



# Funding Sources

## What is the Right Mix?

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A PRIMER FOR NONPROFITS, PRESENTED BY THE GREATER NEW ORLEANS FOUNDATION,  
ORGANIZATIONAL EFFECTIVENESS INITIATIVE  
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## NEEDS SCAN REPORT

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# What percentage of your budget comes from one donor? What would happen if you lost a key service contract tomorrow? How reliant is your signature program on one funding source?

These questions are important starting points in determining if a nonprofit's funding base is diversified and durable enough to weather inevitable changes. The responses can provide nonprofit leaders and their board members with insightful indicators about the financial health and well-being of their group.

What does it mean to be financially stable and sustainable? A basic benchmark can be found in your funding sources because revenue diversification is a key to building a sustainable, healthy, and stable future for nonprofits. So what does this diversification look like?

One good starting point is ensuring that no more than 25% of revenue comes from any one source.<sup>1</sup> Taking a close look at current revenue streams can reveal over-reliance on one or two sources or, conversely, confirm that you have a healthy mix of dollars from a variety of donors.

Some experts suggest four or five different kinds of funding sources, drawing from a mix of foundations (family, community, private, state, local, national, etc), government, businesses and individuals.

In particular, since individual donors comprise the largest source of giving to nonprofits,<sup>2</sup> you may discover the need to devote more effort to increasing this revenue source.

Just as important as the diversity of donor sources is the mix of income types contributing to your overall revenue portfolio. Examples are grants, workshop fees, membership fees, government contracts, reimbursements, investment income, planned giving, and sales of goods and services. This income mix serves as another key strategy for diversification.

Beyond the total amount of dollars brought in, fundraising approaches can also have a fundamental impact on income mix and donor diversity. A diverse range of individuals actively engaged in your fundraising efforts can help your organization achieve this income diversity. As fundraising consultant Ron Milan suggests, "Fundraising generates the strongest results when lots of people in the organization are involved—the Executive Director, Development staff, and every member of the Board."<sup>3</sup>



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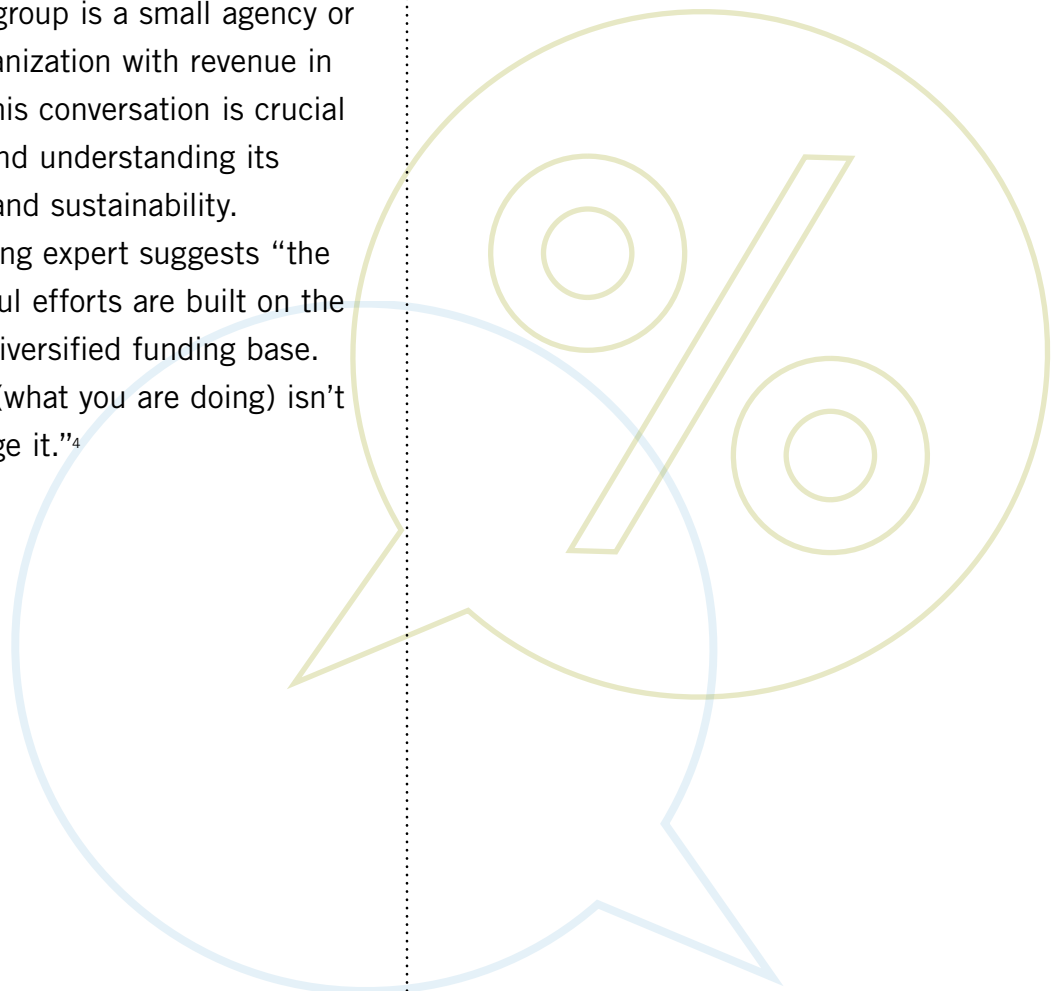
So not only does an effective organization diversify its sources and mix of income, it diversifies its fundraisers too.

Reviewing your organization's current operating budget and revenue statements is an important step that doesn't have to wait until you are developing your budget. In fact, any time of year is right for examining your revenues mix. For instance, you can begin the conversation at an upcoming board meeting. Taking this proactive step can help your organization avoid unpleasant surprises.

Whether your group is a small agency or an anchor organization with revenue in the millions, this conversation is crucial to assessing and understanding its effectiveness and sustainability.

As a fundraising expert suggests "the most successful efforts are built on the concept of a diversified funding base. Be flexible, if (what you are doing) isn't working, change it."<sup>4</sup>

As you get started, pie charts and similar visual aids are easy and helpful ways to show revenue streams and demonstrate their mix and diversity. Excel is a good tool for creating such charts. *The Funding Pie*, a publication from the Louisiana Association of Nonprofit Organizations (LANO), offers a worksheet to help identify the source of funds, their allocation in your current budget, and funding period, and a functional timeline worksheet for more in-depth planning and development.<sup>5</sup>





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The following questions, along with your funding pie chart, can guide both initial and ongoing conversations with your board around finding the right mix and diversifying your funding base:

- What are the different types of income (fees, grants, gifts, etc.) that are reflected in the pie chart?
- From what sources are the revenues derived?
- How balanced are the revenue streams? What percentage of support comes from each source? Does one source account for more than 25% of our total budget? How comfortable is our board and staff with that?
- How reliable are the current funding sources? What are the strengths of each revenue stream? What current or potential weakness does the organization face with each stream? What can be done to improve each revenue stream?
- How might we diversify? Are there existing sources that could grow? What new sources might we explore?
- Is our fund development plan designed and managed in concert with our strategic plan? And how well does our income and revenue reflect program goals and strategies?
- Who is responsible for fundraising in our organization? What ways are board members fulfilling their roles? What is needed to get everyone on board the fundraising train?

What you uncover during these fundamental conversations can assist your board and staff in its planning efforts, help re-focus and diversify your fundraising base, and get you on the road to an effective and sustainable future.

<sup>1</sup> Foundation Center, [www.foundationcenter.org](http://www.foundationcenter.org)

<sup>2</sup> Giving USA 2011 Executive Summary, [www.givingusa.org](http://www.givingusa.org)

<sup>3</sup> [www.ronmilan.com](http://www.ronmilan.com)

<sup>4</sup> Jeri Alcock, CFRE OnCourse Consulting presentation: Planning for Success, The Annual Fund Development for Grassroots Organizations

<sup>6</sup> The Funding Pie: Recipes for Sustainable and Diversified Fund Development, Susan Hymel, Meaine Guste, Chris Broussard, Melissa Flournoy, 2007