hard to control
Individuals	
Lots of options: more than half the population gives to nonprofits	Donor retention and upgrading take time and investment
Unrestricted money	Board resistance – this is the category where boards can potentially help the most, but often don't
Demonstrates community support	
"Lifetime value" – donor giving adds up over time	
Earned Income	
Requires strong financial systems	Tendency to under-price and therefore lose money on fee-based programs
Potential for greater program impact through participant investment	Some programs can't be monetized
Diversifies revenue	Can be controversial or challenging, especially if you serve low-income participants
Mostly unrestricted income	

nonprofits in their estate plans and bequests – these are known as planned gifts or legacy gifts.

3. Earned income is generated by charging for your services – for example, program fees or tuition. Some organizations sell products related to their charitable mission, while others receive investment income from their reserve funds or endowments.

Of these three categories, earned income is the largest source of funding for U.S. nonprofits. If that's not part of your revenue mix, ask yourself: Why not?

Pros & Cons of Each Strategy

Each flavor of money carries its own benefits and risks. Table 1 offers a simple summary.

As you can see from this table, "free money" doesn't exist. Each strategy has potential but also comes with risks and challenges. Smart organizations weigh the pros and cons of each and build their fundraising plans accordingly.

Why Diversify?

The most resilient groups raise money from a variety of sources. This approach offers more opportunities to grow your budget while mitigating the risks of losing a primary grant or donor.

Here's an example. During recessions, the organizations with the most diverse revenue make it through with the least pain. In contrast, groups that rely primarily on government funding suffer the most.

The time to diversify is now.

How Do You Benchmark Income Diversity?

There's no optimal ratio – for example, 20% grants, 50% individuals, 30% earned income – that's relevant to every organization, because every circumstance is different.

Nonetheless, I humbly propose these three benchmarks:

1. The big funder test: If you receive more than one-third of your budget from one foundation, one donor, or one government contract, watch out. If that grant or gift goes away, you'll struggle to survive.

2. The unrestricted income test: Ideally, you want at least two-thirds of your operating budget to be unrestricted

CONTINUED ON PAGE 12

money. This usually comes from individual donations and program revenue, rather than grants.

Unrestricted money provides maximum flexibility to run your organization as you see fit.

3. The "Who owns your organization?" test: Once upon a time, I met with representatives of a nonprofit that needed advice. I asked them, "Who owns your organization?"

"Our members," they said proudly.

"Excellent. And what percentage of your budget comes from membership donations?"

Their answer was worrisome: Only 10% came from the membership, while the balance came from foundation grants. As we talked through the implications, the group became uncomfortable.

Like it or not, your biggest investors tend to have the greatest ownership stake and therefore the most power over mission, strategy, programs, and so forth.

In the ideal world (which isn't always the real world), the community members you serve and engage – your customers, clients, participants, and members – would be your primary owners and investors. As you build your budget and your fundraising plan, keep that in mind.

Andy Robinson (trainyourboard.com) is a consultant to nonprofit organizations and author of What Every Board Member Needs to Know, Do, and Avoid: A 1-Hour Guide *and* Train Your Board (and Everyone Else) to Raise Money *(co-written with Andrea Kihlstedt).*

"If that's not part of your revenue mix, why not?"

Answering the Income-Mix Question

For more on the three main sources of income and finding the best mix for your organization, see these articles at NonprofitWorld.org:

INDIVIDUAL DONORS

Three Simple Questions that Get Donors to Give (Vol. 35, No. 2)

Are You Making These Mistakes in Your Fundraising Letters? (Vol. 37, No. 4)

Improve Your Special Events (Vol. 30, No. 5)

Why Focus on Bequests? The Facts Tell the Story (Vol. 36, No. 4)

GRANTS

Seven Deadly Grantwriting Sins (Vol. 27, No. 6)

The Challenge of Sustaining a Grant-Funded Program (Vol. 28, No. 6)

Two Keys to Successful Grant Proposals (Vol. 15, No. 3)

How Much? Five Factors to Consider When Choosing a Grant Request Size (Vol. 31, No. 3)

EARNED INCOME

Looking for Customers Rather than Handouts (Vol. 22, No. 6)

Why You Need to Be More Entrepreneurial - And How to Get Started (Vol. 19, No. 6)

How Much of Your Revenue Should Come from Earned Income? (Vol. 23, No. 3)

Six Tips for Better Pricing (Vol. 30, No. 4)

A GOOD MIX OF INCOME

From Government Funds to Income Diversity: A Map For The Quest (Vol. 35, No. 4)

Not a "Someday" Dream: The Steps to Sustainable Income (Vol. 37, No. 4)

Purging Misinformation, Hearsay, & Errors about Nonprofit Income (Vol. 34, No. 4)

Cracking The Diverse-Income Code (Vol. 35, No. 1)