


CHAPTER 1



Developing Annual Gift Support by Raising Friends and Building Relationships

For all philanthropic practice, there are two overarching questions:

1. Why do we exist?
2. What's the money for?

These questions deserve great answers; in fact, many great answers will be needed. The purposes of annual giving go beyond merely raising money; that alone is an inadequate and insufficient answer to why we exist. The true objective is to find and build a constituency of friends who are willing to join a cause. During the period of their friendship, they will be encouraged to expand their relationship to active involvement that may last a lifetime. To build such friendships and lifelong relationships between people and causes, charitable organizations must send these encouraging messages every year, communicating them through the medium of annual giving. Effective communication through annual giving programs will require careful thought, extensive preparation, and an efficient and effective delivery system.

A nonprofit organization begins by identifying the values that characterize it and by studying its “vision” of itself—what it has done and is doing now, and, most important to fundraising success, what its plans are for the future. This vision contains the fundamental values incorporated into the

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mission statement. The mission statement, in turn, explains why the organization was formed, what its continuing goals are, what benefits it intends to provide to others, and why its functions are of value and should continue. Henry Rosso¹ writes that the mission statement “expresses more than justification for existence and more than just a definition of goals and objectives. It defines the value system that will guide program strategies. The mission is the magnet that will attract and hold the interests of trustees, volunteers, staff, and contributors.” The mission statement should use clear language to describe the programs and services to be offered and to explain how the vision will be carried out and how the results will be achieved. Charitable organizations use several philanthropic practices—stewardship, volunteerism, a charitable purpose, and public advocacy, among others—to enable them to achieve their vision and fulfill their mission. “People helping people” is both the method and the model; *helping*, which implies action, is something everyone can do. Philanthropy, or what Robert Payton² calls “voluntary action for the common good,” connotes association with others in the community and is the chief means to carry out the mission.

Once the mission is understood and the programs to fulfill it are in place, an organization must study its charitable purpose, an attribute that denotes altruism and enlightened self-interest. Donors give time or money to a charitable purpose that will help other people because they appreciate the implied mutuality of dependence that people have for one another.

A charitable act is a social exchange that occurs each time a gift is made. The decision to make a gift comes after being asked by someone else, someone who is trusted by the donor. A gift implies a considerable amount of confidence and trust in both the solicitor and the charitable organization’s ability (and faithfulness) to “do the right thing” with the money or, at the very least, to do no harm.

Charitable behavior is a personal virtue advocated in every religious tradition; every citizen has the freedom to practice charity. To help another person or a cause can be practiced alone, between two people, or among millions acting together. Over centuries, the concept of charitable action has evolved into the practice of philanthropy today. Philanthropy requires a generosity of spirit that can be practiced anywhere and everywhere, at any time; it can accomplish any “charitable” purpose, and often will be accompanied by public recognition. Philanthropy has flowered in America,

partly because of the protection it has enjoyed from the federal government since the ten amendments known as the Bill of Rights were added to the Constitution of the United States. The First Amendment states:

1. Congress shall make no laws respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the government for a redress of grievances.

Government has joined in philanthropic practice by legitimizing its reason to exist. Government also advocates that its citizens engage in charitable acts because these acts improve the common good. In most nations, government is responsible for a wide spectrum of public services. By contrast, whole areas of American enterprise, from the arts to education, from social welfare to health care, from religion to civic causes, are often carried out by citizens, acting alone or together. The consensus in America is that government cannot and should not be involved in many of these areas. There is also agreement that some areas of public activity can be better served when government, business, and philanthropy act together. This agreement is one of the most sacred privileges in the people's possession, a personal freedom that encourages them to practice philanthropy. Brian O'Connell³ has given this perspective on the freedoms of the First Amendment:

It is important to be reminded of the basic values of American society; the freedom, worth, and dignity of the individual; equal opportunity; justice; and mutual responsibility. Our largest vehicles for preserving and enhancing those basic values are:

Representative government starting with one person/one vote;
The freedoms of speech and assembly
The free press
A system of justice beginning with due process and presumption of innocence
University public education.

Philanthropic practice, or people acting together through charitable organizations, begins when active participation and financial support are requested from individuals, business, and the government itself. To be able to respond, the charitable organization must embody its vision and mission

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into a structure and an action plan. First, it must qualify as a charitable organization by being incorporated as a nonprofit, public benefit corporation in 1 of the 50 states. Second, it must be granted tax-exempt status by the federal government by qualifying as a pure public charity. The organization is then granted several privileges in exchange for its agreed-on obligation to perform one or more charitable activities, as described by Bruce Hopkins:⁴

The federal tax definition of a charitable organization contains at least 15 different ways for a nonprofit entity to be charitable. These characteristics, found in the income tax regulations, IRS rulings, and federal and state court opinions, include: relieving the poor and distressed or the underprivileged; advancing religion, education, or science; lessening the burdens of government; beautifying and maintaining a community; preserving natural beauty; promoting health, social welfare, environmental conservancy, arts, or patriotism; caring for orphans or animals; promoting, advancing, and sponsoring amateur sports; and maintaining public confidence in the legal system.

More than 20 subgroups or types of charitable organizations qualify under Section 501(c) of the Internal Revenue Code (IRC). Charitable organizations that demonstrate “charitable purposes” enjoy tax exemption privileges on income, sales, and property, plus a charitable contribution deduction for donors who make gifts. Organizations that qualify as “501(c)(3) organizations” (Section 501(c), subsection (3) of the IRC) are also permitted to engage in tax-exempt bond financing, to claim school tax exemptions, to enjoy reduced postal rates, and to be relieved of federal unemployment taxes and corporate net income taxes, except where they might qualify for unrelated business income tax (UBIT).

This impressive array of privileges is enhanced by the public benefits and “good works” performed by each charitable organization. In all of this activity, it is not organizations that act; it is the people within them and the people who act through them on behalf of others. People exercise a mutual obligation to care for one another through their voluntary association. In so doing, they take upon themselves certain duties and responsibilities as owners of charitable organizations and stewards of the public’s trust. Their efforts succeed in building a new community, one that will be held together by their commitment to carry out a charitable purpose. This new community adds to its membership volunteers and staff, friends and donors,

clients and their families, and others who share in the responsibility of doing their best to improve the human condition by fulfilling the mission of the charitable organization.

Philanthropy holds a mirror to society's pluralism where the acts of others fulfill the needs of all of its members. Hopkins,⁵ describing a truly democratic state, warns that "the power to influence and cause changes cannot be concentrated in one sector of that state or society. There must be a 'pluralization of institutions' in society, a fancy way of saying that the ability to bring about changes and the accumulation of power cannot belong to just one sector—inevitably, the government." Those who become active as members of a charitable organization become directly responsible for its welfare, whether they are board members, management, employees, or clients; all are bonded to the vision and mission and become advocates of the organization's reason to exist. Other memberships are filled by government, business, nonclients (or not-yet clients), volunteers, and donors, who also join and become partners to the mission. John Gardner,⁶ founder of Common Cause, has summarized the status of nonprofits in the United States: "In the realm of good works this nation boasts a unique blending of private and governmental effort. There is almost no area of educational, scientific, charitable, or religious activity in which we have not built an effective network of private institutions." With everything in order, and having been sanctioned with legal form by the government, charitable organizations go forth to fulfill their mission to benefit others. The philanthropic process has begun.

THE PHILANTHROPIC PROCESS

The philanthropic process has many parts. We have touched briefly on only the most essential ingredients: the vision and mission; rights of assembly, association, and community; charitable purposes and public benefits; and legal form. Legal form might be complex but it is necessary to all that follows. A charitable organization established by citizens must be constituted correctly as a nonprofit, public benefit corporation. Each such entity is a substantial enterprise and, as the chrysalis becomes the fragile but beautiful butterfly, it will require vigilant attention by all its members to preserve its life and to enhance its beauty. Volunteers who serve on its board of directors assume the stewardship of the public's trust on their collective

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shoulders; it is their duty to demand that everything be completely legal. To lose the government's endorsement is to cause the association to forfeit its benefits and privileges, cease to provide its public benefits, divide its property, and "wind up" its existence. Worst of all, it will lose public trustworthiness, a failure in its purpose for existence. Without legal form and public trust, no matter how lofty the vision or how humane the mission, they will go unfulfilled. Gardner⁷ evaluated the importance of the independent sector in this ringing tribute:

If it were to disappear from our national life, we would be less distinctly American. The [independent] sector enhances our creativity, enlivens our communities, nurtures individual responsibility, stirs life at the grass-roots, and reminds us that we were born free. Its vitality is rooted in good soil—civic pride, compassion, a philanthropic tradition, a strong problem-solving impulse, a sense of individual responsibility and, despite what cynics may say, an irrepressible commitment to the great shared task of improving our life together.

To live up to these ideals, the members of each charitable organization must be active participants in the philanthropic process. They must recruit community residents and business executives to serve as board members, ask others to volunteer their time and talents, and invite the public to share in the organization's financial support. The domain of philanthropy has remarkable diversity, substantial numbers, economic power, and enormous public impact, all of which should be represented in the board, volunteers, and donor membership. Collectively, America's charitable organizations or independent sector are referred to as the third sector, after business and government, out of respect for their accepted value to the nation. When the domain of philanthropy joins in partnership with business and government, philanthropy shines as the uniquely American example of a democratic triumph.

John D. Rockefeller 3rd,⁸ long associated with highly visible philanthropic achievements, once commented:

A healthy third sector keeps government honest, provides alternative ways to solve problems, helps maintain institutions that should *not* be taken over by government, and provides opportunities for the initiative and sense of caring that are the indispensable bedrock of a thriving democracy. . . . There is, however, a common thread that runs through

the third sector; a belief in being of service to one's community and other people, without relying on government and without any expectation of personal profit. At the heart of the third sector is individual initiative and a sense of caring. . . . This means that the oldest form of support, philanthropic giving, is still the most important. It provides the crucial margin that gives third-sector institutions their most precious asset— independence.

The sections that follow will discuss philanthropic practice, the independent sector and the nature of charitable organizations, and the fund development process, all in preparation for study of the comprehensive annual giving program.

PHILANTHROPIC PRACTICE

The vision and mission of a nonprofit organization will answer the first of the two overarching questions: Why do we exist? and What's the money for? The second question is far easier to answer when the vision and mission are known; without them, the message is only about money. In the vision and mission statements, dreams take shape and form, practical applications become visible through actual programs and services delivered, and defined purposes, goals, and objectives measure the results. All of these goals are brought to life through philanthropic practice. Philanthropic practice is volunteerism in action, and, says Payton,⁹ "[I]t might be argued that philanthropy is an essential defining characteristic of civilized society." It is expressed by people in several forms, from leadership and governance to public solicitation and giving. Hours of time and energy are given freely by people every year; they also share their personal talents, their assets, and other human and material resources. Why do they do it? A trio of leading analysts has offered these reasons:¹⁰

People benefit from serving others. The most important benefits are satisfactions: spiritual, moral, and psychological. We accept the psychological evidence that voluntary service in behalf of others enhances self-esteem and self-worth. The secret seems to lie in the liberation of the self from its own preoccupations by sympathy for and empathy with others. . . . Voluntary acts of compassion and acts of community are always needed, in all societies, and always will be.

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None of these valued attributes should be taken for granted; they must be developed with care and attention by charitable organizations.

Leadership is essential to success in any enterprise, including the charitable organization; volunteerism is second only to leadership in its importance to philanthropic practice. Leadership and volunteerism encourage others to make the effort to join in. Everyone is not a leader, and all leaders cannot serve at the same time. Nonprofit organizations are no more alike than are the types of business or the levels of government, and they do not act alike. Despite their high motives and good intentions, some people may not have the knowledge and skill needed to govern others nor the experience required to manage charitable organizations with effectiveness and efficiency. Their place may be as volunteers, and there is much to be done by volunteers, including asking others for their annual gift once a year.

Philanthropic practice includes this asking for gifts. Few gifts are made without a request first being delivered in some way. Solicitation is believed by some people to be a confrontational, one-way conversation. Saying no is seen as a far easier thing to do than asking. For some people, asking for gifts is another form of sales, and, like sales everywhere, it is assertive, even aggressive at times. They are uncomfortable with this assignment. What is most important to the solicitation is that making gifts is a *voluntary act* each and every time. Giving is the result of an invitation; a reply is requested. Asking for money for charitable purposes is not begging. Gift appeals by charitable organizations, says Harold Seymour,¹¹ “should aim high, provide perspective, arouse a sense of history and continuity, convey a feeling of importance, relevance, and urgency, and have whatever stuff is needed to warm the heart and stir the mind.” Philanthropic practice is carried out by sharing valid needs with selected audiences who are invited to lend their support. The act of giving is the servant to philanthropic practice and is carried out whenever money or time is given. Not everyone is willing to ask friends for money; those who prefer not to ask can give their energy and talents to other areas. What is valuable in all of these actions is the volunteerism itself. Every citizen has this opportunity. More should try it; they might like it. For philanthropic practice to succeed, gifts of money are required. Everyone who asks others to give should first make his or her own personal gift each year. Those who are asked should consider the invitation seriously; many do, and they make a contribution. In fact, most of the peo-

ple who decide to give will make more than one gift to a charitable organization each year. Despite this generosity, raising money is not the end to be achieved; it is only the means to the end. Fundraising follows leadership, volunteerism, and public generosity toward fulfillment of the vision and mission. Of all the acts of philanthropic practice, the privilege and freedom of voluntary giving may be the least understood and the least appreciated.

THE INDEPENDENT SECTOR AND THE NATURE OF CHARITABLE ORGANIZATIONS

After many years of acting alone or in groupings by type of organization or service provided (the arts, colleges, museums, and so on), the great variety of charitable organizations active in America began to come together, drawn by common needs for advocacy, communications, research studies, and threats of governmental regulation. The Tax Reform Act of 1969, which imposed operating regulations and excise taxes on private foundations, might have served as the catalyst for this awakening. The 1975 report of “the Filer Commission”¹² included a specific recommendation “that a permanent national commission on the nonprofit sector be established by Congress.” True to the American tradition, private citizens began the organization instead, and Independent Sector was founded in 1980 under the leadership of John Gardner and Brian O’Connell. Within its mission was the responsibility to serve as the collective spokesperson and rallying point for the variety of nonprofit organizations that exist in America. The sheer size and diversity of the independent sector may come as a surprise to many readers. Harvey Dale¹³ described these dimensions in 1991:

It is estimated to comprise more than 1.3 million organizations, of which more than two-thirds are charities or social-welfare entities (which together make up the so-called independent sector). Nearly 10 percent of the U.S. labor force works in that sector. The net value of assets held by charities alone is probably in excess of \$300 billion today. Charitable giving in this country has exceeded \$100 billion annually for the past few years. Even that large number has accounted for less than 30 percent of the receipts of the independent sector; *total* annual receipts—which also included dues, fees, charges, investment income, and government payments—exceeded \$325 billion in 1987 and must be greater now. By any measure, the independent sector in our country is very substantial.

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The Internal Revenue Service (IRS) reported that the number of 501(c) tax-exempt organizations registered as of September 1999 was 1,312,647, of which 773,934 were classified as 501(cc)(3) religious and charitable, 59 percent of the total. These figures do not include churches, integrated auxiliaries, subordinate units, and conventions or associations of churches that do not need to apply for recognition of exempt status.¹⁴ The rate of growth in new organizations receiving approval remains at about 6 percent a year. Of the 72,161 applications for exempt status received by IRS in that fiscal year, 58,138 were approved, including 52,773 as 501(c)(3) organizations. Total giving in 1999 was \$190.16 billion and in 2000 was \$203.45 billion, a 3.2 percent increase over 1999 and the lowest increase in the prior five years (see Exhibit 1-1).

The authority to guide each of these charitable organizations rests with the board of directors. The directors are men and women who act on behalf of their organization's self-interest; they guide their enterprise toward fulfillment of its vision and mission, its reason to exist "Mission is entrusted to the governing board, and governance entails stewardship."¹⁵ The directors accept with equal duty their accountability to the public for the actions of the organization, its employees and staff, its clients, and its financial affairs, and for all of its assets. It is not an overstatement that the ultimate responsibility for the existence and welfare of the organization rests with the board of directors. It is also fair to propose, although each board has its well-defined duties, that board members serve as a collective example to everyone else within the entire independent sector, not just one organization. Given such levels of responsibility, the members of the board of directors are well-advised to study the following standards:¹⁶

First, the nonprofit board has and uses a systematic process for assessing the strengths and weaknesses of the composition of the current board. Strengths and weaknesses are usually assessed in terms of demographic characteristics, expertise, and skills, and the result is a board profile.

Second, the board profile is used to identify the personal characteristics and expertise/skills desired in new recruits to the board.

Third, recruitment of potential board members is systematic and rigorous in that potential members are thoroughly informed as to the mission and goals of the organization; its financial condition; and the time, effort, level of contributions, and fundraising activities expected of them. Potential members are interviewed by a board committee (and perhaps

EXHIBIT I-1

NATIONAL ANNUAL GIVING DATA *
TOTAL PHILANTHROPY IN THE
UNITED STATES (IN BILLIONS)

Sources of Contributions	1998	1999	2000*	Percent of Total
Individuals	\$148.50	\$143.71	\$152.07	75%
Bequests	\$ 12.63	\$ 15.61	\$ 16.02	7.70%
Foundations	\$ 17.10	\$ 19.81	\$ 24.50	12%
Corporations	\$ 8.97	\$ 11.02	\$ 10.86	5.30%
TOTALS	\$174.52	\$190.16	\$203.45	100.00%

Uses of Contributions	1998	1999	2000*	Percent of Total
Religion	\$ 76.10	\$ 81.78	\$ 74.45	36.60%
Education	\$ 24.61	\$ 27.46	\$ 28.10	13.80%
Health/hospitals	\$ 16.90	\$ 17.95	\$ 18.90	9.30%
Human services	\$ 16.90	\$ 17.36	\$ 17.90	8.80%
Unallocated/foundations	\$ 16.98	\$ 15.11	\$ 32.20	15.80%
Arts/culture	\$ 10.50	\$ 11.07	\$ 11.60	5.70%
Public/social benefit	\$ 10.90	\$ 10.94	\$ 11.60	5.70%
Environment/wildlife	\$ 5.30	\$ 5.83	\$ 6.10	3.00%
International/foreign	\$ 2.10	\$ 2.65	\$ 2.60	1.30%
TOTALS	\$174.50	\$190.16	\$203.45	100.00%

*Source: *The Chronicle of Philanthropy*, May 31, 2001, charts on pages 29 and 36.

the full board) as to their motives and interests in volunteering for board service.

Fourth, new board members receive additional, thorough training and orientation beyond that provided during recruitment and selection.

Fifth, board members commit significant time to board duties, not only attending board and committee meetings but also preparing for meetings and undertaking other assignments, perhaps including fundraising activities.

Sixth, board meetings are characterized by a process through which all are encouraged to participate and disagreement is welcomed, while relationships are collegial and consensual. The board works as a team.

Seventh, the board uses processes of assessing the performance of the board as a whole and the performance of individual members. The board has and follows standards of removing members who do not perform.

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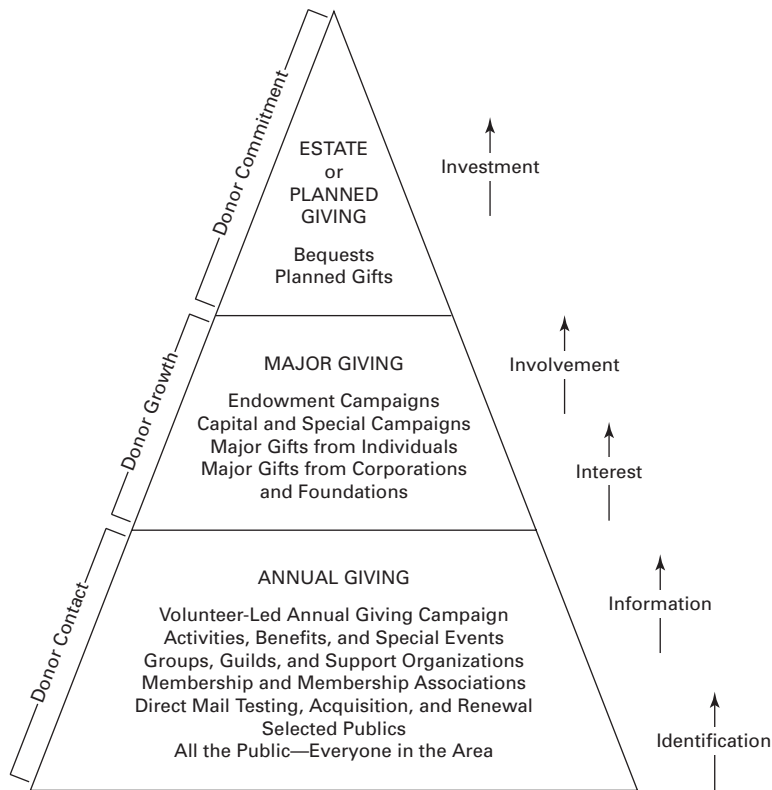
Eighth, the board's chief tasks are to (a) select, evaluate, and, if necessary, dismiss the chief executive; (b) define and periodically reevaluate the organization's mission and major goals, develop a strategic plan, and approve budgets and policy statements consistent with the plan; and (c) ensure that the organization obtains the resources necessary to meet the plan.

THE ROLE OF FUND DEVELOPMENT

Vision and mission can lift the spirit; leadership and volunteerism provide the example others are to follow. What are others asked to do? How can the public be involved in the mission and in the programs and services that carry out that mission? Great answers will again be required. The fund development department has the major responsibility for financial support but also has many duties other than raising money. Fund development is often where the public's invitation to participate is centered, where communications begin and continue, and where opportunities for a lifetime of involvement can be fulfilled.

Fund development performs a variety of essential services for nonprofit organizations because its methodology demands planning, marketing, promotion, and community relations. Some may choose to believe that these services are the result of fund development activities, but it is important to understand that they must be carried out before fund development can succeed. Fund development is the area with primary responsibility for raising friends and building relationships for nonprofit organizations. These uses for fund development in philanthropic practice have been defined in many ways; one of the best was provided by Seymour:¹⁷ "Development is the planned promotion of understanding, participation, and support." Fund development is how and where the public is invited to join the cause, to give of their time, talent, and treasure, and to become an active part of a solution to meet human needs.

The several methods and techniques of fundraising are the tools used for (not the purpose of) fund development. The grand design for their use can be illustrated as a pyramid that has three levels of fundraising activity: (1) annual giving, (2) major giving, and (3) estate or planned giving (see Exhibit 1-2). Volunteers and donors are invited to begin their relationship by accepting information about the organization. Building the relationship will take time and will involve repeated opportunities for giving. In this way, their interest and personal involvement will increase to a level where

EXHIBIT 1-2 THE PYRAMID OF GIVING


investment decisions will be made. To spearhead the attainment of these levels of continuing relationships, the fund development department will be asked to play several roles:

- Building community
- Responding, not directing
- Being a catalyst to facilitate action
- Finding opportunities for investment in humanity
- Being dynamic because the mission and cause are dynamic
- Seeking a design to accomplish objectives, not merely to give money away

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- Viewing solicitations as a “contact sport,” not a duty or chore
- Offering a means for donors to fulfill their aspirations
- Using social exchange to achieve higher purposes
- Working always, *always* in the future
- Being more artist than scientist

Fundraising is a “‘responsibility system,’ ethical at its base and tied to a larger complex of authority, control, and responsibility. Honesty, openness, and accountability are therefore essential to the integrity and credibility of fundraisers. The professional fundraiser is ethical and virtuous as well; wholehearted, persistent, and impartial.”¹⁸ The purpose of fundraising is more than marketing, more than promotion, more than the money raised. Its value is in the results accomplished by the organization’s use of the money. Fund development is the process where mission and purposes are matched with the public’s desire to help; “people helping people” is carried out through fund development activities. Peter F. Drucker¹⁹ has described its evolution:

[A] non-profit institution that becomes a prisoner of money-raising is in serious trouble and in a serious identity crisis. The purpose of a strategy for raising money is precisely to enable the non-profit institution to carry out its mission without subordinating that mission to fundraising. This is why non-profit people have now changed the term they use from “fund-raising” to “fund development.” Fundraising is going around with a begging bowl, asking for money because the *need* is so great. Fund development is creating a constituency which supports the organization because it *deserves* it. It means developing what I call a membership that participates through giving.

The stars of fund development are donors. They are the best friends a nonprofit organization can hope to have; retaining their friendship and expanding their relationship are the primary duties of the fund development program. The value of donors and of what they give enables charitable purposes to be carried out and aids realization of the vision and mission. The objectives may be clear, but donors’ motives for giving are complex. They are a mixture of feelings, values, fond wishes, and a sincere desire to make a difference—all of which can be nurtured with praise and public recognition. Donors possess considerable influence within this relationship.

They can be offended and upset by errors and mistakes and, in the next instant, can be consumed with satisfaction about the good they have made happen. Many donors begin giving with a glow of enlightened self-interest. In time, these same donors grow to appreciate that what they can do with their money is less important than what philanthropic practices can do with their money for others. Donors have various motives for making gifts:

- They want to be charitable and to help others.
- They enjoy ego satisfaction.
- They want to gain public recognition.
- The public respects philanthropists.
- Their religious guidelines call for charitable action or promise rewards in the afterlife.
- They want to participate in a worthy cause.
- They want to join with others in a common purpose.
- The organization has a good public image.
- They have confidence in the organization and they trust it to use their money well.
- The organization has good people in leadership positions.
- The organization is fiscally sound and operationally well-managed.
- They were asked to give.

Many more factors are at work in each gift decision. Some donors give on impulse, others because of a genuine interest, and a few according to an integrated giving plan.²⁰ People possess any number of complex (even competing) motives that occur with each gift decision. The objective of fund development is not to manipulate donor motives but, by understanding them better, to assist donors in fulfilling their aspirations through gift support.

Donor behavior is much more than a single gift decision or one episode of giving, and it may be triggered by internal motivations and external influences (see Exhibit 1-3). Donors achieve personal values from giving—beyond the tax deduction, if they choose to claim it. The spirit of altruism, of “people helping people,” is an act of charity at the highest level. Such gifts are made without expectation of anything in return other than the courtesy of a thank-you letter or a receipt. “Philanthropy is misunderstood

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EXHIBIT 1-3 FRAMEWORK FOR DETERMINING WHY PEOPLE GIVE

Internal Motivations	External Influences
<i>Personal or "I" Factors</i>	<i>Rewards</i>
Acceptance of self or self-esteem	Recognition
Achievement	Personal
Cognitive interest	Social
Growth	<i>Stimulations</i>
Guilt reduction or avoidance	Human needs
Meaning or purpose of life	Personal request
Personal gain or benefit	Vision
Spirituality	Private initiative
Immortality	Efficiency and effectiveness
Survival	Tax deductions
<i>Social or "We" Factors</i>	<i>Situations</i>
Status	Personal involvement
Affiliation	Planning and decision making
Group endeavor	Peer pressure
Interdependence	Networks
Altruism	Family involvement
Family and progeny	Culture
Power	Tradition
<i>Negative or "They" Factors</i>	Role identity
Frustration	Disposable income
Unknown situations	
Insecurity	
Fear and anxiety	
Complexity	

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when it is reduced to any one of its elements; therefore, fundraising is not the whole of philanthropy and is about more than money, being inextricably tied to philanthropic values, purposes, and methods.”²¹

All donors may not be satisfied with the mere exchange of money; some may want to participate in philanthropic practice. For this type of donor, volunteerism is the answer most of the time. Donors will benefit from actions taken on behalf of others, even if they perform no action and receive no material rewards for their efforts. The fund-development process must

acknowledge that donors are deserving of appropriate recognition for their good works.

Donor relations affirms the quality of action taken more than the amount given. Every gift is worthy of justifiable praise and should be acknowledged by the nonprofit organization. Those who are able to give more in a single donation may indeed receive more attention, but their accolades should be the same as those for every other donor whose cumulative giving eventually achieves the same level of support. Nonprofit organizations must be alert to the danger of selling recognition in exchange for the promise of rewards, no matter how much a donor has indicated a desire to receive them. Among the ethics of philanthropic practice are fairness and equality to all who give and to whom appropriate recognition can be offered.

Ethical fund raising is the prod, the enabler, the activator to gift making. It must also be the conscience to the process. Fund raising is at its best when it strives to match the needs of the not-for-profit organization with the contributor's need and desire to give. The practice of gift seeking is justified when it exalts the contributor, not the gift seeker. It is justified when it is used as a responsible invitation, guiding contributors to make the kind of gift that will meet their own special needs and add greater meaning to their lives.²²

THE ROLE OF ANNUAL GIVING

Annual giving programs, the front lines of fund development, are where most people become involved with nonprofit organizations, where most of the gift exchange takes place, and where the greatest variety of fundraising methods and techniques is found. Annual giving may be the entire fundraising program of nonprofit organizations that depend on the income from their annual giving appeals to cover their annual operating expenses.

Annual giving combines identifying and recruiting new donors with renewing and upgrading previous donors. Annual giving is also a means to expand the involvement and participation of current donors at all levels through membership associations or induction into donor clubs, guilds, and support organizations. Annual giving offers a great variety of opportunities for donors to become active as volunteers and to exercise leadership, especially in the popular areas of activities, benefits, and special events. Identification and recruitment of new donors and continuation of the

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commitment of prior donors remain constant through all of these annual giving methods. These techniques offer a rich multitude of opportunities for taking philanthropic practice beyond just asking for money. Friend-raising and relationship-building should be at their peak when all these opportunities are available!

WHAT TO USE IN MAKING ANNUAL GIFTS

Does every gift qualify as being tax deductible? No; tax deductibility depends on what is given, to whom it is given, and the amounts of other charitable deductions in the same year. What, then, can people use to make a gift each year? People can give cash and currency, pledges, gifts of securities, gifts of personal property, gifts-in-kind, and donated services.

Cash and Currency

Cash, checks, and money orders are the most common forms of giving. Credit-card charges are also available with most nonprofit organizations. Depending on the card used, a small service fee (up to 3 percent) may be assessed. The amount charged is received by the organization right away as a full-value donation. The IRS rules permit a total charitable contribution deduction of up to 50 percent of a donor's adjusted gross income for the year of the gift, with a five-year carryover of any excess deduction value. However, only a donor who files an itemized ("long form") return will be able to claim the deduction. (Nonitemizers lost their deduction for gifts to charity under the 1986 Tax Reform Act. Efforts to reinstate this privilege have yet to succeed, up to and including the tax reform legislation of 2001.)

Pledges

The use of pledges for annual gifts is less common than cash and currency and incurs administrative costs for recordkeeping, billing, and collections. Because of the general nature of annual giving, cash is preferred: the organization will use the money as soon as it is received. Pledges are necessary when solicitation is performed over the telephone or on radio or television, or if payment is arranged via payroll deductions by the employer. (United Way has pioneered this simple but effective payment plan.) Because most annual giving programs are tied to the calendar or tax year, the pledge pe-

riod normally ends on December 31. Alternatively, it may end on the fiscal year-end date of the organization. Pledges have the potential for some amount of nonpayment, depending on the solicitation method used and the time period allowed. Accounting for pledges, now termed *unconditional promises to give*, has been changed in light of Financial Accounting Standards Board (FASB) recommendations that they be counted as revenue for their full value when received, and then treated as assets.²³ If unpaid, the organization has the obligation to pursue payment, including legal redress—a set of conditions not likely to be viewed as conducive to donors' making formal pledges in the future.

Gifts of Securities

Stocks and bonds are valuable assets, but they have changing market value. Donors may choose to act when stock values are up, or a securities gift decision can be deferred until market conditions are favorable. Most annual gifts involving securities are modest in size (under \$5,000 in value) and will occur before the tax year ends. Donors expect the stock to be sold so that the proceeds can be used toward annual giving priorities. If securities are sold by a donor and the proceeds are delivered as a gift to charity, the donor will be assessed a capital gains tax on the sale. Donors should be advised to give the securities to the charity instead of proceeds from their sale. Using this method, capital gains are deductible at full market value, subject to the deduction limit of 30 percent of the donor's adjusted gross income in the year of the gift, with a five-year carryover. The tax law changed in mid-1993 regarding gifts of appreciated property. Qualified gifts were removed from the alternative minimum tax (AMT) calculation—good news for generous donors and their favorite nonprofit organizations. Calculation of the charitable contribution value for gifts of securities requires three steps, in keeping with IRS regulations:

1. Establish the value for gifts of securities by calculating the mean average price of the stock on the date when ownership was transferred to the charity.
2. Verify the calculation (a) with a broker *and* (b) in the next business day's edition of a newspaper that carried the stock exchange listing (*The Wall Street Journal* or *The New York Times*, for example).
3. Confirm the gift value in writing to the donor.

20 CHAPTER 1 DEVELOPING ANNUAL GIFT SUPPORT**Gifts of Personal Property**

This category includes anything other than cash, securities, and real estate, and has two subcategories: intangible personal property and tangible personal property. The method to complete the transfer of a gift of intangible personal property (stocks and bonds, patents, copyrights) is the same as for gifts of securities. Transfer of tangible personal property is more complex and requires extreme care. Examples of tangible personal property include real estate, art works, antiques, collectibles, cars, boats, computers, china, silverware, and similar valuables.

IRS rules regarding deductibility are clear but not widely understood. Nonprofit organizations are advised to observe IRS procedures with exactitude in order to protect their donors. If a donor created the donated item, this donor may deduct only his or her cost of materials. If the donor purchased the item, the donor may claim full appreciated value if the donee organization's use of the item is related to its exempt purpose. If the item is for unrelated use, the donor may claim only the cost of acquiring the item. If the value of any item is \$5,000 or more, the claim for deductibility must be authenticated in writing by a certified professional appraiser, at the donor's expense. Further, a copy of the appraisal must be signed by the donor and the nonprofit organization and attached to IRS Form 8283, which accompanies the donor's annual tax return. If the organization sells the item within two years after its receipt, it must report the amount of the sale to the IRS on Form 8282. The IRS will compare the appraisal value with the sale value and may challenge the donor's claim if there is a noticeable difference between these two figures.

Gifts-in-Kind

Some donors are in a position to give goods and services that can be used for charitable purposes in lieu of cash, securities, or personal property. Called gifts-in-kind, these are donations that can be valuable when they are directly usable for the organization's charitable purposes or in direct support of an activity, benefit, or special event. Examples are free or reduced-price printing of invitations, programs, or tickets by a professional printer; decorations and flowers from a florist; food from a caterer or wholesaler; table favors from local merchants; wine and similar items from appropriate sources. Gifts-in-kind can help to reduce the direct costs of staging an

event and allow greater net proceeds to the nonprofit organization. As with gifts of personal property, tax deductibility rules are precise and the same validation procedures must be followed each time.

Donated Services

People's time has value and the time and talent they give to nonprofit organizations is no less valuable, but the IRS does not allow any charitable deduction for contributions of personal time and talent for any fundraising volunteer work. Deductions are allowed for unreimbursed expenses connected with a donation of services, mileage, tools, and parking (or the cost of transportation to and from the site where the services were provided). The FASB has allowed contributions of services to be recognized at the fair value of services received (but not recognized as revenue). The qualifications include whether "the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation."²⁴

This book will present the entire panorama of annual giving programs, illustrating how the various methods and techniques are used to invite people to become donors, and how to build an initial gift relationship into long-term active participation by the donor in the life of the organization. The relationship begins with list selection and testing by mail and, through a series of expanding steps, it progresses into a comprehensive annual giving program. The testing determines who should receive the invitations and how to explain the vision and mission. "Roll out" invitations are part of the direct mail program, and a renewal cycle follows quickly afterward. Membership adds *belonging*—being part of a group of other donors—and other forms of association, such as by telephone, donor clubs, guilds, and support organizations, plus applications of Internet technology, offer further enhancement. With structured groups and volunteer leadership in place, the annual giving program gains advantages from inviting the public to join in its activities, benefits, and special events. All of these resources help the organization to build a base of continuing donors that is broad enough to support volunteer-led personal solicitation. Using an "annual campaign" model, the organization can give these most faithful donors the personal attention they require. Along the way, there will be multiple opportunities

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to experiment with one or more of the “other ways to raise money every year” (see Chapter 12). The scope and magnitude of this entire effort, which can be implemented within a period of three to five years, require professional management and direction by fund development staff from the beginning.

The methods and techniques used in annual giving are not the most efficient forms of fundraising. Each can and should be managed with efficiency and productivity on its own merits, but that is all that can be expected. The methods’ greater value is in their collective ability to generate enthusiasm and a broad base of faithful followers. By tracking the results, using the formats shown in Exhibits 1-4, 1-5, and 1-6, progress can be monitored in three areas of activity, respectively: (1) sources of giving, (2) purposes and uses of funds raised, and (3) results of each annual giving method. Monitoring the sources of gifts will disclose where increases and decreases in the number of donors occur as well as their level of support and average gift size. The report on purposes and uses of funds raised reveals the degree to which the public has accepted the priority of needs requests with funds in the areas needed. Each fundraising method used in annual giving will perform differently and each method used should be

EXHIBIT 1-4 GIFT REPORT ON SOURCES OF GIFTS RECEIVED

Sources of Gifts	Number of Gifts	Gift Income	Average Gift Size
Trustees/directors	15	\$ 25,500	\$ 1,700
Professional staff	21	3,025	144
Employees	65	3,675	57
New donors (acquisition)	285	8,030	28
Prior donors (renewal)	282	18,010	64
Corporations	17	8,500	500
Foundations	12	38,800	3,233
Associations/societies	6	2,850	475
Bequests received	3	31,500	10,500
Unsolicited gifts	42	2,950	70
Other gifts received	12	21,500	1,792
Grand Total	760	\$164,340	\$ 216

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**EXHIBIT 1-5 GIFT REPORT ON PURPOSES OR
USES OF GIFTS RECEIVED**

Purposes or Uses of Gifts Received	Number of Gifts	Gift Income	Average Gift Size
<i>Unrestricted Funds</i>	225	\$ 34,519	\$ 153
<i>Temporarily Restricted Funds</i>			
Capital/equipment purposes	295	\$ 26,950	\$ 91
Programs/services purposes	138	18,500	134
Education/training purposes	14	22,500	1,607
Research/study purposes	15	26,450	1,763
Staff/employee purposes	58	3,016	52
Other restricted purposes	12	905	75
Subtotal	757	\$132,840	\$ 175
<i>Permanently Restricted Funds</i>			
Unrestricted endowment	2	\$ 6,500	\$ 3,250
Restricted endowment	1	25,000	25,000
Subtotal	3	\$ 31,500	\$10,500
Grand Total	760	\$164,340	\$ 216

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reported. A summary report should compare gift income against budget for a cost–benefit ratio (see Exhibit 1-7).

Throughout the book, there will be references to several basic principles. As already stated, the first purpose of annual giving is to raise friends and build relationships for the organization. Money follows people; if enough people join in the cause, if the organization serves the cause well, and if a comprehensive annual giving program is in place, the money will follow. Annual giving programs must also possess flexibility. The roster of priority needs will be constantly changing as the nonprofit organization carries out its programs and services year after year. The unique challenge to annual giving is to be able to plan and execute as much activity as possible within 12 months, and to continue those plans and activities with the same enthusiasm, energy, and success in the next year, and the year after that. After three to five years, the results should begin to be reliable enough to forecast performance from year to year. Some advice, from experience: Go back and review the results of each method used. Review again the

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**EXHIBIT I-6 GIFT REPORT OF SOLICITATION
ACTIVITIES AND RESULTS
(BY PROGRAM)**

Solicitation Activities	Number of Gifts	Gift Income	Average Gift Size
<i>A. Annual Giving Programs</i>			
Direct mail (acquisition)	285	\$ 8,030	\$ 28
Direct mail (renewal)	282	18,010	64
Membership dues	0	0	0
Donor clubs	0	0	0
Support groups	0	0	0
Telephone gifts	0	0	0
Benefit events	2	12,850	6,425
Volunteer-led solicitations	65	3,675	57
Unsolicited gifts	42	2,950	70
Other gifts received	16	21,500	1,344
Subtotal	692	\$ 67,015	\$ 97
<i>B. Major Giving Programs</i>			
Corporations	17	\$ 8,500	\$ 500
Foundations	12	28,800	2,400
Individuals	36	28,525	792
Special projects	0	0	0
Capital campaigns	0	0	0
Bequests received	3	31,500	10,500
Subtotal	68	\$ 97,325	\$ 1,431
Grand total	760	\$164,340	\$ 216

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reasons why selected fundraising programs were chosen. Measure how well they are doing today. When guidance is called for, turn to Tom Broce's "nine cardinal principles" of fundraising:²⁵

- I. Institutional or organizational objectives must be established first.
- II. Development objectives must be established to meet institutional goals.
- III. The kinds of support needed determine the kinds of fundraising programs.
- IV. The institution must start with natural prospects.

EXHIBIT I-7

**GIFT REPORT OF SOLICITATION
ACTIVITIES WITH GIFT INCOME
MEASURED AGAINST APPROVED
BUDGET AND ACTUAL EXPENSES
(BY PROGRAM)**

Activities	Gift Income	Approved Budget	Actual Expenses	Cost per \$ Raised
<i>A. Annual Giving Programs</i>				
Direct mail (acquisition)	\$ 8,030	\$10,500	\$ 9,855	\$1.23
Direct mail (renewal)	18,010	3,750	3,890	0.22
Membership dues	0	0	0	0
Donor clubs	0	0	0	0
Support groups	0	0	0	0
Telephone gifts	0	0	0	0
Benefit events	2,850	1,800	1,350	0.47
Volunteer-led solicitations	3,675	500	485	0.13
Unsolicited gifts	2,950	0	0	0
Other gifts received	21,500	0	0	0
Subtotal	\$ 57,015	\$16,550	\$15,580	\$0.27
<i>B. Major Giving Programs</i>				
Corporations	\$ 8,500	\$20,215	\$18,250	\$2.15
Foundations	38,800	34,525	33,555	0.86
Individuals	28,525	3,210	3,250	0.11
Special projects	0	0	0	0
Capital campaigns	0	0	0	0
Bequests received	31,500	500	550	0.02
Subtotal	\$107,325	\$58,450	\$55,605	\$0.52
Grand total	\$164,340	\$75,000	\$71,185	\$0.43

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- V. The case for the program must reflect the importance of the institution.
- VI. Involvement is the key to leadership and support.
- VII. Prospect research must be thorough and realistic.
- VIII. Cultivation is the key to successful solicitation.
- IX. Solicitation is successful only if Cardinal Principles I through VIII have been followed.

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Within the 365 days in each year, there is just enough time to stop and reflect on what is in operation and how well it is performing. Repetitious activities are slightly at risk of becoming fixed because everyone accepts how well they are working. Measurement and evaluation make people nervous; they are afraid something might be discovered to be wrong, especially when the cost of fundraising is added to the analysis. The opposite result is more likely: improvements might be found and might make even better performances possible (see Exhibit 1-7 for a sample analysis). If assessments are not made, improvements will not be found. Perhaps more important to leaders and volunteers is the fact that studies of current activities may yield ideas that can keep annual giving programs fresh and exciting. Here are five basic rules that annual giving can live by:²⁶

1. An annual fund drive is annual. Don't skip a year for any reason.
2. Select the best possible people you can find to serve in the leadership positions of the campaign.
3. Develop your case for support.
4. Involve as many volunteers as possible. The more people who ask for money, the more money you will receive.
5. Work closely with each volunteer and provide every tool needed to get the job done. Be absolutely certain to give recognition when the campaign is over.

Annual giving can bring great satisfaction to all who are involved in its practice. It has pace and excitement and is hardly ever dull. It calls for creativity and experimentation and gets instantaneous results. It involves the best of people working for the best of causes: helping others. It has influence in the community and importance to the organization. The friends it finds and develops into committed donors will remain thankful for the opportunity. The money it raises is put to work immediately, and all can see the results. Nonprofit organizations that have comprehensive annual giving programs working on their behalf can depend on their reliable performance, year after year, and can continue with confidence to pursue the fulfillment of their vision and mission.