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Funding Sources

Who They Are & How to Use Them

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The Seven Sources of Funds for Nonprofits by Bill Somerville

There are seven primary sources of support for nonprofit organizations. It is important to develop an understanding of the relationship among the sources. The way these sources are braided together constitutes the basis for a sound fund raising strategy.

1. **Government Funds:** Federal, state, county, city. These funds are politically oriented and consequently tend to come and go. It is very hard to replace this type of money.
2. **United Way:** Continuing support money for a selected group of agencies in a given geographic area.
3. **Foundations:** Includes private foundations which normally tend to give by subject area and community foundations which normally give by geographic area. Proper research of foundations before making application pays dividends.
4. **Corporations:** Philanthropic money can be given by the corporate entity or by the corporate foundation (or both). Corporate foundations can be researched; information on corporate entity giving is not publicly available.

Corporate giving takes a variety of forms which includes used furniture and equipment, purchase of service from nonprofit agencies for mental health, recreation, child care and other programs which employees use. See: "Resource Raising: The Role of Non-Cash Assistance in Corporate Philanthropy" Independent Sector 202-223-8100

5. **Fees for Service:** This include charging clients, patrons, customers, and others for the service of a nonprofit program.
6. **Special Projects:** This large category includes such things as:
 - Profit-making businesses such as restaurants, book stores, or thrift stores.
 - Special events can attract large crowds (a celebrity tennis match) and involve the participation of supporters (bake sale or auction). Continuing events (Monday night Bingo), annual events (a dance), or one-time affairs like a recognition dinner.

It needs to be emphasized that there is a wide spectrum of possibilities for special fund raising events. Whereas people may not give an outright gift to an agency, they will usually contribute through the "purchase" of something fun. This category represents one of the primary continuing sources of funding.

To be included in this section are auxiliaries which act as fund raising agents for an agency and which usually conduct some of the activities just listed.

This represents the largest segment of giving in the United States; approximately 85% of the philanthropic dollar comes from living individuals. Individuals make (1) outright gifts of cash, securities or other assets, and (2) deferred or planned gifts (trusts, pooled income funds and insurance policies). There are various legal means for donors to make gifts and still receive some immediate financial return. These include trusts, pooled income funds, deferred giving, insurance beneficiary designation, etc. Depending upon the tax laws at a given time, donors may also benefit from making outright gifts, especially when an investment has appreciated far beyond its purchase price.

An additionally method of gaining funds is to conserve money by creative means. This could involve such things as use of volunteers, cooperative efforts between agencies (e.g. consolidated programs; group or wholesale purchasing of equipment, furniture and supplies; sharing equipment such as a copier, computer, or fax machine). Some organizations share office space creatively.

Finding Out About Government Funding

The following resources are available in Funding Resource libraries to help you identify government grants for which you may be eligible.

1. **Catalog of Federal Domestic Assistance:** Office of Management and Budget. This catalog describes all of the domestic assistance programs of the federal government. Detailed information is given including descriptions of the programs, eligibility requirements and application deadlines. Information in the catalog is not always current but it can give some ideas of the areas where funding is available and can provide a contact person for current information.
2. **Federal Funding Guide:** Government Information Services. This is a selected listing of assistance programs thought by the Guide's compilers to be "...the most likely to answer the needs of government and communities throughout the country." Describes programs, restrictions, deadlines, how to apply, and gives names and addresses of federal and local contacts.
3. **Federal Register:** Government Printing Office. Published every weekday, the Register includes all federal regulations, proposed and final. The Register can alert you to available grants and can inform you about regulations which may affect your program

Also available: *Grants and Contracts*, a weekly compilation of items published in the Register which affect domestic assistance programs; the *Index to The Federal Register*, published monthly; and *The Federal Register; What It Is and How to Use It*.

4. **Human Services Business Journal:** Published monthly. Descriptions of funds available from both the state and federal government for human service organizations in the State of California. Includes some information on availability of foundation grants and corporate funding as well. A well-organized and easy to use guide to timely information on human service funding.

Philanthropic Foundations by Bill Somerville

Foundations represent one of the most flexible sources of funds to be found in the country. In California, for example, there are approximately 1,000 foundations with more than \$22 billion in assets and giving over \$1 billion in grants annually.

Interestingly, foundations in the Bay Area give out more funds than those in Southern California. In 1980, Northern California foundations gave out \$97 million. In 1982, they gave out \$185 million. In 1984, they gave out \$290 million (Northern California includes Fresno and North, but most of these foundations are in the Bay Area).

There are three kinds of foundations one should know about: community foundations (those with a geographic name), private foundations, and corporate foundations. Community foundations give in a specific geographic area but in specific fields of interest. Corporate foundations tend to give where there is a corporate headquarters, where employees live, where there are branch outlets, and to programs employees are involved in.

The “doorbell” to a foundation is to ask for Guidelines for Applications. You can begin with a letter of intent or phone call of intent in which you describe your idea and see if it is eligible for that funding source.

Foundations are as different as people. They are interested in different things, they give different amounts of money, they meet at different times of the year. To generalize about them is risky, but one thing seems prominent in their actions – they are not available for long-term support.

The larger the foundation the more important it is to make contact with a staff person and have that person well informed of your project. Large foundations often have staff members that specialize in a given field of interest. Do your research and find out who these people are.

Foundations often send out feelers on things they would like to fund. Thus, it is important for them to know about your good work. How do you let them know? There is nothing wrong with sending a well written, concise report of your agency to a foundation “just to keep them informed,” or to invite foundation personnel to a working session focusing on an important issue, or to make yourself available for meetings which foundation people often hold.

Foundations are growing in numbers and assets. Use them.

Corporate Giving

Ever since the early 1930's corporations in America were allowed to do philanthropic giving up to 5% of their pre-tax profits. The Reagan administration doubled this figure to 10%. Thus, there is the potential in this country for corporations to play the largest role in philanthropy.

Remember, of the philanthropic dollar, 4.7% comes from corporations, 7.6% from foundations, and the rest comes from individuals. How can you be more successful in getting funds from corporations? Let's first of all get more of an understanding of corporate giving.

Corporations tend to give in three geographic areas: where their employees live, where they have headquarters, and where they have branches. They also give to programs their employees are involved in. Keep this in mind because it can save you disappointment in asking a corporation for support when there is no reason for them to give in your area. And the opposite is true. By reading the business page in your newspaper, you can ascertain which businesses give press releases for local coverage and thus might be a prospective funder.

Corporations can give as a business contribution or they can create a corporate foundation. If they have a foundation, chances are that they have a professional staff and your dealings with them would be similar to any foundation (with the geographic limitations stated above). If there is no foundation, usually the giving will be handled by the public relations people or directly from the president's office. In either case, it is appropriate for you to research the company and write directly to the top person.

Corporations are businesses and it is business people who will review your request. So write your request thoughtfully, bearing in mind that if you were the business person reading it, would you be convinced? In other words, do you make yourself clear, do you give reasons why the corporation would be interested, do you indicate that you are an outstanding program?

Corporations, for the most part, give small grants but sometimes they give you support annually on a continuing basis. They give large support to the arts. Corporations give major support to the United Way, as do their employees.

Something you should keep in mind is that corporations can help you in many ways besides money. For example, they can print your newsletter, act as a guarantor of a loan for you agency, let you use the copy machine, let you piggyback on their purchasing discounts, lend you an employee, and on and on. (There is a list of 38 ways corporations can help listed on the following page.)

Lastly, don't forget employees of corporations. If an employee makes your appeal for support, it is infinitely more persuasive. Be sure to look where your Board Members and their spouses work or where your clients and their spouses work.

Non-Monetary Sources of Support: New Dimensions In Corporate Social Responsibility

1. "Third Party" merger assistance of consortia building.
2. Advice on office administrative procedures. Work flow inventory control.
3. Energy audit and advice on cost reduction.
4. Conference implementation assistance.
5. Loans
6. Investments with interest give-up.
7. Use of company facilities.
8. Land – gift, loan, lease.
9. Rental give-ups.
10. Advice on management, sale or purchase of real estate.
11. Management and personnel audits or reviews.
12. Management and supervisory training.
13. Contacts with other nonprofits for consultation (Brookings Institute, etc.)
14. Contacts with both profit making and pro bono consultants (CPA Society, etc.)
15. Voting of company-owned shares of stock.
16. Lobby for legislative and regulatory changes.
17. Purchasing.
18. Employee access.
19. Loaned executives.
20. Volunteers.
21. Employee committees.
22. Board members.
23. Surplus equipment and supplies.
24. Products or product advice.
25. Publicity help.
26. Promotion materials and services.
27. Financial services and advice.
28. Legal and tax services and advice.
29. Strategic planning assistance.
30. Market research advice.
31. Development of survey instruments and implementation assistance.
32. Printing services.
33. Audio=visual services.
34. Mailing and postage services.
35. Transportation assistance.
36. Computer services.
37. Telecommunication services.
38. Fundraising assistance.

Alex Plinio, President
Prudential Insurance Foundation

Getting Money from Individuals by Bill Somerville

There seem to be seven major reasons why individuals give philanthropic funds and it is important to understand them if one wants to solicit money from people.

1. *Emotion.* My wife died in that hospital. My husband died of cancer. Thus, there is motivation to give to these two entities (i.e. the hospital, American Cancer Society).
2. *It sounds good.* The public relations person's job is to make programs sound good and all mail solicitations depend on this. Success is a factor in making something sound good.
3. *Recommendation.* There is an axiom in philanthropy that "people give to people, they don't give to things." You trust someone, they recommend charity, you give to it.
4. *Prestige.* People enjoy recognition for their giving.
5. *Tax Consideration.* Donors usually get a tax deduction for their philanthropic giving and for persons who are wealthy this factor is significant in advice given by financial counselors.
6. *Coercion.* "Last year we had 100% contributions by the employees and we hope for the same this year." "When we pass the plate we hope everyone will be generous in their support." Mild and not so mild encouragement for the donor.
7. *Default.* There is nothing more appealing, so why not give to this?

An important point to understand is the difference between soliciting funds from an individual and soliciting funds from an institution, such as a foundation. None of the aforementioned seven reasons apply (or should apply) to institutional givers. It is not their money. They are professional staff. Their job is to be objective.

It is interesting to note that none of the seven reasons refers to the need for your funds by the charity or the worth of the charity to deserve your support. Thus, individual giving deals more in gifts, not grants.

Gift vs. Grant
What if individual donors gave grants?
by Bill Somerville

A gift is money given by an individual “with all the best wishes.” The donor is saying, “Here is some money, keep up the good work.”

A grant is given on a professional basis. The donor has specific expectations about how the money will be used.

Grants generally are given by foundations, government and other organized givers.

In 2006, over \$300 billion was given philanthropically in the United States and about 84 percent of that was given by individuals – as gifts.

But what if those individuals started giving grants, instead of gifts? If individual giving was based on objective assessment of performance and need, there would be a revolution in giving.

The difficulty I have with gifts is that they are so deeply related to emotions. The giver is appealed to on a basis that has no relation to the need for money or the worthiness of the group receiving it. Very few human service programs present themselves in a manner that depicts the quality of their work. They tend to assume that what they are doing is worthy and people will agree to that. That is the heart of the problem.

I recently had an agency ask for funds to repair facilities that serve the disabled. On the face of it, the request looked reasonable, but when I looked into the issue I found that the agency is very well funded, that the repairs were not well thought out and that the facility served all sorts of people besides the disabled.

So, what would I really be funding? The agency has raised substantial funding from an emotional appeal, but is it serving its constituents effectively?

Almost every proposal I receive describes a problem and, if possible, makes it sound like a crisis. The reasoning seems to be, “The worse it sounds, the more impetus there will be to give money to it.” The emotional appeal.

My job as the funder is to blow away all the “fog” and look clearly at whether anything worthwhile is actually going on. I am constantly asking myself, “What are the factors of quality at this agency?” I’m trying to be objective and to see if the agency is doing substantive work.

My problem is that most grant seekers assume I agree with the agency's work because it serves this group or that. That assumption is fine if an emotional appeal is being used, but not if a foundation is trying to assess a program objectively. We must have, and expect agencies to speak to, the specific quality factors of their work.

Why shouldn't individuals approach giving the same way? What would happen if we could get individuals to ask a few questions before giving money? Individuals would then have some expectations that would be developed by nonprofits educating the public about what makes them a worthy organization.

By expectations, I don't mean restricted giving, which limits how the money can be used. I mean objective giving – giving for a purpose that is understood to be worthy and for which there is a need.

A while back a community college professor asked for funds to have a weekend conference where low-income junior high school and high school girls would learn about non-traditional careers for women.

The program sounded interesting, but I wanted to know more. In asking a few questions, I learned that women engineers, judges, lawyers, architects and doctors were going to meet the girls. I wondered how much impact one weekend would have on a girl's life. But then the real factor of quality emerged; young females who see a future for themselves do not tend to get pregnant and this program was doing exactly that – helping them see a future for themselves.

If individuals, as well as foundations, knew how to ask questions before giving, and nonprofits provided them with information about the quality of their work rather than with blanket emotional appeals, if individuals invested their philanthropic money as venture capitalists do with their investments by giving it to worthy causes that need support then, indeed, there would be a revolution in philanthropy.

Grants would replace gifts, objectivity would complement emotion and quality performance in the human service sector would prosper.