Don’t Be Ensnared by the Risks of Fundraising

Resource Type: Articles

Topic: General

New Book Sheds Light on Fundraising and Collaboration Risks

The Nonprofit Risk Management Center has published a new text on the emerging topic of fundraising risks: No Strings Attached: Untangling the Risks of Fundraising & Collaboration. *An excerpt from Chapter 4:* Individual Donors: Roping ‘Em In *appears below. To order a copy of this new resource, call (202) 785-3891, or [click here to order online.](#)*

From a practical standpoint, no area of fundraising has evolved more rapidly than the solicitation of donations from individuals. According to *Giving USA 1999*, the annual report of the American Association of Fund-Raising Counsel’s Trust for Philanthropy, the strong economy has been good news for charities. For the third year in a row, giving to nonprofit organizations has increased. It rose 10.7 percent in 1998 to reach $174 billion with 77.3 percent of this coming from individual donors.

The advent of direct mail and list marketing has helped to drive this dramatic growth and has changed the nature of fundraising by allowing marketing efforts to be much more targeted. The result is that it’s easier to raise more money with fewer dollars. Names and addresses can be purchased and individuals who had purchased a particular product or subscribed to a magazine are sent appeals. Telephone banks and other techniques enable nonprofits to amass lists of people who were otherwise unlikely to come into direct contact with the organization’s service programs.

In the last decade the pace at which the science of individual fundraising has progressed is phenomenal. Today retirees attend seminars that combine tax planning with charitable giving. List rental by and among charities is big business, and “list brokering,” matching list buyers and sellers, is an industry within an industry.

Personalized direct mail appeals are commonplace, and fundraisers are increasingly drawing links between an individual’s personal interests (i.e. for recreational activities, clothing, etc.) and their charitable giving preferences. Web sites with information about electronic fundraising have proliferated. Ironically, all this technology has made fundraising more complex, more expensive, and riskier than ever.

Along with the technology explosion, the laws governing nonprofit solicitations and the deductibility of individual contributions have become much more complicated. The laws require donors and beneficiaries alike to keep accurate records and report extensively to the appropriate government agencies the scope of their activities.

What are some of the risks of raising money from individuals?

- Aggravating a donor by violating his or her privacy;
- Accepting a donation from an individual or organization you don’t want associated with your charity, or returning/refusing a donation for the same reason;
- Projecting donations during extreme fluctuations in the economy or stock market;
- Valuing and handling bequests inappropriately; and
- Not conducting due diligence on donated property and valuing the benefits and costs of such donations.

Here are some of the issues you should consider regarding donations from individuals.

Privacy of Donors: What is your obligation?

Generally, you have an obligation to respect the privacy of your donors and to tell them how you plan to use the information you collect about them. If it is your practice to collect information and to share it with other organizations (even other nonprofits), you should tell the donor how and when you will share the information. Donors should be offered the option of having their information kept confidential.

New technology is making it easier than ever to collect information about individuals and organizations. It is also making it easier for that information to be shared both wittingly and unwittingly. Remember that your information is only as secure as your computer system. For example, if your organization counsels troubled youth, the information you keep on your clients, even their names and addresses, may be very sensitive. Do not store such information on a file server or a computer that is not secure. It may be vulnerable to theft or, at the very least, prying eyes.

Donations of Real Property

Only a small percentage of nonprofits are the beneficiaries of donated property, including real estate. A recent article in *The Chronicle of Philanthropy*, however, noted that nonprofits across the country are stepping up efforts to capture a portion of the estimated $20 trillion worth of real estate now in private hands. The reasons for this trend include the strength in the real estate market, making it easier for an organization to turn a real estate gift into cash. In addition, by donating property that may have appreciated in value, a donor can avoid costly capital gains taxes due upon its sale.

In many cases, however, gifts of real property pose serious risks for a nonprofit recipient. These risks must be carefully evaluated before an organization considers accepting a gift of property.

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The biggest area of concern is the potential legal liability if the donated property contains environmental hazards. Property that contains chemicals or hazardous waste is a problem that applies to properties other than former industrial or manufacturing facilities. A placid looking old farmhouse may harbor asbestos, contain lead paint, have stored pesticides or herbicides, or conceal leaking underground storage tanks on the premises. There may be other structures in such poor condition that they must be demolished or renovated at substantial cost. Hire a competent environmental hazard inspector to examine any property your organization has been offered and is considering accepting.

Charities should also be concerned about the potential legal liability for mishaps on the property. One real estate broker reports that as many as half of all real estate donations, which may appear lucrative on the surface are dead-end deals or worse. Don’t forget that once the title has been signed over to you, the property is yours along with all of the problems and responsibilities that may go along with it. Other risks of real estate donations may include the time and expense required to resolve partnership, lien, and zoning issues, and demanding donors who may have motives other than altruism.

Risk Management Checklist

- *Know the donor*. Get background information on the donor. Remember that if they are audited, you may be too.
- *Try to determine the donor’s motivations*, which often include avoiding capital gains taxes, obtaining an immediate write-off for a property that is difficult to sell, avoiding gift and estate taxes, or generating an income.
- *Establish firm guidelines before soliciting real estate gifts*. Develop a checklist of procedures for each transaction, such as environmental inspections, market appraisals, site visits, or title searches. Some nonprofits will not accept real estate gifts outside a specific geographical area or that are less than a certain appraised value.
- *Involve your board and get expert help* including the assistance of a CPA or real estate lawyer.

- *Be prepared to walk away* from a deal if you find that the risks outweigh the benefits.

To order a copy of *No Strings Attached*, call (202) 785-3891, *or click here to order online.*