

Intermediary Development Series

Building Multiple Revenue Sources



The National Resource Center gratefully acknowledges the following expert and experienced practitioners who assisted in the development of *The Intermediary Development Series* guidebooks:

Acquiring Public Grants
Building Multiple Revenue Sources
Delivering Training and Technical Assistance
Designing Sub-Award Programs
Establishing Partnerships
Identifying and Promoting Best Practices
Managing Public Grants
Measuring Outcomes

The ideas and information in this publication should not be construed as an official Department of Health and Human Services position. This guidebook is published in the interest of technical information exchange.

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Table of Contents

- Introduction**1
 - Building Multiple Revenue Sources1
- Building Multiple Revenue Sources Overview**3
- The ACHIEVE Process: 7 Steps to More Revenue**4
- Step 1 Assess Your Goals and Financial Resource Capacity**5
 - Goals5
 - Revenue Sources6
 - SWOT Analysis7
- Step 2 Clarify Your Income Strategy**14
- Step 3 Homework on Federal Cost Sharing Regulations**18
 - Using Indirect Costs as a Part of Cost Sharing18
- Step 4 Identify and Select an Appropriate Revenue Source**20
- Step 5 Execute Your Revenue Resource Plan**26
 - Plan Objectives26
 - Select a Revenue Source.....26
 - A Summary of Costs26
 - Adjustments to Your System26
 - The Schedule.....26
 - Revenue Source Plan Summary30
- Step 6 Verify Your Results and Make Modifications**.....32
- Step 7 Educate Other Organizations on How to Grow Their Revenue Sources**33
- Summary**.....34
- Appendix** **37**
 - Resources/References**41
 - Glossary**39
 - Goals and Financial Resources**44
 - Income Strategy Grid**46
 - Revenue Source Plan Summary**47

Introduction

Welcome to *The Intermediary Development Series*—a multi-volume series designed to outline the key steps and elements necessary to help intermediaries build capacity in the faith-based and community-based organizations (FBO/CBOs) they serve. This series represents more than the sharing of information. It represents a common commitment to an intermediary's ideals—providing the most effective services in a more efficient manner to the grassroots organizations that are reaching those in our country with the greatest needs.

Who is the audience for *The Intermediary Development Series*?

An *intermediary* is something that exists between two persons or things, or someone who acts as an agent or mediator between persons or things. An intermediary organization, then, exists between the people with the resources and the organizations needing the resources—namely finances or information.

The Compassion Capital Fund, administered by the U.S. Department of Health and Human Services, helps FBO/CBOs build capacity and improve their ability to provide social services to those in need. In this context, an intermediary acts as a mediator between the Federal government and grassroots organizations to help accomplish these goals. This series will prove useful to both existing and emerging intermediaries (those currently funded through CCF as well as an expanded audience of potential recipients) and the FBO/CBOs they serve.

What is *The Intermediary Development Series*?

Think of it as help when and where it's most needed—a ready reference for common priority issues and comprehensive answers to critical questions. It was developed as a key component of the Compassion Capital Fund in response to the questions and concerns consistently posed by intermediaries representing all areas of expertise and experience levels. The following titles are included in this eight-volume series:

Acquiring Public Grants
Building Multiple Revenue Sources
Delivering Training and Technical Assistance
Designing Sub-Award Programs
Establishing Partnerships
Identifying and Promoting Best Practices
Managing Public Grants
Measuring Outcomes

How is *The Intermediary Development Series* used?

It is intended to be used as a practical guide for intermediaries to help FBO/CBOs in a variety of tasks including securing more funding, providing services more effectively or on an increased scale and also helping them operate more efficiently. As such, it's flexible—readers who wish to use it as a self-guided reference for specific questions are likely to keep it nearby. Key terms (bolded within the text) are defined in a glossary of terms included in the appendix of each

guidebook. It's also comprehensive—emerging intermediaries may find the volume, *Delivering Training and Technical Assistance*, especially helpful for more in-depth assistance. Finally, regardless of the audience, its user-friendly format makes it easy to share with the variety of organizations intermediaries serve.

Who developed *The Intermediary Development Series*?

This series was developed for the Department of Health and Human Services by the National Resource Center—an information clearinghouse designed to provide customized technical assistance, specialized workshops and other useful tools to help increase intermediaries' scale, scope and effectiveness. Expert practitioners were enlisted to develop and field-test each topic in *The Intermediary Development Series*, ensuring each volume would provide accurate and, most of all, *practical* answers to common questions.

Building Multiple Revenue Sources

By reading this particular volume in *The Intermediary Development Series*, intermediary organizations will know how to evaluate, start and sustain one or more new income or revenue sources. They will know the features, advantages and requirements associated with particular revenue sources. And they will be able to raise more money using tools and techniques that fit their needs, stage of development, strengths and the cost sharing requirements of their Federal grant. They will also understand and/or receive:

- A 7-step ACHIEVE evaluation process to starting a new revenue source
- A revenue SWOT to assess their organization's advantages and restrictions
- Guidance on meeting a grant related cost share
- Features, advantages and insights into 14 revenue sources

This guidebook will help organizations answer these key questions:

- How can I meet Federal requirements on my grant's cost share?
- How do I grow my organization's revenue?
- How can I assist small FBO/CBO's in growing their revenue?

Building Multiple Revenue Sources Overview

Although most intermediaries can use more money, the time and expertise required to add a new revenue source or enhance an existing one can be considerable. The choices you make can affect your rate of growth and your ability to sustain your organization at a new level of service delivery. While more revenue is needed and helpful, not all income growth strategies come at the same “price” to your organization. Some revenue sources are easier to implement and take less technical expertise than others; some are more suitable to the mission and strengths of your organization. A frequently-faced question for most intermediaries concerns the best way to grow and sustain increasing levels of income.

Two added wrinkles make the question more complex and the answer more urgent. The cost sharing requirements associated with a Federal grant require you to know how to rapidly raise money and where to turn for help in meeting a cost share or completing a match by the grant deadline. As a teacher and information resource to organizations in your community and to your sub-awardees, you will also be expected to share expertise and deliver training in raising money.

Keep these terms and phrases used throughout this guidebook in mind:

Cost sharing – The portion of a grant’s cost assumed by an institution, which is more than a token amount and not paid by the Federal government.

Financial Resources – The various **assets** of your organization, from actual cash, property and inventory to your staff and volunteers, good will, reputation, constituent base, board members and partners of your organization.

Income Strategy – The direction you will take in the coming 12 months to generate more income, whether contributed, earned or some other form. One of four strategies makes sense for most organizations: raise cash from existing revenue sources; raise cash from a new source; form an alliance or partnership with an organization that brings cash; or form an alliance or partnership with an organization that brings **in-kind** resources.

Matching – The value of cash, in-kind and other contributions contributed by non-Federal third parties.

Revenue source – A discrete income source with its own characteristics and requirements. It can be **earned income** or **unearned income**. Each of 14 discrete income streams is called a revenue source.

These definitions will gain meaning as you read through the 7-step revenue building process, apply the income strategies and evaluate the revenue sources for your potential use. You are on the path to raising more money and building multiple revenue sources for your intermediary.

The Achieve Process: 7 Steps to More Revenue

The 7-step process is a guide to save you time and cover the steps necessary to complete your evaluation in the right sequence. This practical sequence of steps will help you evaluate your alternatives before making a financial resource choice. A checklist at the end of each step helps you move to the next step efficiently.

It's best to undergo this process with your board and staff leadership, informing them of the steps and the work products associated with completing each step. A typical time frame from start to finish may take 30 days and in most cases does not require a consultant's help. A paid professional consultant may be required when the revenue source you decide to add requires knowledge or expertise you don't have and can't hire or find through an experienced volunteer.

You can remember the 7-step process by the acronym ACHIEVE:

- A** Assess your goals and financial resource capacity
- C** Clarify your income strategy
- H** Homework on Federal cost sharing regulations
- I** Identify and select an appropriate revenue source
- E** Execute your revenue resource plan
- V** Verify your results and make modifications
- E** Educate other organizations on how to grow their revenue sources

STEP 1 **A** Assess Your Goals and Financial Resource Capacity

Step 1 of the ACHIEVE process lets you organize your goals, project where you hope to be, weigh your strengths and weaknesses and evaluate the opportunities and threats you face. Take stock of what you want and what you have to work with. Be candid and as detailed as possible since precision results in clear plans later. To help you organize this process, use the worksheet entitled, “Goals and Financial Resources,” in the Appendix as you follow along in this section (also see the sample below).

Sample Goals		
Financial Resource Goal	Where I am today	Where I need to be
Annual revenue		
Special project revenue		
# donors		
# volunteers raising revenue		
Fundraising expense		
Other		
Other		

Goals

You have revenue goals you want to meet and possibly other goals as well. On the worksheet in the Appendix, fill in the table based on the categories listed on the left side. The categories are as follows:

- Annual revenue – List the gross amount you receive from all sources. If one of your goals in starting a new revenue stream is to grow this base, then indicate on the right side what you hope to achieve.
- Special project revenue – List any extraordinary or non-recurring revenue and the “hoped for” increase on the right side column.
- # donors – List your total number of annual supporters and indicate any increase you want on the right side.
- # volunteers raising revenue – If you use volunteers to raise funds or generate other revenue, indicate any increase in numbers.
- Fundraising expense – List the amount you are spending to generate your gross annual revenue. If you desire to change this number, indicate that goal.
- Other – List any other goal or goals you have for adding or enhancing a revenue source.

Revenue Sources

Next, read through the description of the 14 revenue sources as they are described and list the revenue you presently receive from these sources on your worksheet. In the right hand column of that worksheet, show the revenue you desire. Even if you are not sure whether you want to start a particular revenue source, indicate your goal amount on the worksheet (see sample).

Sample Revenue Sources	
Revenue Source	Defined
Annual or sustained gifts	One or more fundraising programs that generates gift support on an annual or sustaining (more frequent than annual) basis. Annual programs acquire donor names to the organization's house file using an offer communicated through various mediums. Names are acquired using the media of radio, TV, space ads, direct mail lists, email lists, phone lists, etc. When a donor responds to an initial offer, they are then converted to at least two transactions before being cultivated on the organization's file as a sustaining supporter. Examples of cultivation methods include direct mail, internet, monthly donors, affinity or club programs, honor or memorial giving, telethons, phone mail, etc.
Major gifts	A large gift, often from a person, to a not-for-profit organization, the amount required to qualify as a major gift being determined by the organization. Prospect names are identified through screening of annual supporter lists, list rentals, personal referrals and PR-related cultivation events. Prospects are qualified through electronic and personal screening. Prospects are cultivated for a period of time before solicitation. Many major gifts require negotiation and are restricted as to use, may involve a pledge or letter of intent and require personalized recognition.
Planned gifts	A large gift that is structured and integrates sound personal, financial and estate-planning concepts with the prospect's plans for lifetime or testamentary giving. A planned gift has tax implications and is often transmitted through a legal instrument, such as a will or a trust. Examples of planned giving instruments include pooled income fund, charitable remainder trusts, insurance gifts, lead trusts, bequests, etc.
Foundation grants	A foundation is an organization created from designated funds from which the income is distributed as grants to not-for-profit organizations or, in some cases, to people. A grant is a financial donation given to support a person, organization, project or program. Most grants require research by the organization's staff and submission of an application. Grants are awarded to non-profit organizations according to the foundation's specific guidelines, limitations and assets.
Cause-related marketing (corporation)	Marketing agreement in which a for-profit organization, by using the name and reputation of a non-profit organization, promotes its product and in return provides financial support to the organization according to a predetermined formula based on sales and purchases.
Corporate giving program	A grant-awarding program established and controlled by a profit-making corporation. In some corporations, this is separate from the marketing function and from any corporate foundation.

Sample Revenue Sources Continued	
Revenue Source	Defined
Earned income activities related to the organization's mission	Earned income activities related to the organization's mission. Revenue received by an organization for product sales, fees for services rendered, interest generated from investments or royalties generated from owned and copyrighted works. Income is derived for activities substantially related to the organization's tax-exempt purpose.
Unrelated business income (UBI)	Revenue received that is the result of any legal trade or business conducted by a not-for-profit organization to make money in a way not directly related to an organization's Federally tax-exempt mission.
In-kind	A donation in goods or services (not in money) such as a contribution of equipment, inventory, supplies, space or staff time. The donor may place a monetary value on such a contribution for tax purposes.
Supporting organization	A qualified charity operated, supervised or controlled by or in connection with one or more specified public charities. An auxiliary, association, friends groups or other non-profit may be a supporting organization.
Benefit events	A social event from which net proceeds are designated as a donation to one or more causes. Examples include races, balls, carnivals, bazaars, galas, concerts, etc.
State and local municipalities	Funds under the direction and discretion of a non-Federal agency. Sources include state grants, a local municipality grants and in-kind service, allocations of Federal block grants to a state or municipal agency under a Federal authority and state and municipal bonding authority.
Churches and denominations	Cash and in-kind contributions from a local church, local church foundation, denominational office or church-run service agency. Other organizations include ministerial associations, regional trans-denominational organizations and associations like the NAE, NCC, etc.
Federated funds	Funds raised through one of several employment-related annual giving campaigns. Examples include United Way, Combined Federal Campaign, Combined Health Appeal, etc.

SWOT Analysis

After you have listed your goals and your present revenue sources, assess your potential for generating revenue. To do this, involve your board leadership and senior staff and plan to take a day or two to discuss the results. You will use a simple analytical tool to understand your *Strengths, Weaknesses, Opportunities and Threats*. This is called a SWOT Analysis. (For more information on using a SWOT Analysis, see the *Delivering Training and Technical Assistance* guidebook, part of the National Resource Center's *Intermediary Development Series*.)

SWOT Analysis enables you to assess your present financial resource strengths and weaknesses and evaluate the opportunities and threats around you. The result of an accurate SWOT is a refined set of statements about your organization that will help you focus on what matters most to help generate more revenue. To complete a financial resources SWOT, answer the following questions in the spaces provided on your worksheet (see sample on next page).

Sample SWOT Statements	
SWOT Area	Statements about your organization
Strengths	
Weaknesses	
Opportunities	
Threats	

Your organization's revenue resource Strengths:

- What financial resources do you have? (cash, people, expertise, etc.)
- Of the 14 revenue sources, which one(s) generate most of your income?
- What are your revenue generating advantages? Are any of these unique to you?
- What do you do well in fundraising?
- What do your constituents see as your resource strengths?

Don't be modest; be realistic. Think about your resource strengths in relation to other non-profit organizations in your service area and those that are your competitors.

Your financial resource Weaknesses:

- Are you underutilizing your board, community relations, development budget, reputation or staff? If so, what would it look like if you were using them fully?
- Which of your present revenue generating activities could you improve?
- Which do you do poorly?
- What revenue generating tactics should you stop doing altogether?
- Are other similar organizations in your geographic area doing any better than you?

Take a hard look at your results over the past several seasons in all areas of resource generation. Most organizations will have several revenue generating activities that are working well, some that are marginal and a few that are poor.

Your financial resource Opportunities:

- Have you been invited to partner with another organization? How was this evaluated in terms of risk and potential reward?
- What new activity might take a combination of faith and action to undertake?
- What are the open doors facing your organization?
- What are the interesting trends in your field?

Opportunity comes in all shapes and sizes and from unexpected places and people. It might occur in a report or study that features your organization or area of service. It may appear during a season of change—in leadership, strategic direction, the financial health at a competitor organization, the advent of a new technology, the offer of a building, a sharp reduction in land costs, etc. Be open to revisiting an old opportunity rejected previously but now worth considering.

Your financial resource Threats:

- What financial resource obstacles do you face?
- Are any new regulations, increased costs or declining returns affecting your revenue generating ability and return on investment?
- Is there adverse public reaction to a revenue generating technique you are using?
- Is your size, visibility, success or revenue track record likely to hurt you in the future?
- Do you have bad debt or cash-flow problems?
- Could any of your weaknesses seriously threaten your organization?

Answer the questions in each of the four SWOT areas with several brief one-sentence statements. Once you have a list of statements, you are ready to winnow the list to a few statements in each SWOT area. Circle the two or three in each SWOT area that are most urgent and important, and then ask the following:

- Where can a revenue source capitalize on a strength?
- What weaknesses must you minimize or eliminate to gain the best advantage for a new or enhanced revenue source?
- Which opportunities appear to support a strength or help eliminate a weakness?
- Which of the threats could materialize in the next 12 months and undermine an income strategy?

In the last section of your worksheet, write the two or three key statements per SWOT area that focus your attention and future activities in a financial resource strategy that:

- builds on a strength
- diminishes or eliminates a weakness
- embraces an opportunity to build on a strength and or diminish a weakness
- reduces a threat

Sample Organization

Now, look at the whole exercise through the eyes of a typical intermediary called “XYZ”:

“We have been around for 20 years serving well, with good results to our clients and no bad press. We have a strong, smaller donor support base which gives faithfully every year. Our board is knowledgeable, active and gives or raises 20% of our annual budget. For the third year in a row, the annual fundraising benefit has raised more money than the previous year. Our president isn’t afraid to ask for money. We own our building and rent out excess space at market rates giving us modest positive cash flow. We just received the multi-year Federal grant.

On the downside, our organization has existed 20 years and is not known beyond our local community. Consequently, we are not known to funders outside our region. We generate very small amounts in foundation and corporation gifts. Our annual donor records are inconsistent and often inaccurate. We have no major gifts or planned gifts programs. Our contributed revenue peaks in December and May and dips very low in January/February and summer. Programs are caught in this cycle and never seem to grow.

We think a couple of great opportunities are in front of us. A Fortune 500 company has located a manufacturing facility eight miles away. We have been invited to merge with the newer, larger ABC organization similar to ours (though the other organization has a significant amount of debt). Our newest board member serves on the community foundation board. Two years ago, we were offered a gift of 10 acres of land, zoned for light commercial usage five miles out of town. The new Federal grant means we can use the publicity to tell small FBO/CBO organizations about our services.

We are aware of some ominous signs on the horizon. Our income from direct mail is leveling off, but our costs are increasing every year. The ABC organization competes in the same service area and started a larger, very visible, more “profitable” annual fundraising benefit. The five block area around our building has seen a steady decline in real-estate values over the past five years. The ABC organization’s president was featured in several lengthy articles. He was quoted as an authority in our mutual service area. As a result, and according to our new board member, the community foundation has expressed interest in providing possible support to ABC organization.”

XYZ has been awarded a four-year Federal grant for \$2 million. Its cooperative agreement stipulates a 25% match as cost share, or \$500,000 over the term of the grant period. The first year amount of the cost share is \$125,000. XYZ organization knows it needs to find, raise or somehow make that match to qualify for the Federal dollars. XYZ organization began Step 1 of the ACHIEVE process and filled in the worksheet accordingly:

STEP 1: Assess Your Goals and Financial Resource Capacity

Goals		
Financial Resource Goal	Where XYZ is today	Where XYZ needs to be
Annual revenue	\$3,010,000	\$3,520,000
Special project revenue		\$500,000
# donors	6,000	9,000
# volunteers raising revenue	10	20
Fundraising expense	\$200,000	\$350,000
Other		
Other		

Revenue Sources		
Revenue Source	Where XYZ is today	Where XYZ needs to be
Annual or sustained gifts	\$1,000,000	\$1,200,000
Major gifts	\$400,000	\$800,000
Planned gifts		
Foundation grants	\$1,100,000	\$1,300,000
Cause-related marketing		
Corporate giving program	\$50,000	\$100,000
Related earned income activities		
Unrelated business income (UBI)	\$250,000	\$300,000
In-kind	\$10,000	\$20,000
Supporting organization		
Benefit	\$200,000	\$250,000
State and local municipalities		
Churches/denominations		
Federated funds		\$50,000
Other		

STEP 1: Assess Your Goals and Financial Resource Capacity *(continued)*

Sample SWOT Statements	
SWOT Area	Statements about your organization
Strengths	<ul style="list-style-type: none"> • Our president is unafraid to ask for money • We have a solid track record • We own our building and rent out excess space at market rates
Weaknesses	<ul style="list-style-type: none"> • Our organization has existed 20 years and is not known beyond our local community • Our annual cash flow peaks in December and May and dries up in January/February and summer
Opportunities	<ul style="list-style-type: none"> • We have been invited to merge with a newer, larger organization similar to ours though the other organization has a significant amount of debt • Our latest board member serves on the community foundation board • We can leverage the Federal grant for PR and participation • We have been offered 10 acres of land, zoned for light commercial usage five miles out of town and below market rates
Threats	<ul style="list-style-type: none"> • The ABC organization began holding a larger, very visible, more “profitable” annual fundraising benefit • The ABC organization’s president was featured in several lengthy articles about our mutual service area. As a result, the community foundation has expressed interest in providing possible support to ABC.

Four financial resource key statements	
SWOT Summary Categories	Key Statements about XYZ organization in each SWOT area
builds on or enhances...	<ol style="list-style-type: none"> 1. The president’s ability to ask for money 2. Our history, stability, low debt 3. The Federal grant
reduces or eliminates...	<ol style="list-style-type: none"> 4. Our public invisibility, especially to potential large funders 5. The cash flow cycle that traps our growth
explores or takes steps to...	<ol style="list-style-type: none"> 6. Use the building. Can more be done with it to generate revenue? 7. Our board member contacts with foundations 8. The gift of land
does not ignore or dismiss...	<ol style="list-style-type: none"> 9. ABC’s rising reputation and media visibility 10. ABC’s apparent strength with more broad-based public support

This analysis may point to enhancing one or more existing revenue sources for XYZ. They may also need to start a new revenue source. The organization may not be able to do more in the area of annual giving; it may have an opportunity with major gifts, with foundations and with corporations.

Step 1 Checklist

- List my revenue goals
- List my present revenue resources
- Complete my SWOT, noting key statements in four areas
- Summarize my four financial resource statements

STEP 2 Clarify Your Income Strategy

Too often, organizations spend precious time and money because they fail to select a strategy. Some pursue more revenue by starting up one or more income sources before asking if this is helpful or necessary. Others painfully pursue re-working their existing revenue generating ability instead of investing that same time and energy in building something new. And some organizations, wary of developing an alliance or strategic relationship, never consider the possibility of mutual gain by lending, using or borrowing another organization's financial resources. An income strategy answers three questions:

- Do I build on an existing revenue source?
- Do I need to start something new?
- Can I “borrow or use” a revenue source from someone else?

Step 2 in the ACHIEVE process lets you select a strategy to generate revenue. Unless you have the assets of a parent organization, most intermediaries use one of four income strategies:

- Enhance an existing revenue source
- Start a new revenue source
- Form an alliance or partnership with an organization to “use” their revenue sources
- Form an alliance or partnership with an organization that brings in-kind resources to the relationship

Enhance an existing revenue source by applying resources of money, counsel and time to improve upon one or more revenue sources that already exist within your revenue generating portfolio. If you have direct mail, you might add a new program to further sort your file of donor names to get a higher yield from certain portions of the file. If you have a grants program to foundations, you might add staff or a consultant to bolster research, inquiries or follow-up on turndowns. CCF intermediary organizations like Operation Blessing and Clemson University build on what they have.

Start a new revenue source by applying people, money and expertise to initiating and sustaining a new source of income. An organization might start a major gifts or planned giving program, create an institutionally-related foundation or start an **endowment** or create a sister corporation to launch a business. All of these would be incremental to existing revenue efforts and require incremental resources to get started.

Use another organization's monetary source by entering into an agreement to provide a mutual benefit to both entities. CCF intermediaries like the University of Hawaii, United Way of Massachusetts Bay and Institute for Youth Development created alliances with other organizations and individuals to create a mutual gain by joining distinct resources toward a common goal. (For more information, see the *Establishing Partnerships* guidebook, part of the *National Resource Center's Intermediary Development Series*.)

Use another organization's in-kind services by entering into an agreement whereby the value of time and services, materials, space or other in-kind contributions meets a cost share. Several CCF intermediaries such as JVA Consulting LLC and Northside Ministerial Alliance (NMA) created alliances with other organizations and met their matching requirements through in-kind contributions and, in NMA's case, resulted in some fundraising, too.

A comparison of each income strategy against a typical list of twelve criteria shows the relative advantages and disadvantages of each:

Comparison of Income Strategy Features				
Income Strategy Criteria	Enhance Existing	Start New	Alliance for cash	Alliance for in-kind
Rapid revenue inflow	Smaller results in the short term	Larger results in the short term	Larger results in longer term	No cash in-flow
Low initial outlay of cash or staff to get going	Moderate expense, with funds found by cutting other programs	Most expensive; have to find outside funds; fundraising costs rise sharply	None	None
Low in-house resistance to change	Yes	No	Low as both entities must have a synergistic gain to have reached an agreement	Low as both entities must have a synergistic gain to have reached an agreement
Low risk in failure	Lower	Higher	Low, though surprises are discovered after the agreement is signed	Low, though surprises are discovered after the agreement is signed
Time elapsed till start-up	Rapid	Slow	Dependent upon agreement	Dependent upon agreement
Generates many new names	Yes, from same programs	Yes	No	No
Builds on in-house systems, registrations, reports	Yes, but this may limit the extent on the improvement	No, and often creates new registration, system and operations issues	No	No, and they may not understand the need for reporting and compliance requirements
Builds on in-house expertise in revenue generation	Yes	No	No	No
Creates urgency or momentum	Harder to create urgency	Yes	Yes	Yes
Ease of tracking results	Harder as enhancements undermine existing program results	Yes, though the organization has a slow learning curve to baseline ROI (Return on Investment) and other results	Yes	Yes, though reporting is difficult as is substantiation
Doesn't need a consultant to get started	Yes	No	Yes	Yes
Ease of termination of program agreement	Harder	Easiest	Moderate, though dissolution can have issues	Moderate, though dissolution can have issues

You are now ready to select a revenue generating strategy. Refer to the “Income Strategy Grid” in the Appendix and your SWOT Key statements completed in Step 1 to create your own Income Strategy Grid.

Let’s use the previous SWOT analysis to create an Income Strategy Grid for the example XYZ organization. We have added all ten of the strategy Key Statements from the SWOT analysis and assigned a “+” if the proposed income strategy supported the criteria or a “-” if the strategy contributed little or nothing to the criteria. We assigned “++” if this was a crucial criteria.

Taking the first Income Strategy criteria statement, “Rapid revenue inflow,” three of the strategies supported this criteria and received a “+”; the fourth strategy (Alliance for in-kind) does not generate income and so received a “-”.

Comparison of Income Strategy Features				
Income strategy criteria	Enhance	Start	Alliance for cash	Alliance for in-kind
Rapid revenue inflow	++	++	++	-
Low initial outlay of cash or staff	+	-	+	+
Low in-house resistance to change	+	-	-	-
Low risk of failure	+	-	-	-
Shorttime elapsed until start-up	++	++	-	-
Generates many new names	-	+	-	-
Builds on in-house systems	+	+	-	-
Builds on in-house expertise	++	-	-	-
Creates urgency or momentum	-	+	+	+
Significant ease of tracking results	+	-		
No consultant needed to get going	+	-		
Significant ease in termination	+	-		
SWOT Strength Key Statement 1 – Use the president’s ability to ask for money	+	+	+	+
SWOT Strength 2 – Capitalize on our history. Stability and low debt	+	+	+	+
SWOT Strength 3 – Use the Federal grant	+	+	+	+
SWOT Weakness Key Statement 1 – Reduce our public invisibility, especially to funders	-	++	++	++
SWOT Weakness 2 – Change cash flow cycle	-	+	+	-
SWOT Opportunity Key Statement 1 – Use the building to generate revenue	+	+	+	+
SWOT Opportunity 2 – Use our board contacts with foundations	+	+	+	-
SWOT Opportunity 3 – Use the gift of land	+	+	-	-
SWOT Threat Key Statement 1 – Minimize the effect of ABC’s visibility	-	+	+	+
SWOT Threat 2 – Minimize ABC’s broad support base	-	+	+	+
TOTAL points (+ = 1)(++ = 2)(- = 0)	19	18	14	10

The XYZ Organization identified and highlighted (see grey bars) their top criteria and concluded they would first pursue a strategy to enhance an existing revenue source before seeking an alliance. At the same time, the grid indicates it's time to develop at least one other revenue source, address the public invisibility issue and prepare the staff for change.

When you have completed the Income Strategy Grid, you are ready to move to the next step. Note:

- If you choose to pursue an alliance, you will need to develop an approach and a proposal. (Again, for more information, see the *Establishing Partnerships* guidebook, part of the National Resource Center's *Intermediary Development Series*.) In Step 3, you will learn about cost sharing and **indirect cost rates**.
- If you choose to enhance an existing revenue source or start a new revenue source to meet a cost share, you will refer to Step 4 in the ACHIEVE process.

Step 2 Checklist

- Understand the relative advantages of each income strategy
- Complete the Income Strategy Grid
- Select one of four income strategies for your organization

STEP 3 Homework on Federal Cost Sharing Regulations

Your cooperative agreement is governed by a few important rules for cost sharing. In fulfilling Federal guidelines, be sure you have met the requirements for what qualifies as a cash or in-kind contribution. Generally, contributions are acceptable provided they:

- can be verified with your organization's records
- are not used on other Federally assisted projects
- are necessary and reasonable for accomplishing your project, salary or hourly rate
- are shown in your approved budget
- have been rightly valued depending upon the property
- were given with the purpose of meeting the match or cost share
- are not paid out of other Federal funds

You should know the documentation and substantiation requirements associated with establishing the value of your cost share. For cash provided by a third party as a match, a letter on organizational letterhead must be submitted verifying the commitment of financial resources, the amount and any restrictions on the expenditure of the matching funds. For **third party in-kind contributions**, letter documentation is required describing the form of the commitment made or resources given. When you use your own organization's in-kind contributions, these must be documented by letter or memorandum, with supporting detail for and an explanation of any additional personnel time beyond the time committed as a cost share, any valuation where an individual's efforts on the project add up to over 100% time and the total of salaries with fringe benefits and **indirect costs**. These must be documented by memorandum. A complete discussion of the requirements for cost sharing is presented in 45 CFR 74. (For more information, see the *Acquiring Public Grants* guidebook, part of the National Resource Center's *Intermediary Development Series*.)

Using Indirect Costs as a Part of Cost Sharing

Your cooperative agreement has expenses in several categories including personnel costs, employee benefits, equipment (purchased or leased), travel, computers and supplies. These costs are **direct costs** because they are directly attributable to achieving your project's outcomes. There are also indirect costs which are real costs associated with your project, but their total cannot be directly associated exclusively with your project. Indirect costs include expenses such as maintenance, janitorial services, heating and lighting, etc. and can be called overhead costs. The full cost of your project is the sum of the direct and indirect costs. For purposes of cost share, indirect costs may be counted as long as they are documented by memorandum.

Indirect costs are usually charged to the grant as a percentage of some or all of the other direct cost items in the applicant's budget. This percentage is called an indirect cost rate. Federal guidelines treat indirect costs as an allowable expense and require that a grantee have an indirect cost rate that has been approved by the Federal government, either yearly or on some other regular cycle. The Office of Management and Budget (OMB) has assigned different Federal departments and agencies responsibility for establishing indirect cost rates for different classes of grantees.

Your intermediary's central management and administrative functions, general expenses and selected joint costs necessary to overall operations are normally identified as indirect costs and are budgeted for and distributed through an indirect cost rate. These costs are not readily assignable to specific awards and activities because a direct relationship to cost objectives cannot be shown or might be arbitrary in nature.

A variety of indirect cost rates are available. You can work with the Office of Grants Management (OGM) to determine which is best for your organization.¹ The provisional/final rate is preferable for non-profit organizations for the following reasons:

- Actual indirect costs are allocated to program objectives in the year incurred, creating accurate cost information;
- There are no prior year indirect costs carried into a future year to burden new or continuing funding;
- All indirect costs are properly funded in the fiscal year incurred, creating no profit or loss for the organization;
- The organization's accounting system must determine actual costs each year, a capability that ultimately must exist to synchronize accounting, budgeting and cost allocation; and
- The actual cost of services or programs is determined annually and is therefore available for purposes of internal management and informed budgeting.

The three basic methods for calculating indirect cost rates under OMB Circular A-122 are the Simplified, Multiple Rate and Direct Allocation methods. Specific instructions on the computation of indirect cost rates with the conditions on when to use each method are contained in OMB Circular A-122, Attachment A.

Back to the example of XYZ organization and its cost share. The agreement stipulates \$125,000 in cost share must be provided as match in the first year. Some portion of this match can be in-kind contributions and some indirect costs, and the rest must be raised or found. XYZ has little experience in calculating an indirect cost rate and for the first year chooses to identify a target of \$35,000 to be met in in-kind contributions of outside consultant/trainers who are giving their time to assist XYZ with training of local FBO/CBOs. XYZ has also obtained space free of charge from a board member, valued at \$25,000. The space will be used to locate the program and provide classrooms for training and instruction. The remaining \$65,000 in first year cost share will be matched by fundraising.

Step 3 Checklist

- Review the Federal guidelines for cost sharing for your grant
- Contact OGM about appropriate indirect cost items and calculating an indirect cost rate
- Maintain excellent records and documentation for all in-kind and indirect costs used in cost sharing

¹ Details may be found at www.ed.gov/pubs/KnowAbtGrants/glossary.html.

STEP 4 Identify and Select an Appropriate Revenue Source

You have prepared and completed your homework. You used the SWOT analysis to focus your goals and prepared an Income Strategy Grid to set your revenue resource direction. With your knowledge of the Federal regulations in mind, you are now ready to select a revenue source. We will briefly define and describe the features of 14 revenue sources.

Revenue Sources Summary	
Revenue Source	Features of revenue source
Annual or sustained gifts	<ul style="list-style-type: none"> • Provides funds for operations • Relies on excellent project trafficking, writing, creative design and purchasing • Names are acquired and converted to regular donors using segmentation, specialized programs and direct response packages • Current active names have at least one transaction in the past 20 months • Lapsed donors are reactivated rather than purged from the file • Donor life expectancy can be 5+ years on the donor file • Direct response tools are least expensive • Volunteers can become donors and vice versa • Less than 6 months lead time • Mediocre ROIs ranging from 1:1 or worse for acquisition to 3:1 for cultivation of active donors
Major gifts	<ul style="list-style-type: none"> • Funds for operations, projects, programs, start-up, endowment and capital • Relies on senior leadership's ability to communicate vision, ask and close • Prospects are screened, rated, researched and profiled • A multi-step cultivation and solicitation process is used to secure gift commitments and can take 10-16 months to complete • The first major gift need not be the last • Less than 6 months lead time • Good ROI, ranging up to 9:1 for seasoned staff
Planned gifts	<ul style="list-style-type: none"> • Funds for projects, programs, endowment and capital • Relies on excellent interpersonal skills of field liaisons and filing required registrations with appropriate state agency • Prospects are screened for age, gift history and financial capacity • A multi-meeting planning process is used to understand the prospect's requirements, evaluate options, confirm with gatekeepers, draft and sign documents • First planned gift need not be the last one • Can build on major gifts or stand alone • 1-2 year lead time • Very good ROI, ranging up to 12:1 for seasoned staff

Revenue Sources Summary (cont.)	
Revenue Source	Features of revenue source
Foundation grants	<ul style="list-style-type: none"> • Funds for operations, projects, programs, endowment and capital • Relies on solid relationships between CEO/board and foundation leadership and solid writing skills • A front door/back door approach is essential to success. The front door requires fulfillment of all application requirements; the back door infers relationships with the foundation staff and directors. • Research and careful matching of the opportunity to the limitations of the foundation • Must be within their schedule, funding patterns, areas of interest and geography • Must work with their staff • Must understand their formula, words and evaluation requirements • Less than 6 months lead time • Very good ROI, ranging up to 10:1 for seasoned staff
Cause-related marketing (corporations)	<ul style="list-style-type: none"> • Funds for operations, projects, programs and people • Relies on staff or counsel having for-profit marketing experience. • Must understand what the corporation seeks out of this Cause-related marketing (CRM) arrangement • Negotiation often involves trade-offs between what the corporation wants and the non-profit can/is willing to give • Impressions analysis and valuation may be required • Retain control of your names • May generate UBIT (Unrelated Business Income Tax) • 1-2 year lead time • Good ROI, ranging up to 6:1 for a mature CRM agreement
Corporate giving program	<ul style="list-style-type: none"> • Funds for operations, projects, programs, endowment, capital, in-kind and loaned services • Relies on an excellent relationship between senior leader and corporate leaders • Requests are usually written and directed to a committee for action • Large sums of money are usually onetime • More likely to contribute if they are headquartered nearby, have a locally based workforce or have a public consumer base • Less than 6 month lead time • Good ROI, ranging up to 6:1 for seasoned staff
Earned income activities related to the organization's mission	<ul style="list-style-type: none"> • Funds for operations, projects, programs, endowment and capital • Relies on good business sense • The business must work as a profit making enterprise before it's worth developing • May require a separate governance structure, separation of accounts, functions and financial filings • 6 months to 1 year lead time • Very good ROI
Unrelated business income (UBI)	<ul style="list-style-type: none"> • Funds for operations, projects, programs and capital • Relies on good business sense • Must know the extent of taxable exposure as defined by IRS regulations governing UBI • 6 month to 1 year lead time • Good ROI

Revenue Sources Summary (cont.)	
Revenue Source	Features of revenue source
In-kind	<ul style="list-style-type: none"> • Funds for operations, projects, programs, Federal cost share • Sometimes begins as a corporate solicitation for cash and then negotiates to an in-kind donation • Relies on good recordkeeping and processing • Less than 6 months lead time • Very good ROI
Supporting organization	<ul style="list-style-type: none"> • Funds for operations, projects, programs and people • Relies on excellent communications between senior leaders of both organizations • Volunteer intensive activities generate PR, services and revenue. • May operate an earned income enterprise • Clearly proscribed limits of authority are essential • 1-2 year lead time • Mediocre ROI, ranging up to 3:1
Benefit events	<ul style="list-style-type: none"> • Funds for operations, campaigns and programs • Relies on excellent volunteer leadership to establish and maintain momentum through planning and pre-event phases • For revenue generating purposes, the size of the event is not as important as the development strategy in place prior to the event • Need a great concept, location and a date that doesn't conflict with other local benefit events • 6 months to 1 year lead time • Poor ROI, ranging up to 2:1. Exceptions are for fully sponsored events which can range to 5:1.
State and local municipalities	<ul style="list-style-type: none"> • Funds for operations, projects, programs, in-kind and capital • Relies on solid relationships between CEO/board and elected legislative leadership • A front door/back door approach is essential to success. The front door requires fulfillment of all application requirements; the back door infers relationships built over time with appropriate state and local officials, their staffs and committees. • Research and careful matching of the opportunity to the limitations of the grant/funding opportunity is essential • Must be within the funding appropriation's guidelines • Unused funds may need to be returned • Must work with the cognizant agency's staff • Must understand their outcome and evaluation requirements • 1-2 year lead time • Very good ROI
Churches and denominations	<ul style="list-style-type: none"> • Funds for operations, projects, programs and people • Relies on excellent communications between senior organization leader and pastor/church leadership • Good source of in-kind donation. Smaller donations are usual, though larger churches may have more discretionary funds for a onetime need. • Pastor approval may be key to acceptance of a funding request • Local mission focus may take a year to finally receive a gift • Must match service limitation and focus, local service area and theological worldview • 1-2 year lead time • Mediocre ROI ranging to 3:1

Revenue Sources Summary (cont.)	
Revenue Source	Features of revenue source
Federated funds	<ul style="list-style-type: none"> • Funds for operations • Relies on solid relationships between staff and foundation leadership • Some campaigns allow your supporters to designate your organization as a charity even if you are not a listed charity with that federation or campaign • Start-up organizations are generally not permitted to participate • Must fit priority focus • Qualification process takes time • Time consuming for staff with periodic detailed reviews • Must be within their guidelines • Must work with their staff • Must be an established organization • 1-2 year lead time • Good ROI, ranging to 6:1

There are many ways to enhance various existing revenue sources, including the following examples:

Enhancing Existing Revenue Sources	
Revenue Source	Tactics to enhance an existing source
Annual or sustaining gifts	<p>Segment by giving level and create a club or affinity program.</p> <p>Segment by giving level and apply a more personal technology such as phone mail or personal solicitation.</p> <p>Segment by giving level and use a high-end technology like CD/video case or web cast invitation.</p>
Major gifts	<p>Seek a challenge grant. This is a gift donated by a person made on condition that other gifts or grants will be obtained on some prescribed formula, usually within a specified period of time, with the objective of encouraging others to give. Hold a seminar or cultivation event for key staff to meet selected prospects.</p>
Planned gifts	<p>Introduce one or more gift planning opportunities as an addition to any existing offerings. Plan for and complete an endowment campaign—an intensive fundraising effort to meet a specific financial goal within a specified period of time for one or more major projects that are out of the ordinary (like the acquisition of an endowment).</p>
Foundation grants	<p>Devote staff or counsel resources in one of several specific areas of foundation development. Engage the foundation at the staff level, getting to know them personally.</p>
Cause-related marketing	<p>Use an impressions analysis (purchased or donated) to determine the dollar value of a sponsorship opportunity. The study analyzes the number of visual impressions available to the sponsor and assigns a dollar value per each impression.</p>
Corporate giving	<p>Pursue significant relationship development with key employees. Involve them with the key leadership of your organization. Explore your inclusion in their matching gifts program for employee contributions.</p>

Enhancing Existing Revenue Sources (cont.)	
Revenue Source	Tactics to enhance an existing source
Earned income	Invite members of your board to host a business lunch for the purposes of brainstorming other business opportunities for your organization.
Unrelated business income	Seek ways to relate the income source to your tax-exempt purpose.
In-kind	The Federal regulations allow you to count as cost share the following institutional in-kind contributions: un-recovered indirect costs (the difference between the amount awarded in a grant and the amount that could have been awarded under your approved negotiated indirect cost rate); volunteer services (provided by your organization's professional and technical personnel, consultants and other labor valued at internal rates or, if not employed by you, at comparable rates of pay, plus fringe benefits).
Supporting organizations	If you have an organization that gives time only, encourage it to develop a funding support plan consistent with the limits of their charter.
Benefits	Underwrite all event costs. Pursue an event leadership structure that creates tiers of funding for tables, honorees and chairs.
State and local municipalities	Develop stronger ties with elected officials and the key members of their staff.
Churches and denominations	Involve pastoral leadership in the creation and marketing of church-related development programs.
Federated funds	Devote marketing dollars to raising visibility of your organization to supporting constituents. Direct mail to mailing list informing of season.

In our example, XYZ organization reviews the 14 revenue sources. The following shows which revenue sources they can enhance and which ones they would have to start:

XYZ's existing revenue sources	New revenue sources to consider
Annual gifts Foundation grants Benefit Earned income Unrelated business income In-kind	Major gifts Planned gifts Cause-related marketing Corporate giving Churches or denominations Supporting organization State and Municipality Federated funds

XYZ has selected *foundation grants* and *in-kind existing revenue sources* for the following reasons:

- Funds for operations, projects, programs, Federal cost share
- Foundations are a good way to express in writing the accomplishments and history of XYZ
- Both need less than 6 months lead time
- Both have very good ROI
- Foundation process benefits from board member contact
- Foundation process takes advantage of strong CEO skills in relationship building
- A front door/back door approach is essential to success. The front door requires fulfillment of all application requirements; the back door infers relationships with the foundation staff and directors.

Here are the reasons XYZ chooses to start *major gifts* and *corporate giving* as *new revenue sources*:

- Funds for operations, projects, programs, endowment, capital, in-kind and loaned services
- Good synergy with in-kind giving as corporate solicitations for cash can be negotiated into in-kind donation
- Company prospect are headquartered nearby
- Both take less than 6 months lead time
- Both have very good ROI
- Both rely on senior leadership's ability to communicate vision, ask and close

Step 4 Checklist

- Review the 14 revenue sources noting their features and advantages
- Select one or more of the revenue sources that fit the criteria you selected in Step 2

STEP 5 **E** Execute Your Revenue Resource Plan

Once you have completed the four steps, you must specify and execute the plan itself. Your revenue source plan needs to include five parts: plan objectives, a revenue source, a summary of costs, adjustments to systems and schedule. These can be described in a Revenue Source Plan Summary (see Appendix).

Plan Objectives

Your statement of objectives should be a simple statement of what you want to accomplish by when. It will detail not only the dollars you expect to raise but any additional goal you identified in Step 1. Plan objectives are best stated with a measurable output by a specific date.

Example objectives could include:

- Acquire 1,000 new names by January
- Re-activate 1,000 lapsed supporters by year end
- Raise \$50,000 at a 4:1 ROI not to exceed a \$12,000 level of investment this fall

Select a Revenue Source

List the several alternatives you have for either enhancing or starting a revenue source. Select one and describe the answers to the questions what, how, who and when. This kind of information is useful to you in the future as it provides a record of when you launched this income strategy.

A Summary of Costs

Provide a brief detail of the start-up and continuation costs. Describe the hard costs where funds are directly spent on the revenue source and any soft or hidden costs.

Adjustments to Your System

Your organization's internal systems and disciplines must prepare to manage a new or enhanced revenue source. Several revenue sources create additional unanticipated costs, generate overhead and add stress to staff in your organization. Affected areas include accounting, gifts handling or processing, data management and record keeping or central files. Adding or enhancing revenue sources brings additional policy and procedure requirements, valuation and substantiation capacity and registration and reporting to Federal and state agencies. There are additional costs apart from direct costs driven by demands on your systems and additional reporting expenses. These hidden costs show up as additions to your general and administrative expenses (G&A). These include printing, overtime, contract labor, fulfillment, etc.

The Schedule

This is the set of critical activities by key dates to launch the revenue source. This also explains what steps will be taken and in what order and gives other departments or functions in your organization an opportunity to prepare for results.

The following chart summarizes six common system areas and the effect a revenue source has on each:

System Areas Summary						
Resource Revenue	Accounting	Gifts processing	Data management	Record keeping	Registration and reporting	Policies and procedures
Annual gifts	General ledger accounts expand with new funds	Caging and coding functions grow in complexity with new programs. Receipts must indicate states where organization is registered to raise money.	Data requested for results, segmentation and comparisons	Copies of receipts stored for 3 years; data or micro film for 10 years	501 (c) 3 required for issuance of tax-exempt receipt. Thirty-nine states require organizations to register to fundraise. Most organizations annually file Form 990 and an audit.	Standard policies for gift acceptance and either BBB or ECFA standards of conduct
Major gifts	Above, plus must manage temporarily restricted and permanently restricted gifts	Personalization increases. Acknowledgement letters and receipts get hand delivered.	Significant segmentation and suppression of certain flags and codes	Same as above plus receipts, research and donor correspondence are kept in locked files	In most states, contract field fundraisers must register as paid solicitors	Specific procedures on kinds of gifts and due diligence required
Planned gifts	Above, plus the addition of any life income contracts requiring payments by organization	Same as above	Same as above	Same as above, plus any will, life income or other expectancies	Some states require additional registration to issue various contracts	Endowment management policy, payout rate policy, investment policy
Foundation grants	Strict accounting required for reporting on use of grant funds	Same as above	Reports on uses of funds	Receipts, research and correspondence are kept in locked files	501 (c) 3 required for most foundations, plus Form 990, audit and list of top donors	Letter from the board stating support for the application
Cause-related marketing (CRM)	Must be able to track any dollars in case it is unrelated income	Receipts must indicate the value of any purchase that is considered a gift	Same as major gifts	Copies of receipts stored for 3 years; data or micro film for 10 years	May need to report UBI and/or pay tax	Contract ought to stipulate various ways out
Corporate giving	Same as annual gifts	Personalization increases. Acknowledgement letters and receipts get hand delivered	Same as foundations above	Same as foundation grants	No special registration	No special policy

System Areas Summary (cont.)						
Resource Revenue	Accounting	Gifts processing	Data management	Record keeping	Registration and reporting	Policies and procedures
Earned income	Same as annual gifts	Not applicable	Same as major gifts	Income statements and reports stored for 3 years, data or micro film for 10 years	May have a business license registration requirement depending upon state or local regulations	Policies to manage investments
Unrelated business income	Must be able to track any dollars as it is unrelated income	Not Applicable	Same as major gifts	Income statements and reports stored for 3 years, data or micro film for 10 years	May need to report UBI and /or pay tax	Procedure to track and manage UBI as it approaches total income limits
In-kind	Inventory control and valuation substantiation become important for large items	Receipts must indicate description of donated property	Same as major gifts	Copies of letters of receipt stored for 3 years; data or micro film for 10 years	If the property was appraised at \$5000 or more and you signed Form 8283 and if you dispose of the property within two years, then you must file Form 8282 with the IRS within 125 days of disposition and give a copy to the donor	Procedure to value various in-kind contributions
Supporting organizations	Separate books	Receipt sent between organizations acknowledging the value of any gifts	Same as foundations above	Same as CRM	May require special registration with the state	Policy that creates clear separation of functions and relationships
Benefits	Significant outlays of expenses against revenues	Receipts must indicate the value of any purchase that is considered a gift	Same as major gifts	Same as CRM	May require event related licenses for various events. Event insurance may need to be purchased.	Procedure to limit expenses
State and local municipalities	Strict accounting required for reporting on use of grant funds	Receipt sent acknowledging the value of any gifts	Same as major gifts	Same as foundation grants	No special registration	Resolutions for bond issuance
Churches and denominations	Same as annual gifts	Same as supporting organization	Same as major gifts	Same as CRM	No special registration	No special policy

System Areas Summary (cont.)						
Resource Revenue	Accounting	Gifts processing	Data management	Record keeping	Registration and reporting	Policies and procedures
Federated funds	Same as annual gifts	Receipts generated to donors require a separate handling	Same as major gifts	Same as CRM	No special registration apart from that required by the campaign	Resolution to participate in funds drive

Step 5 Checklist

- Write a plan to launch a new or enhanced revenue source
- Describe the objectives you hope to achieve
- Prepare for system concerns by informing staff early and often
- Prepare a budget and schedule and hold to them

XYZ Organization Revenue Source Plan Summary

Revenue Source: Major gifts from local individuals

Objectives			
Objective description	Measurable output	By whom	By when
Launch a volunteer-led major gifts program this fall	Kickoff of program and training	Director	March
Identify and qualify prospects	200 prospect backgrounds completed	Staff	January
Recruit board members and hold a training session	3 board volunteers recruited and trained	CEO	February

Systems		
Department	Impact	When
Accounting	Set up major gift fund accounts, source codes and use codes	January
Data management	Set up major gift prospect selection criteria	January
Legal	Research state registration requirements	December

Schedule:

Staff launch	October
Prospect screenings completed	November
Backgrounds completed	January
Volunteer recruitment	February
Training and kickoff	March
Local events	April

Costs		
Expense description	Expense amount	When expense will occur
Prospect screening	\$ 5,000	December
Major donor events	\$ 7,000	April
Travel	\$ 3,000	April and May
Major gifts case materials	\$ 7,000	March
Total:	\$ 22,000	

STEP 6 **V**erify Your Results and Make Modifications

Results matter. A revenue source plan can look great on paper, but if it fails to perform, it is a waste of time and money. Each revenue source that reveals evidence of slippage or underperformance should be addressed early on.

Finally, as you implement any new income strategy, it's wise to touch base with your key stakeholders to be sure they are with you in this move. Stakeholders include your board, key donors, key partners or alliances and a handful of clients or constituents. Their reactions to the strategy, its timing and costs are a helpful touchstone as you are implementing your plan.

Revenue Source Corrective Action Chart		
Revenue source	Underperformance symptoms	Diagnosis/Corrective action suggestions
Annual or sustaining gifts	Low average gift; low response rate; high number of bad addresses	Eliminate the possible problem by trial and error. Is it the list of names, the offer, the signor, the package copy/design or a poor choice for direct response? May require a consultant to quickly diagnose and solve.
Major gifts	No meeting appointments are happening; asks are taking place for low amounts of money; volunteers are reverting to annual asking techniques	Either poor prospect qualification and or poor skills training in getting an appointment, asking and closing. Prospect qualification requires time as does skill training.
Planned gifts	No plans are written; requests for information are not turning into leads for meetings	Passive staff and poor lead generation system. Must get the staff into the field and out of the office.
Foundation grants	Many letters are going out (and some proposals), but no money is coming in	Misunderstood grantsmanship. Attend grant-writing seminar. Involve board in back-door contacts with foundation directors.
Cause-related marketing	No money comes in from the CRM	Poor contract. Re-negotiate contract terms; work backwards from the company's outside limit (point where they say "no").
Corporate giving	Many letters are going out (and some proposals), but no money is coming in	No senior-level-to-senior-level contacts. Initiate top level cultivation for board/CEO. Understand <i>quid pro quo</i> .
Earned income	No product sold/no leads	Either a poor business idea or poor execution of a good idea. Create incentives for people to perform.

Costs		
Revenue source	Underperformance symptoms	Diagnosis/Corrective action suggestions
Unrelated business income	No product sold/no leads	Either a poor business idea or poor execution of a good idea. Create incentives for people to perform.
In-kind	A few small gifts come in	Passive staff and poor lead generation system. Must get the staff into the field and out of the office.
Supporting organizations	Many meetings but no firm commitment to raise funds	Leadership does not support. Must work with leader to create a gain/gain situation.
Benefits	Poor attendance; wrong people attending; no money raised	Poor initial design; wrong leadership; bad date and/or location. The event leaders in a city must help design and position the event. And it must be built with fundraising at the core.
State and local municipalities	Many meetings but no firm commitment for funds	Key legislator must support this and see the political value.
Churches and denominations	A few meetings, long silence and no firm commitment for funds	The pastor must support this in order to receive funds.
Federated funds	Low average gift; low response rate; high number of bad addresses	Passive staff and poor marketing sense. Must get the staff working with the campaign/federation staff.

Step 6 Checklist

- Monitor the plan's performance in the early stages noting any deviations from plan as a reason to check results
- Make initial corrections to the plan based on the revenue source corrective action chart.

STEP 7 **Educate Other Organizations on How to Grow Their Revenue Sources**

As an intermediary, you are called on to assist smaller FBO/CBOs in many facets of capacity building, including growing revenue. This guidebook can be used as a teaching tool and resource with small organizations seeking funds. You may utilize the following teaching tips for translating this material to a small organization setting:

- Use sections of the guidebook to teach parts of the revenue raising process. Steps 1, 2, 4 and 5 can be taught in one-hour increments and as stand-alone units.
- When teaching the whole guidebook, ask participants to prepare by completing Step 1 at home and bringing it to the seminar.
- Use the SWOT exercise for individual organization revenue assessment and to measure over-all small organization strengths and weaknesses.
- Small organizations can relate well to a case study of an organization they know or one that sounds like them. Re-do the XYZ Case to reflect the demographics and experiences of a local FBO/CBO.
- The following illustrations can be converted into handy “job aids”/tools to take back to the office for a small organization: Summary of Revenue Sources, Enhancing Existing Revenue Sources and System Areas Summary.
- The 14 revenue sources can serve as a starter collection for articles, materials samples and cases describing each source. You may be a repository of this information.
- Host a seminar that takes small FBO/CBOs through the guidebook and then invites them back in two weeks to present completed Revenue Source Plan Summaries for discussion and critique.

Summary

The ACHIEVE process will guide your organization from a broad analysis through a consideration of practical alternatives, and it results in a specific measurable action plan. Here are some key points to keep in mind:

- Step 1 challenges you to set goals and do a self assessment
- Step 2 requires you to focus on a strategy
- Step 3 reminds you of the Federal requirements surrounding your grant
- Step 4 describes revenue sources and asks you to select one or two for action
- Step 5 requires a plan that details accountability and a schedule
- Step 6 calls you to inspect what you expect and adjust when required
- Step 7 invites you to teach this to smaller FBO/CBOs in small parts with practical tips

Appendix

Resources/References

Web-based Resources

In order to provide intermediaries with the most up-to-date web resources, the Compassion Capital Fund's public website contains a current listing of and links to all the web addresses of the various web resources suggested throughout the *Intermediary Development Series*. For more information, please visit the site at <http://www.acf.hhs.gov/programs/ccf/> or contact:

Compassion Capital Fund National Resource Center
(703) 752-4331 ■ Fax (703) 752-4332
E-Mail: Resource_Center@DareMightyThings.com

Book References

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Glossary

Source: Selected definitions are drawn from the dictionary of the Association of Fundraising Professionals (AFP), accessed at www.afpnet.com.

Administrative costs – All direct and indirect costs associated with the management of an organization's programs.

Appreciated property – Securities, real estate, tangible personal property, etc., whose current fair market value is greater than its original tax basis.

Asset – All items of value (such as real estate, cash, inventories, securities or patents), owned by a person or a business, that constitute the resources of that person or business. An organization's holdings including current assets and fixed assets.

Case – The reasons why an organization both needs and merits philanthropic support, usually outlining the organization's programs, current needs and plans.

Challenge gift – A gift donated by a person made on condition that other gifts or grants will be obtained on some prescribed formula, usually within a specified period of time, with the objective of encouraging others to give. A challenge *grant* is a challenge gift donated by an organization, corporation or foundation.

Corporate sponsorship – Financial support of a project by a corporation in exchange for public recognition and other benefits. Also corporate underwriting.

Cost policy statement – A document that identifies a non-profit organization's policy on the costs that it considers direct, the costs it considers indirect and the rationale to support those costs.

Cost allocation plan – A document that identifies, accumulates and distributes allowable direct and indirect costs to cost objectives. The plan also identifies the allocation methods used for distribution to cost objectives on the basis of relative benefits received. The cost objectives include specific grants, cooperative agreements, contracts, programs, projects, titles/cost categories within a grant, a product or service provided to cost centers or other activities of a non-profit organization (*e.g.*, fundraising, services to members).

Deferred gift – A gift (such as a bequest, life insurance policy, charitable remainder trust, gift annuity or pooled-income fund) that is committed to a charitable organization but is not available for use until some future time (usually the death of the donor).

Designated gift – A gift, the use of which is restricted by the donor. This gift is either a temporarily restricted gift or a permanently restricted gift.

Direct costs – Those costs that can be specifically identified with a particular cost objective. For example, salaries, fringe benefits and travel of a project director who is working 100% of the time on a grant/contract are direct costs. Some non-profit organizations also classify common or joint costs that can be readily assignable to cost objectives as direct costs (*e.g.*, occupancy costs are allocated to a grant/contract as direct costs based on square feet of space occupied).

Earned income – Money received by a person or organization for product sales or service rendered.

Endowment – A permanently restricted net asset, the principal of which is protected and the income from which may be spent and is controlled by either the donor's restrictions or the organization's governing board.

Gift receipt – An official acknowledgment issued to a donor by a recipient organization. If the donation is (currently) more than \$250, the IRS requires information naming the charity, the asset donated and any benefits received by the donor in exchange for the gift.

Indirect cost proposal – The documentation prepared by an organization to substantiate its claim for the reimbursement of indirect costs. This proposal provides the basis for the review and negotiation leading to the establishment of an organization's indirect cost rate, (*i.e.*, ratio between total indirect expenses and some financial base).

Indirect costs – Those costs which are not readily identifiable with a particular cost objective but nevertheless are necessary to the general operation of a non-profit organization and the conduct of the activities it performs. The cost of executive salaries, payroll, accounting, personnel, depreciation, general telephone expenses, general travel and supplies expenses are examples of expenses usually considered as indirect costs.

Indirect cost rate – A percentage established by a Federal department or agency for a grantee organization which the grantee uses in computing the dollar amount it charges to the grant to reimburse itself for indirect costs incurred in doing the work of the grant project.

Institutional in-kind contributions – The value of non-cash contributions made by the intermediary to the project. Institutional in-kind contributions can include: volunteer services essential to the project; personnel services valued at a regular rate of pay plus appropriate fringe benefits; indirect costs; supplies, equipment, property, buildings and land already purchased and available for use regarding the project.

In-kind – In goods or services, not in money, such as a contribution of equipment, supplies, space or staff time. The donor may place monetary value on such a contribution for tax purposes. See Institutional in-kind contributions and Third party in-kind contributions.

Life-income gift – A gift arrangement by which a donor makes an irrevocable transfer of property to a charity while retaining an income interest to benefit the donor and any other beneficiary for life or a specified period of years, after which the remainder is distributed to the charity.

Matching gift – A gift contributed on the condition that it is matched, often within a certain period of time, in accordance with a specified formula. Also can be a gift by a corporation matching a gift contributed by one or more of its employees.

990 – An Internal Revenue Service financial information return submitted annually by most tax-exempt organizations and institutions except religious. Form 990-PF is submitted annually to the IRS by private foundations reporting on their holdings, income, grants and activities. Form 990-T is submitted annually by not-for-profit organizations to declare any unrelated business income.

Pledge – A promise that is written, signed and dated to fulfill a commitment at some future time; specifically, it is a financial promise payable according to terms set by the donor. Such pledges may be legally enforceable, subject to state law.

ROI – Return on investment.

Temporarily restricted gift – A gift that is temporarily restricted for a particular purpose but, when spent, becomes an unrestricted gift for accounting purposes and is at that time reported as income.

Third party in-kind contributions – The value of non-cash contributions provided by non-Federal third parties. Third party in-kind contributions may be in the form of real property, equipment, supplies and other expendable property and the value of goods and services directly benefiting and specifically identifiable to the project or program.

Unearned income – Organizational income derived from philanthropic gifts and investments, as contrasted with fees for service or product sales.

Unrelated business income (UBI) – Income that is the result of any legal trade or business conducted by a not-for-profit organization to make money in a way not directly related to its Federal, tax-exempt mission.

UBIT – Tax on unrelated business income.

Unrestricted gift – A gift made without any condition or designation.

Goals and Financial Resources

Goals		
Financial Resource Goal	Where I am today	Where I need to be
Annual revenue		
Special project revenue		
# donors		
# volunteers raising revenue		
Fundraising expense		
Other		
Other		

Revenue Sources		
Revenue Source	Where I am today	Where I need to be
Annual or sustained gifts		
Major gifts		
Planned gifts		
Foundation grants		
Cause-related marketing		
Corporate giving program		
Related earned income activities		
Unrelated business income (UBI)		
In-kind		
Supporting organization		
Benefit		
State and local municipalities		
Churches/denominations		
Federated funds		
Other		

Goals and Financial Resources (cont.)

SWOT Statements	
SWOT Area	Statements about your organization
Strengths	
Weaknesses	
Opportunities	
Threats	

Four financial resource key statements	
SWOT Summary Categories	Key Statements in each SWOT area
builds on or enhances...	
reduces or eliminates...	
explores or takes steps to...	
does not ignore or dismiss...	

Income Strategy Grid

Comparison of Income Strategy Features				
Income strategy criteria	Enhance existing	Start new	Alliance for cash	Alliance for in-kind
Rapid revenue inflow				
Low initial outlay of cash or staff				
Low in-house resistance to change				
Low risk of failure				
Shorttime elapsed until start-up				
Generates many new names				
Builds on in-house systems				
Builds on in-house expertise				
Creates urgency or momentum				
Significant ease of tracking results				
No consultant needed to get going				
Significant ease in termination				
SWOT Strength Key Statement 1 – Use the president's ability to ask for money				
SWOT Strength 2 – Capitalize on our history. Stability and low debt				
SWOT Strength 3 – use the Federal grant				
SWOT Weakness Key Statement 1 – Reduce our public invisibility, especially to funders				
SWOT Weakness 2 – Change cash flow cycle				
SWOT Opportunity Key Statement 1 – Use the building to generate revenue				
SWOT Opportunity 2 – Use our board contacts with foundations				
SWOT Opportunity 3 – Use the gift of land				
SWOT Threat Key Statement 1 – Minimize the effect of ABC's visibility				
SWOT Threat 2 – Minimize ABC's broad support base				
TOTAL points (+ = 1)(++ = 2)(- = 0)				

Revenue Source Plan Summary

Revenue Source:

Objectives			
Objective description	Measurable output	By whom	By when

Systems		
Department	Impact	When

Schedule:

Activity _____ When/What Month _____

Costs		
Cost description	Amount	When it will occur