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Grassroots Fundraising

In This Issue:

**Thinking of
Starting an
Endowment?**

**Raising Money
for the Right
to Vote**

**Tax Consequences
of Newsletter Ads**

**Beyond the
"Contract on
America"**

Journal

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Thinking of Starting an Endowment?

by Kim Klein

In a video made some years ago by a nonprofit group in Minnesota, people walking down a busy street in Minneapolis were stopped and asked, "What is philanthropy?" The answers varied from "the study of monkeys" to "stamp collecting." Few people had an accurate definition.

I used this method recently to find out what people thought an endowment was. This was neither a well-planned nor a scientific study. I conducted my study in an airport lounge to pass the time while waiting for a delayed flight. Nevertheless the responses were interesting. A tired-looking salesman said an endowment was an undergarment that could help heavy people look thinner. A grandmother en route to Kansas thought it was the cornerstone of a building, and a high school sophomore said, "It is your basic philosophy of life." Her friend countered with, "I think it is what we'll get when our parents die."

In some ways, grassroots organizations have equally incorrect ideas about endowments. They see endowments as ways to not have to raise so much money each year or as easier money to get than through annual fundraising. They imagine their endowment generating incomes of 15% and 20% a year. Mostly they imagine their donors delightedly handing over assets and arranging their estates in honor of the group.

Thousands of groups are starting endowments or thinking about starting them, so it seems timely to do a series of articles about endowments. In this introductory article, I will explore what an endowment is and isn't, and what has to be in place to start one. In subsequent articles I will explain in detail how to conduct an endowment campaign and provide some case studies of endowment campaigns done by small organizations.

What is an Endowment?

Coming between "endotoxin" and "end papers" in *Funk and Wagnall's College Dictionary*, "endowment" is defined as follows: "1. Money or property given for the per-

manent use of an institution, person, etc., 2. Any natural gift, as talent or beauty, 3. the act of endowing."

The first definition is obviously the one most germane here. An endowment is a permanent savings account for an institution. Money is put aside as principal and only interest generated from this principal is spent. In fact, most endowed organizations reinvest some percentage of the interest generated to build in growth of the endowment.

Why are Endowments Good?

The answers to this question may seem obvious, but let's review them anyway.

1. Just like a savings account, an endowment provides a measure of financial security and takes some of the anxiety out of annual fundraising.
2. An endowment allows, indeed forces, an organization to think in terms of long-range planning because an endowment implies a commitment to exist in perpetuity.
3. Endowments provide a vehicle for people to make larger gifts to an organization than might be appropriate for an annual gift, and they allow people to make one-time-only gifts with the assurance that the gift won't just be spent.
4. An endowment is a vehicle for people to express their commitment to an organization through their wills; few people will leave money to an organization that does not have some kind of permanent fund.
5. Endowments attract donors who perceive the endowment to be a sign of good planning and long-range thinking in a group to which they may not have given otherwise.
6. Principal from endowments can be used for capital expenses and as collateral for loans, if ever needed. (While "invading principal" is something organizations try very hard not to do, there are circumstances in which it might be the best or only recourse, and it is nice to know you have that possibility.)

What is Bad about Endowments?

Believe it or not, endowments have some drawbacks too.

1. Because they may allow an organization to exist permanently, endowments may support organizations that ought to have gone out of business.

2. When endowments are very large, they allow organizations to become unresponsive to the community. Grassroots organizations often eschew endowments for that reason.

3. Endowments can provide a false sense of security, since interest rates can vary, stock markets can fall or even crash, and money can be invested badly.

4. The existence of an endowment may discourage some donors from giving who prefer to support organizations that they perceive to need the money more.

5. When donors give money to organizations to endow certain programs, the work of the organization can become donor-driven rather than mission-driven (a pitfall not only possible with endowments but with foundations and government funding or any large source of money earmarked for a specific program area). The added problem of endowed programs is that the donor is usually deceased by the time it is clear that the program needs to be changed or abandoned, but the terms for changing how the funds are spent may not be in place. Lengthy and expensive court cases are common in these situations.

What to Consider in Deciding to Create an Endowment

When thinking of starting an endowment, organizations often focus on the money: how much to raise, how to raise it, whom to ask for it. But there are two critical questions that must be answered before even one dollar is invested in your endowment.

First, does everyone in the organization agree that your group should exist permanently? Most nonprofits involved in social change are formed with the idea that if their work is successful, they will put themselves out of business. The founders generally do not think of the group becoming permanent and everyone may be surprised at how long it is taking to solve whatever problem you were created to address. Arts groups, alternative schools, and some social service providers are from the get-go conceived to be a permanent feature on the nonprofit landscape, but environmental, feminist, liberation, and advocacy groups generally are not.

Sometimes the most interesting part of the endowment process is this discussion at the beginning: Should we always be here? "Permanence" in terms of endowment has shades of meaning. It can take its traditional meaning of "always and forever" or it can take the meaning of "Fifty years from now." But endowments do imply existing well past the lifetime of anyone in the group, and require the group to imagine the day when people who are not yet born are sitting on the board and working as staff. Will your group be needed then? What is the evidence of that need?

It is important to make sure that everyone among board, staff, key volunteers and donors (often many of the same people) agree that permanence is a value. When people don't agree on that, the fundamental reason to have an endowment and the driving force of endowment fundraising is already in trouble.

Second, what will endowment income be used for? Just as couples may have differing ideas about how and when to use savings, so may board and staff differ about using endowment income. Some will see the income stream as a relief from constant fundraising and will not expect the group's annual budget to grow very much. Others will see the endowment income as paying for particular programs or doing things the group has not been able to do before.

While all of this may not need to be sorted out ahead of time, there does need to be as much consensus as possible on the use of these funds. What is decided at this point may affect how much money the group decides to seek for its endowment. A group simply looking for a little financial relief will be happy with a \$100,000 endowment that yields \$7,000 a year. This money can be used to increase staff salaries or buy better equipment or fix up the office. It is not enough to change the direction of the group in any way, but it is enough to make life easier. A group looking for endowment income to fund new staff positions or open satellite offices or explore new program directions will need an endowment of \$1,000,000 or more.

Once these two questions are resolved (which, in one group I know of, took a year of discussion), you are ready to begin the necessary initial logistical steps. These involve authorizing the endowment, determining what gifts will be accepted, and deciding investment policies.

The Authorization

First, the board agrees to create an endowment fund. This fund will be reflected in all financial reports as a separate line item. The group agrees to hold this money in perpetuity. It must decide certain things about this money such as:

—Are there any circumstances under which it would use (invade) the endowment principal? There are no right or wrong answers to this, except to say that in most cases endowment principal is not used except under the most dire circumstance. The group will need to decide on the categories of dire. Most board policies establish that the endowment can only be used if the organization itself is in danger of closing, and that the amount taken from principal must be paid back within a given time period. Some boards rule that the principal cannot be touched even if drastic cuts are required, whereas others decide that the principal can be touched to balance the budget. These contingencies are spelled out in the authorization.

—How will the interest income from the endowment be used? These policies can be couched as broad statements, but should not be so broad that they are subject to a variety of very different interpretations.

—Who will have the authority to decide whether to use endowment principal? Most boards rule that the whole board would have to approve of such a use. Others stipulate that up to a percentage of the principle can be used with a vote of the executive committee and beyond that percentage the decision must go the whole board. At the full board meeting, some boards require unanimous agreement, while others deem that a simple majority or two-thirds' vote is sufficient. Some of these procedures will be determined by how the group makes decisions on other matters.

These are serious policies and deciding them should not be rushed. People should be allowed to explore all the ramifications of their decisions because the groups's future could be drastically altered by them.

Gift Policies

The second broad category of decisions involves what types of gifts you will accept, who has the authority to accept them, who will draw up contracts with donors about them, and under what circumstances the organization will accept or decline a gift.

For example, will you accept the gift of a house? "Well, Why not?" you ask brashly. One group discovered that a

house was given to them because the owner could not sell it, even at a huge loss. Another group accepted a house with a lien on it. In one of the worst cases I have heard of, a group was given a house with a toxic waste dump leaching into the ground water beneath it and the house had been condemned. The organization had to pay to have the house torn down and the land was worthless.

Will you take jewelry or art or antiques? You have to think what you will do with this stuff. How will you sell it? Do you have access to appraisers and buyers of fine art?

To keep things simple, at the beginning, most grassroots organizations should accept only cash, appreciated securities (stocks and bonds) and life insurance. Other kinds of assets can be negotiated on a case-by-case basis. It is a good protection to state these parameters in your gift policies.

If you have questions about types of gifts you should accept and what is involved, hire a consultant to help you. This may save you money and time later.

Investment Policies

Third, your group needs an investment policy. Will you invest entirely for income or will you have a mix of investments that allow for growth of the principal and income?

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Will you require socially responsible investing, and if so, what screens will be put in place? For example, some groups have simple screens on stocks they will buy, such as ones that exclude investments in tobacco, alcohol or firearms. Others require evidence of no union busting, strong affirmative action, and domestic partner coverage.

Will you hire an investment professional and if so, who? How will this person be chosen and evaluated?

The board will need to create an investment committee.

The Trouble with Jewelry

I once agreed enthusiastically to a gift of 20 gold watches of varying ages. The donor told me they were antiques, and that he had had them appraised by a "friend." Their value according to him was around \$12,000. He sent them to me and waited for me to send him a letter confirming this value for his taxes. I took them to a number of fine jewelry stores and antique watch stores and showed them to various buyers. Imagine my chagrin when each person tried to contain their laughter at my sense of their value. One buyer offered me \$30 for all of them. Another told me I shouldn't waste his time. Some were sympathetic and some were contemptuous. An appraiser confirmed that the watches were virtually worthless. They dated back to the fifties and the gold in them was minimal. They were ugly to boot.

I called the donor and, as gently as I could, told him what I had discovered (leaving out the ugly part). He was furious with me because I would not send a letter confirming the value his friend the appraiser had put on them. This would have been illegal, as any property's value must be verified by an independent source and an organization cannot take the word of the donor or of people the donor has hired in determining value. This donor ceased giving to the organization altogether.

I thought this was an isolated case until a second donor sent me a ring that she thought had been in her family for "several generations." Theoretically it was a ruby in a gold setting but turned out to be glass in gold plate, probably manufactured in the late 1980s. When I told the appraiser about it being in her family for generations, he asked if she was a rabbit since he couldn't think of much else that could have had several generations pass so quickly. This donor was not quite as upset as Mr. Watch, but she did not make any other gift to the endowment.

After that, the board of the organization adopted a policy that we would not accept jewelry. If donors had jewelry to give, they would need to sell it and give us the proceeds.

Finding knowledgeable people for this committee may be tricky, since the biggest investment for many board members is a new car and the whole concept of investing for long-term growth may be new. Even if the board needs to delegate responsibility for investment decisions to others, it must still educate itself in order to monitor the management of the endowment. This is especially important just to protect the endowment and not let your organization get talked into risky investments. One organization was destroyed by having an investment committee that put the entire endowment into derivatives — the investment strategy that led to Orange County's bankruptcy. Recently, the scandal of the group, Foundation for a New Era Philanthropy, a Ponzi scheme that promised to double nonprofits' money in six months, has cost some very traditional organizations millions of dollars. It is not always easy to tell what is a good or bad investment and you need knowledgeable people with the common sense to know that what seems too good to be true probably is.

Thinking about an Endowment Campaign

Most organizations today are conducting "endowment campaigns." Traditional fundraising professionals counsel that an "endowment campaign" is an oxymoron. A campaign, they would point out, begins and ends and has a goal. The goal is then broken down into parts, including a gift-range chart with specific gifts in mind. An endowment, on the other hand, is a never-ending open fund that can become as big as possible and that, while funds will be sought specifically for an endowment, there will be no upper or lower limit on gifts and no gift sizes will be suggested. Further, endowments are traditionally funded by estate gifts, whereas campaigns, whether capital or annual, are funded mostly by gifts given during the donor's lifetime.

Nevertheless, for most grassroots organizations a campaign is a good way at least to seed an endowment. A goal will give donors confidence that the group knows what it is doing and has a plan for the use of the money — questions that might not be asked of an endowment begun by a cathedral or university. Once the campaign goal is reached, the endowment remains open for new gifts. The gifts sought during the campaign are from donors who will give over the next few years; gifts through estates are not the focus of the campaign.

The process of setting up an endowment may take months or years. Many of the questions require strategic planning to answer, as they have serious implications for program, staffing, board development and so on. Organizations find that they learn a lot more about their board, staff and volunteers than ever before just by raising these questions. This learning is important, but it will take a committed team with clear understanding of what lies ahead to conduct a successful endowment campaign. ■

Next: the campaign itself.

Raising Money for the Right to Vote

by Robert Cooney

This August 26 we celebrate the 75th anniversary of the triumph of the woman suffrage movement, one of the most remarkable grassroots efforts in American history. Without the support of government, church, industry or any influential body — and without arms or wealth — women won for themselves political rights denied them since the beginning of the country.

With no official support, no sponsors, and in fact few allies, a few determined women nonetheless spoke up about women's treatment as second-class citizens during the early 19th century. Courageously, they criticized the laws that refused to allow women to own property, to divorce an abusive spouse, to get an education or have a public voice. Withstanding rotten eggs and tomatoes, harassment and ridicule, women like Lucy Stone, Lucretia Mott, Susan B. Anthony, the Grimke sisters, the Blackwell sisters, Frances Wright and others established that they, and others, knew that women were being mistreated and they would not be silent. Gradually, more and more of these remarkable women travelled, lectured and organized.

One of the aspects of the movement rarely considered is fundraising. How did women who at the beginning of the campaign were not allowed to own property or to hold personal income find the money to wage statewide campaigns and lobby the government year after year in the cause of women's right to vote?

This brief glimpse of a few of their stories and images gives an idea of the monumental struggle both to win the vote — and to raise the money needed to do so.

Susan B. Anthony, Fundraiser

Perhaps the best-known of all those advocating for women's rights is Susan B. Anthony. Anthony was an organizer who travelled the country for decades during the second half



Raising money to win the right to vote, a New York suffragist holds out a donation basket during one of numerous parades during the 1910s.

of the nineteenth century speaking for women's rights, circulating petitions, educating male voters and pressuring legislators, setting up new suffrage associations, and raising money as she went.

Coming into a small mid-western town in the 1870s, she would arrange to rent a hall, have leaflets printed up and posted, prepare the meeting place, accept the admissions, sell literature, give the speech and answer questions before packing up, putting out the lamps, then going on to do the same in another town. Year after year. Admission fees to lectures and sales of literature were the principal means of raising funds for suffrage in these early days.

In 1871 Anthony embarked on a lecture tour covering Wyoming, Utah, California, and Oregon. On December 31, she noted in her diary: "Thus closes 1871, a year full of hard work, six months east, six months west of the Rocky Moun-



Harriot Stanton Blatch speaks from a car to a group of New York voters about woman suffrage.

tains: 171 lectures, 13,000 miles of travel; gross receipts, \$4,318; paid on debts, \$2,271. Nothing ahead but to plod on."

Nearly 20 years later, after she had become nationally recognized for her unwavering promotion of women's rights, Anthony wrote to a friend, "I am in the midst of as severe a treadmill as I ever experienced, traveling from 50 to 100 miles every day and speaking five or six nights a week." She was by then in her seventies.

Susan B. Anthony is just one of thousands of organizers and fundraisers whose efforts throughout the country won political freedom for women.

Those advocating suffrage faced daunting opposition, including the entirely male U.S. government, antagonistic governors and politicians, organized "anti-suffragists," the liquor and saloon industries, the railroads, the Catholic Church, impressionable new immigrants, ruthless political bosses and the power of wealthy men. Against this, women had little more than their vision of a fuller democracy. Yet suffragists not only won elections, they eventually persuaded male voters and politicians to pass a Constitutional amendment permanently guaranteeing women the right to vote. The magnitude of this accomplishment is difficult to comprehend fully and its importance has been too lightly dismissed.

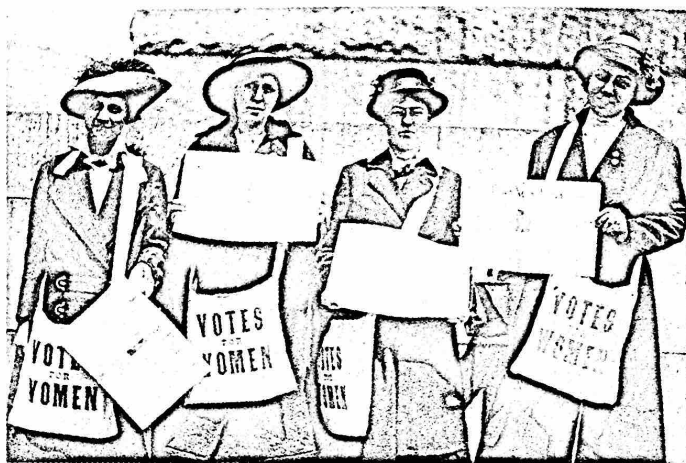
To raise money, they sold memberships, subscriptions, and literature and pursued lecture fees and contributions, decade after decade. *The Woman's Journal* served for years as the national networker of the suffrage movement, informing the widespread supporters of the work in many states and of the latest arguments and ideas. Selling subscriptions and individual issues raised money for local groups and spread the word to wider circles.

Grassroots Support for Suffrage

The 72-year-long woman suffrage movement sparkles with imaginative public actions, powerful personalities and

brave individuals, exciting campaigns, dramatic victories and defeats, and the endless commitment of volunteers stuffing envelopes, addressing crowds, selling literature, organizing meetings and implementing the ever-evolving strategy of the cause.

To raise money for suffrage work, supporters held fairs and festivals, dances and balls, auto and air rallies. They sold suffrage newspapers, buttons and merchandise, carried on "Voiceless Speeches" with placards in store windows, and even carried a huge flag down the middle of a street during a parade, spread out parallel to the road and held by dozens



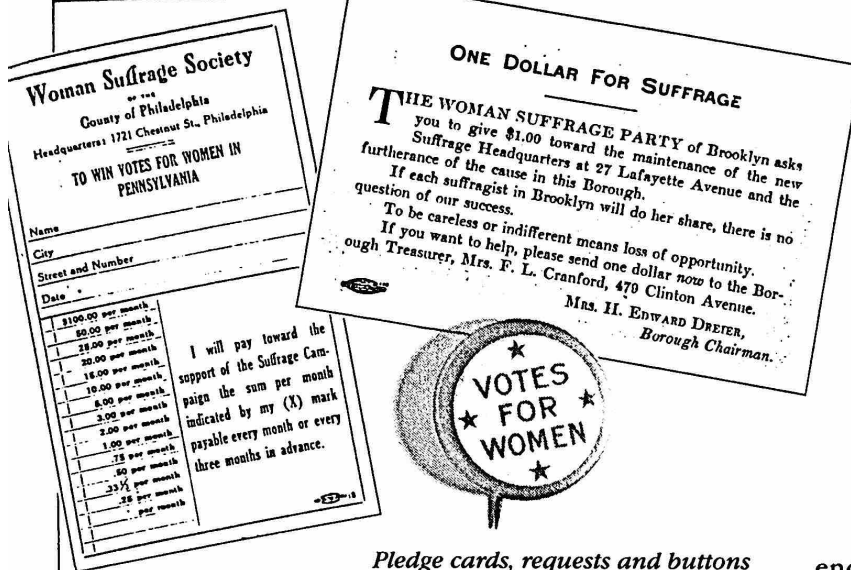
Pennsylvania suffragists selling *The New Era*.

of carriers to catch coins thrown down from windows above as the marchers passed.

Suffragists became adept at applying the key fundraising axiom, "Ask for what you think you can get." Early petitioners asked each signatory for a penny along with their signature, thus raising money while engaging the electorate. San Franciscans asked store owners to display their attractive poster for a week before the election, and they covered the town with the same suffrage image at no expense and established relationships with local merchants, identifying those who might be most sympathetic, and generous.

In New York suffragists set up both a Suffrage Shop to sell movement merchandise to the public and Suffrage Lunch Rooms to serve food and beverages to working crowds, creating a familiar contact on nonpolitical turf. Similarly at fairs, suffragists offered free child care in homey, well-attended tents, hoping to draw responses like, "If this is what suffrage means, I'm for it."

Women donated jewelry and handmade items, they canvassed and solicited donations, they peddled a host of suffrage publications, sought out large donors, held contests, got product endorsements, experimented with countless fundraising events from fairs to formal luncheons to fancy balls, and progressively got better and better at handling the bureaucratic and funding concerns of a successful movement.



Pledge cards, requests and buttons raised money for state campaigns.

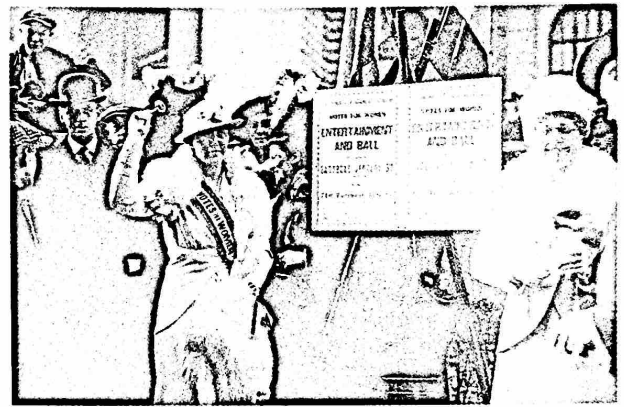
Harriot Blatch in New York

In the early 1900s, Harriot Stanton Blatch, the only daughter of pioneer suffragist Elizabeth Cady Stanton, helped to reinvigorate the suffrage movement on the East Coast by encouraging both working and college women to throw themselves into the struggle. Blatch founded the Equality League of Self-Supporting Women in 1910 (later called the Women's Political Union) which was funded by "small sums which... professional women dug up from their own pockets." The League set membership fees at twenty-five cents, decided that there should be no annual dues, and kicked off with a mass meeting in Cooper Union.

"Success crowned our efforts," Blatch later wrote. "The enrollment grew by leaps and bounds. We even took the bright silver quarters of facetious young men who thought it would be grand fun to get inside an organization and stir up trouble. We were cleverer than they for they were merely backing an autocracy of women which had no intention of ever calling the membership together and having majorities clip its wings."

"We learned over and over again as we toiled in our campaign that sermons and logic never convince, that human beings move because they feel, not because they think," Blatch later wrote in her autobiography. "For that reason we began to dance about our cause at great balls, instead of sitting in corners and arguing." More than 2,000 people attended the first Votes for Women Ball in early February of 1912, which "proved to be a great filler of the treasury." More followed.

With a diverse membership, the WPU took full advantage of a wide range of fundraising options. "Our workers, as well as being alert politically, were ingenious and indefatigable in their money-raising activities," Blatch later wrote. "The Women's Political Union had attracted women of all types — working women, professional women, astute politicians, orators, young, tireless field organizers, women whose influ-



Taking to the streets, fashionable New York members of the Women's Political Union sell tickets to a Votes for Women Ball.

ence opened doors for us, and society women whose wealth and executive ability helped us stage matinees, art exhibitions, balls, and so on. We knew by experience that waiting to get money for action was short-sighted policy. Do something and the money will come to foot the bill. That was our conscientious conviction. We lived by that conviction, and experience proved our policy sound."

They also set up a continuous stream of public meetings, lectures and speeches, including a tour for Sylvia Pankhurst, militant British suffrage leader. Blatch later commented, "Critics seemed to hold that the amount which could be raised for suffrage was a fixed quantity. The money laying ready for suffrage was limitless. How to tap that reservoir was the only problem. The English suffragettes were a sound business venture. Ignoring the inspiration they were to us and regarding only the practical question of dollars and cents, they earned more money for us than they took away."

Energetic suffragists often publicized such public events with human billboard chains, wall-sized posters, gaily decorated wagons and later automobiles, and at least once dropped leaflets on a crowd from a biplane. They posed for press photos, wore costumes, collected program ads, and sold tickets on street corners, sometimes ringing bells like modern-day Salvation Army Santas.

The California Campaigns

In the unsuccessful referendum on the vote for women in California in 1896, one of the most popular fundraising pieces was a large photograph of Susan B. Anthony and Anna Howard Shaw. Ida Husted Harper, state chair of suffrage publicity, remembered that the photograph "was given for every \$2 pledge, and many poor seamstresses and washerwomen fulfilled their pledges in twenty-five cent installments, coming eight times with their mite."

Interestingly, Sojourner Truth, renowned preacher, abolitionist and women's rights advocate also used portrait photographs to raise funds. "I sell the shadow to support the substance," she would say.

Harper also described how other donations came to the

movement. "Often when there was not enough money at headquarters to buy a postage stamp, there would come a timid knock at the door and a poorly-dressed woman would enter with a quarter or a half-dollar, saying, 'I have done without tea this week to bring you this money;' or a poor little clerk would say 'I made a piece of fancy work evenings and sold it for this dollar.' Many a woman who worked hard ten hours a day to earn her bread, would come to headquarters and carry home a great armload of circulars to fold and address after night. And there were teachers and stenographers and other working women who went without a winter coat to give money to this movement for freedom."

When Californians again got a chance to vote on a suffrage referendum fifteen years later, careful organizing paid off. The measure passed by an average of one vote per precinct, rural approval outweighing urban opposition. After the effort, The College Equal Suffrage League of Northern California commented on its fundraising success. "This experience convinced us that the woman who gave her time, her abilities, her money, her self, to a good, definite piece of work, was best able, through the first-hand expression of her need, to ask for contributions. We also learned that no enterprise need seem too big or too expensive to undertake, for, if its merits were logically set forth, and if it were entered into with courage and devotion, it was sure to win financial support."

The League also took the direct approach to raising funds. "All advertising requires money. We knew that it was much easier to raise a sum of money for a clearly specified object than for the general 'cause.' In May one of the members of the committee explained to the Board of Directors the need for the gift of a prize for a poster to be used for advertising our various enterprises. Immediately fifty dollars was offered for this prize and the committee set to work to draft a set of terms for the competitors."

Another favorite fundraising method, the report noted, was for people to pledge weekly or monthly sums, "often far exceeding what they could really afford. To become a life member of the League became a jest, one became a life member so many times over."

The Leslie Legacy

Large contributions were pretty rare, but one that stands out in both size and timing came from Mrs. Frank Leslie, the phenomenally successful publisher of *Leslie's Weekly* and other publications. Mrs. Leslie died in New York in 1914 amid speculation over the distribution of her enormous estate.

"In her old age she had withdrawn from society except for occasional receptions which she gave with mid-Victorian formality," wrote suffrage leader Carrie Chapman Catt's biographer Mary Gray Peck. "At these affairs she would sit in state on a throne-like chair, bepowdered, berouged and bejewelled, affable and alert for a couple of hours, and she

always invited Mrs. Catt and contrived to talk longer with her than with other guests. Once, as Mrs. Catt passed her in the Astor Hotel lobby between sessions of a convention, Mrs. Leslie beckoned and Mrs. Catt sat down and talked with her awhile, the longest conversation they ever had.

"Whenever the suffrage leader gave a reception, she invited Mrs. Leslie who made a point of coming. In making contributions to the cause — which never exceeded \$100 at a time — the old publisher was accustomed to say, 'To benefit the cause to which you, like Susan B. Anthony, are devoting your life.'"

Like Anthony, Catt had come to be seen as a personal embodiment of the drive for equality. She was a skilled political strategist, an inspiring leader with great administrative ability, and a premier fundraiser who inspired the confidence of a broad range of people. Donors knew that money given to her would go directly to further the suffrage cause, and her vision and ability left no doubt that the money would be put to good use.

A few days after Mrs. Leslie died, Mrs. Catt received a phone call from one of the most prominent law firms in the city to set up a meeting. There the lawyers informed her that Mrs. Leslie had bequeathed an estate worth roughly two million dollars to her to apply "to the furtherance of the cause of woman's suffrage."

When the lawyers demanded proof that Mrs. Leslie had shown an ongoing interest in the suffrage movement over a term of years, Catt's secretary "hastened downtown to the suffrage headquarters, went through the files of correspondence in the Sabbath stillness and brought back those notes written over many years by Mrs. Leslie to accompany her suffrage checks. If proof were needed that it pays to have a good filing system, here it is."

Catt was, of course, immediately besieged by claims and lawsuits and eventually had to settle for half the amount in order not to waste the entire estate in litigation. She also had to stem the falling off of contributions from supporters thinking there were no more financial worries. She emphasized that the important 1915 New York campaign would be long over before the Leslie estate was settled. However, she did have access to the funds two years later, in time to mount a sophisticated and successful campaign in New York State that swung that influential Eastern center into the suffrage camp and won Congressional approval.

The suffrage movement holds the same powerful lesson for social action today as it did during its long struggle: endless determination in the justice of the cause, coupled with strong leadership, local organizing and creative grassroots fundraising can create fundamental social change. As Harriot Blatch wrote, "A small band, enthusiastic and determined, could remove mountains." ■

Robert Cooney is the Designer of the Journal and is working on a photographic history of the Woman Suffrage Movement.

Editorial:

Beyond the “Contract on America”

by Kim Klein

Our world cannot survive one-fourth rich and three-fourths poor, half democratic and half authoritarian with oases of human development surrounded by deserts of human deprivation.

—From the CIVICUS Annual Report. (CIVICUS is an international alliance to strengthen voluntary initiative, philanthropy and community service.)

Along with many other left-thinking Americans, those in nonprofit organizations are distressed about the increase in the air-time devoted to conservative dogma and the increasing threats to unravel key social programs since last November's election put Republicans into power in Congress and many states. Money for social programs will dwindle, we fear (rightly), and we will all have to work harder while having less chance of raising the money we need. We may face cutting our services or losing our voice in the struggle for social justice altogether.

In this regard, John Kenneth Galbraith, economist and social philosopher, was quoted recently in the newsletter of Economists Allied Against the Arms Race on the role of language in the current debates about welfare reform, immigration, affirmative action, and so on. Remarking on how the word “burden” is being used, Galbraith noted that welfare is considered a “burden” imposed by government on citizens, but the \$50 billion used to bail out failed financial institutions is not. Welfare payments are a burden, but farm price supports are not. The cost to government of food stamps, child nutrition programs and Medicaid are burdens but military expenditures are not. Galbraith summarizes, “Basically something is a burden when it is not for the rich, not for the merely affluent, but for the poor.”

The debate about welfare reform that has consumed untold hours of airtime is focused on a mere 1.7% of the country's budget. Clearly, the debate is not so much about welfare as it is about a punitive attitude toward the poor and others out of the mainstream that is finding expression in the safety of a conservative political majority.

There's no doubt that the right-wing agenda has gained

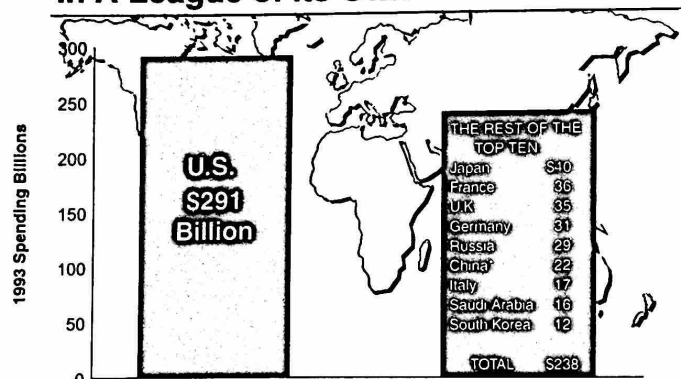
ascendancy. But it has long been true that the real power in the world is in the hands of relatively few, not-well-known people who form the most wealthy of the upper class and exercise power from behind the scenes. Those of us working for social change need to be educating ourselves and our constituencies about the bigger picture here. The following are a few thoughts about that bigger picture.

The real budget story isn't about welfare or other entitlement programs. As has been true since the Cold War military buildup, the real story leads us back to military spending. When adjusted for inflation, US military spending is still at the Cold War levels of the 1960s and 1970s, despite the end of the Cold War.

The United Nations Development Project recently reported that world military spending now equals the income of 49% of the world's population. And according to the Center for Defense Information, U.S. weapons firms are selling more arms around the world than everyone else combined. Mary Ann McGivern, a well-known peace activist, points out in the *St. Louis Post Dispatch*, “The only technical capacity that poses a real risk to U.S. soldiers is our own. It's a dangerous world out there, but much of the danger is of our own making.” She notes that the Pentagon spent a trillion dollars during the Reagan years, creating lucrative times for weapons manufacturers. They do not wish to see a decline in those cost-plus contracting and procurement contracts.

Despite the fact that we spend more money on our military forces than the rest of the top ten military-spending countries combined (*see chart*), there are charges throughout the society that our military capability is deteriorating. Both the Democrats and Republicans propose increasing spending over the next five years to get our troops “ready” — the Democrats by \$25 billion and the Republicans by \$90 billion. McGivern voices the concern of many of us when she writes, “That the Pentagon is not able to keep its forces battlefield ready for \$264 billion is a scandal of mismanagement. Why aren't there congressional hearings and talk radio exposes? Why is it the right solution to throw more money

U.S. Military Spending: In A League of Its Own



Source: Center for Defense Information
*~1992 figure

at the Pentagon but wrong to subsidize Amtrak or implement a single-payer health care program?"

Contrasting the vast and unimaginable numbers of dollars spent on military "readiness" with the poverty that increasingly characterizes our country and has for years characterized the world provides a sickening picture. More than one billion people worldwide live in abject poverty: they own nothing and have no hope of owning anything. More than half of the world's people go hungry every day. In the United States, of a total population of 260 million people, more than 39 million, or 15%, are officially poor. The top 20% of American households earned 48.2% of the nation's income at the last census in 1990, while the bottom 20% earned 3.6%.

Globally, money is moving from developing countries to developed countries. In 1992, according to the United Nations Development Project, developing countries paid \$160 billion in debt service charges—more than two and one-half times the amount of official development assistance and \$60 billion more than the total private monies that went to developing countries that same year.

Not only do the problems of poverty and the inequities of worldwide income distribution persist, the vitriol aimed at gays and lesbians, immigrants, people of color and poor people has dramatically escalated with the new Republican-led Congress. Nonetheless, not much is really new. When Republican presidents presided over a Democratically controlled Congress, the country spent half its budget on the military. And the process of driving millions of people into grinding poverty was well underway before Clinton and before Gingrich. To focus on this present Congress is to miss a pattern far bigger than that generated by the people currently in political office.

And Now Back to Fundraising

If you have stuck with me so far you may wonder what, if anything, this discussion has to do with fundraising. In a literal sense of a how-to magazine, it has very little to do with

fundraising. However, in the broader context of how nonprofits will function and what our lives will be like over the next few years, it has everything to do with fundraising.

Our ability to raise money in the face of both threatened cutbacks in government funding and increasing competition among nonprofits can lead us either to feel isolated and despairing, or to see the need to unite and organize across issue lines. A unified nonprofit sector can call on the government to truly represent the people and use our tax dollars to provide services to us, not to enhance the vast incomes of arms merchants.

Only by educating ourselves about the flows of money worldwide will we be able to present compelling arguments. As nonprofits, we need to think about the infrastructure we believe in and the appropriate roles of government: in other words, what should our tax dollars pay for and what should our charitable dollars pay for? I am called daily by groups that are losing government funding and want me to help them raise money from private sources. Many of these organizations work with constituencies who ought to be helped by tax dollars, not charitable dollars. Mentally ill homeless, children, the disabled, the unemployed, those chronically ill — more and more of these people are being thrown off of even basic entitlement programs. Recently I met a group that helps low-income people file their tax returns because the IRS no longer employs enough people to work with citizens who need help filing their taxes!

Much of the debate today among nonprofits is whether we can absorb all the people and programs that the government seems of the verge of defunding. Probably we cannot. But the bigger issue is that we should not — there are programs the government ought to fund and that taxpayers ought to insist be funded. Voluntary giving was never designed to take the place of government funding.

Readers of the *Journal*, let alone the nonprofit community at large, will have widely varying views on the role of government, but I am more concerned about those in nonprofits who have no views because they have never seen how these issues impact our work.

I hope this editorial will be the beginning of your desire to learn more about world economics and the flow of money, and to educate your own constituencies. If you wonder where to start and how to proceed, take the advice of the "Deep Throat" informant from the Watergate scandal: follow the money. ■

Sources:

"Human Development Report," United Nations Development Project, 1994.

Newsletter, Economists Allied Against the Arms Race, January, 1995.

St. Louis Post Dispatch, January 19, 1995.

"Social Questions Bulletin," The Methodist Federation for Social Action, April, 1995.

"Social Summit Packet," Center for Concern, Washington, D.C., 1994.

Highly recommended reading: "Dollars and Sense," a bi-monthly. Order from Dollars & Sense, 1 Summer St., Somerville, MA 02143. \$25 for one year (6 issues).

Tax Consequences of Newsletters Ads

The following article is reprinted, with permission, from TACSNEWS, published by Technical Assistance for Community Services, Portland, Oregon.

Astonished callers [to Technical Assistance for Community Services] regularly ask Helpline Coordinator Erica Rubin, "Is the income we generate selling advertisements in our newsletter taxable?" Selling advertisements provides a simple, dependable source of funds to offset the costs of publishing newsletters for many nonprofit organizations. Most organizations are not selling the ads at Superbowl rates — just modest payments for the opportunity to place a business card or a slightly larger display ad in a newsletter that reaches an audience likely to use the advertiser's business.

The Answer: The income from ads must be reported on the organization's 990 annual report to the IRS, and *may* result in a tax liability. The IRS has declared advertising income to be *unrelated business income*, which makes it subject to *unrelated business income tax (UBIT)*, a tax that applies to organizations otherwise exempt from federal corporate income tax under sections 501(a) — including sections 501 (c)(3), 501(c)(4) and the rest of the common types of tax exemption.

But while organizations with advertising income must report it, not all of them will actually end up paying tax on

it. Why? First, the rules for unrelated business income tax allow an exemption from tax for the first \$1,000 in unrelated business income. Beyond that, the tax is computed on the net income from unrelated business income activity. Net income is computed by subtracting the expenses associated with the advertising from the gross proceeds of selling the ads. So, if your organization doesn't receive net income of more than \$1,000 from its advertising activities, it will have to report the activity to the IRS but will pay no unrelated business income tax.

Computing the net income from advertising is a two-step process. First, the expense of selling, creating, printing and distributing the advertising are subtracted from the advertising sales income. If this produces a loss (expenses greater than income), the good news is you pay no tax. The bad news is your advertising activity isn't helping your organization financially.

If this first calculation results in a profit (income greater than expenses), a second calculation allows the organization to offset the profit with losses from the other costs of circulating the newsletter comparing income from newsletter subscriptions or sales with the other (non-advertising) costs of producing and distributing the newsletter. If these other costs exceed the income from subscriptions or newsletter sales, this loss is subtracted from the profit from advertising.

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In a time when traditional "religious life" in the Roman Catholic Church continues to change, it is important to examine this alternative lifestyle for women and see what we can learn from it.

The authors are: Mary Rhodes Buckler, Mary Ann Cunningham, Martha Crawley, Cecily Jones, Marion McAvoy, Patricia Jean Manion, Elaine Prevallet, Ann Patrick Ware, and Virginia Williams.

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What's left after the subtraction is the net income from advertising activity. If it's more than \$1,000, your organization will owe unrelated business income tax.

Special note: There are special rules that attribute a portion of membership fee income to "subscription fees" in organizations that provide newsletters to members without a specific subscription charge. These calculations can get tricky, so it's probably a good idea to get help from an accountant the first time you're reporting advertising income.

Is the tax your only worry? In most cases the answer will be yes. However, 501(c)(3) organizations should be aware that "no substantial part" of their activity can be the carrying on of unrelated business activity, and advertising, is by IRS definition, unrelated business income activity. So how much is "substantial"? The IRS does not provide a clear numeric limit. You have to look at your net income from advertising in relation to your total income from activities that are related to your exempt purpose, both grants/contributions and income from fees, etc. If your net income from all unrelated business income activities is nearing 10% of your other income, you'll want to seek professional advice about steps to take to protect your tax-exempt status. ■

Announcement

New Donated Supplies Program for Small Nonprofits

A new nationwide program has been started to make donated supplies available to small nonprofit organizations. Called "Member's Choice," the corporate gifts program is administered by the nonprofit National Association for the Exchange of Industrial Resources (NAEIR). Every other month, participating nonprofits and schools receive a mini-catalog featuring gift assortments covering such categories as office supplies, clothing, children's items, maintenance supplies, seasonal decorations, computer software, and arts and crafts.

Participating organizations pay \$295 annual dues, shipping charges, plus an administrative fee averaging \$39.50 for each assortment they select. Delivery is by UPS. Values on the assortments run from \$100 to \$600, and all first-year participants are covered by a money-back guarantee.

For free information on this new program, phone NAEIR at 800-562-0955 or fax a request to 309-343-0862. ■

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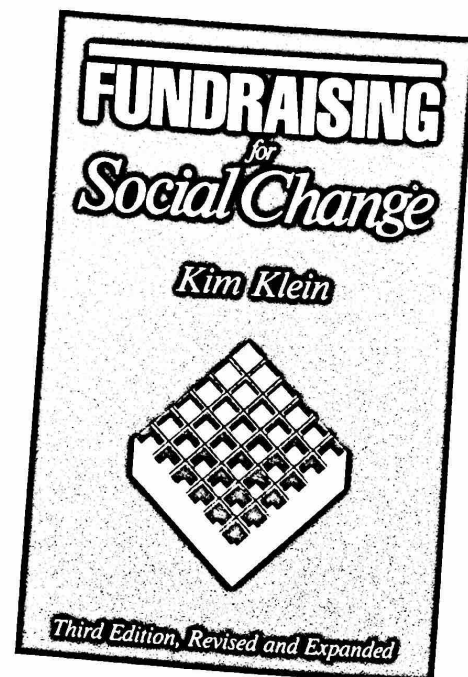
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