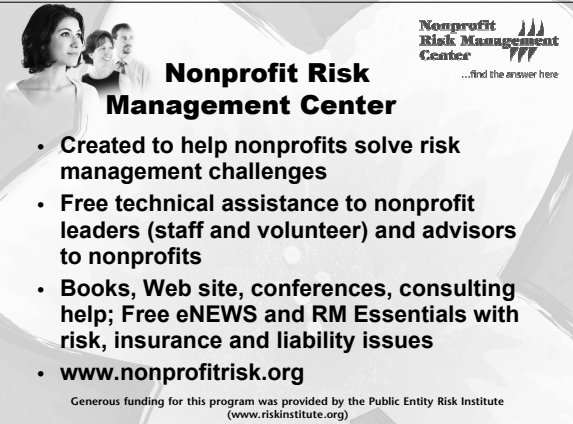


Risks of Revenue Generating Activities

Charities Doing Good or Doing Business?

Nonprofit Risk Management Center
April 2, 2008
2:00 – 3:00 pm EST
 Jennifer Chandler Hauge
 Senior Counsel and Director of Special Projects

Generous funding for this program was provided by the Public Entity Risk Institute (www.riskinstitute.org)



Nonprofit Risk Management Center

- Created to help nonprofits solve risk management challenges
- Free technical assistance to nonprofit leaders (staff and volunteer) and advisors to nonprofits
- Books, Web site, conferences, consulting help; Free eNEWS and RM Essentials with risk, insurance and liability issues
- www.nonprofitrisk.org


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What Does A Charity Doing Business Look Like?

- A social service agency opens a thrift shop as a job training program
- A land conservation nonprofit sells artistic photographs of land it protects
- A charity with expertise “consults” with other charities for a fee


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Nonprofits Today

- Strive to be “businesslike”
- Need varied sources of revenue
- Want to attract new types of donors


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**Solution?
Social Enterprise Ventures**

- For-profit subsidiaries or
- new programs that look like traditional businesses


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What Does A Charity Doing Business Look Like?

- Nation's Capital Child and Family Development, runs 25 day-care centers in Washington DC, started a business -- Make a Difference Catering - after other day-care centers started asking the charity to provide meals for their students. The charity has a central kitchen that prepares 1,780 meals per day for its own children, and has contracts with eight additional social-service groups to prepare 753 more meals. (2003 data)


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What's So Risky About Engaging in Activities Intended to Raise Revenue?

- Business risks that you are unprepared for
 - Be aware of tax liability and regulations related to new activities


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Ventures can take charities far afield of their usual activities and core competencies
 Charity may not be prepared for:

- Negotiating with new partners
- Property and facility risks
- Financial accounting requirements
- Staff time/energy requirements.


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Risk? What Risks?

- A venture can jeopardize tax-exempt status if the business enterprise takes over from the charitable mission
- Damage to reputation can result when goods sold are inappropriate or defective
- Charity can over-extend itself financially

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External Risks vs. Internal Risks

Your employees and volunteers may have access to cash or financial accounts that the nonprofit is unprepared to monitor

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Insurance Coverage


- What activities are you insured for?
- Does your insurance professional know what you're up to?
- Engage your insurance experts early!

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BIGGEST RISK
=
Loss of Tax Exempt Status

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Private Benefit

Partner in the venture gains too much:

- Be Aware! “Private benefit” can result in **LOSS of TAX EXEMPTION**
- Balance the gain to the charity with the gain to the for-profit partner
- What is your charity’s policy on partnerships with other parties?


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Do You Have a Policy to Review Partnerships and Ventures?

- Get a legal review by a lawyer experienced in tax-exempt matters
- Board review and awareness
- Educate senior staff and fund raising staff about risks of private benefit

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What Are Other Risks?


Damage to reputation and good will

- Partner could turn out to be an embarrassment
- Products sold could be defective

Business model could be faulty

Financial losses could result – but that could be ok!


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**Real Life Example
THE RED CAMPAIGN**

Critics: Charitable programs don't receive as much value as THE GAP does from the advertising campaign

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What Is the Benefit?

- Can you document how this venture will be beneficial to the charity?
- Tell your story – but manage the message
 - Charities doing business is newsworthy
- Make sure to report any income appropriately

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Corporate Sponsorships

Not taxable income when:

- Not designed as exclusive
- The charity receives real value
- The sponsorship doesn't result solely in advertising for the sponsor

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Internet Links Can Be A Risk

- The GAP provides corporate support for Charity A and promises a % of sales of certain products. On Charity A's website there is a Link to the GAP's website so viewers can BUY
- Is Charity A "advertising" for The GAP?

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Be Prepared for Tax Liability

If you "advertise" for a for-profit the income you receive in corporate sponsorships will be taxable income


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Link Could Be Just A LOGO Instead

A LOGO is an acknowledgment of the corporate support, not necessarily advertising

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Risk Management for Revenue Generation

- Written agreements with partners
- Get a formal review of agreements
- Register any commercial-co ventures
- Measure and document the value of the deal to the charity
- Quickly CORRECT any private benefit


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Risk Management Continued

- Board or high level review of contracts
- Ask: “How does this further our mission?”
- Conflict of Interest Policy
- Review of Insurance Coverage


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Insurance for Revenue Raising Ventures

- Be sure to tell your insurance agent or broker about the new venture
 - Will these activities be covered?
 - What special policy coverage might be helpful?

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Nonprofit Risk Management Center Can Help!

**Risk Assessments
Insurance Policy Reviews**

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Next Month's Webinar

Developing and Managing Conflicts of Interest Policies

- *May 7th, 2008*
- *2:00 – 3:00 pm EST*

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Thank You!

- **Questions? Email Jennifer**
jennifer@nonprofitrisk.org

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