

#NPFinance21

# Welcome to the 2021 Nonprofit Finance & Sustainability Conference



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# Getting Into Business: Diversifying Revenue Through Social Enterprise

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MCN Finance & Sustainability Conference  
April 20, 2021

# Introduction

- Goals of the Course
- Two Lenses Along the Social Enterprise Spectrum
  - Early Stage Consulting
  - Legal Modeling and Implementation
- Using Social Enterprise as a Mission Impact Tool

# Agenda

- Attendee Poll: Who's in the Room?
- Process of Identifying an Opportunity Through Pilot Testing
- Legal Considerations and Common Models of Social Enterprise
- Panel Discussion: Practical Insights
- Q&A

# Attendee Poll Question 1

What is the size of your nonprofit based on annual gross revenues?

- i. Under \$250,000
- ii. \$250,000 - \$1m
- iii. \$1m – 5m
- iv. \$5m or greater

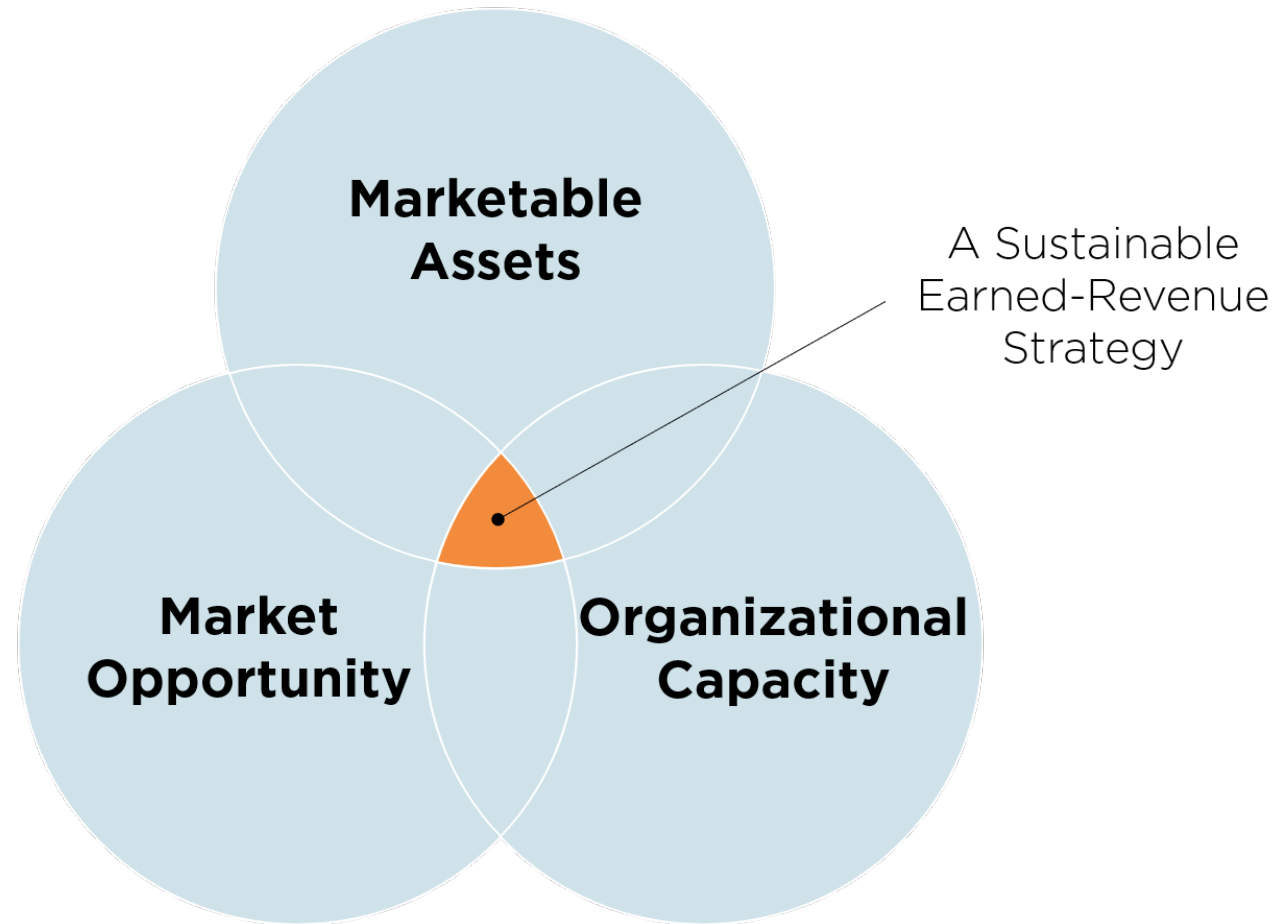
# Attendee Poll Question 2

What stage are you in with respect to considering social enterprise?

- i. Interested, but not actively pursuing
- ii. Early idea stage
- iii. Actively building concept
- iv. Piloting one or more products or services
- v. Operating one or more social enterprises



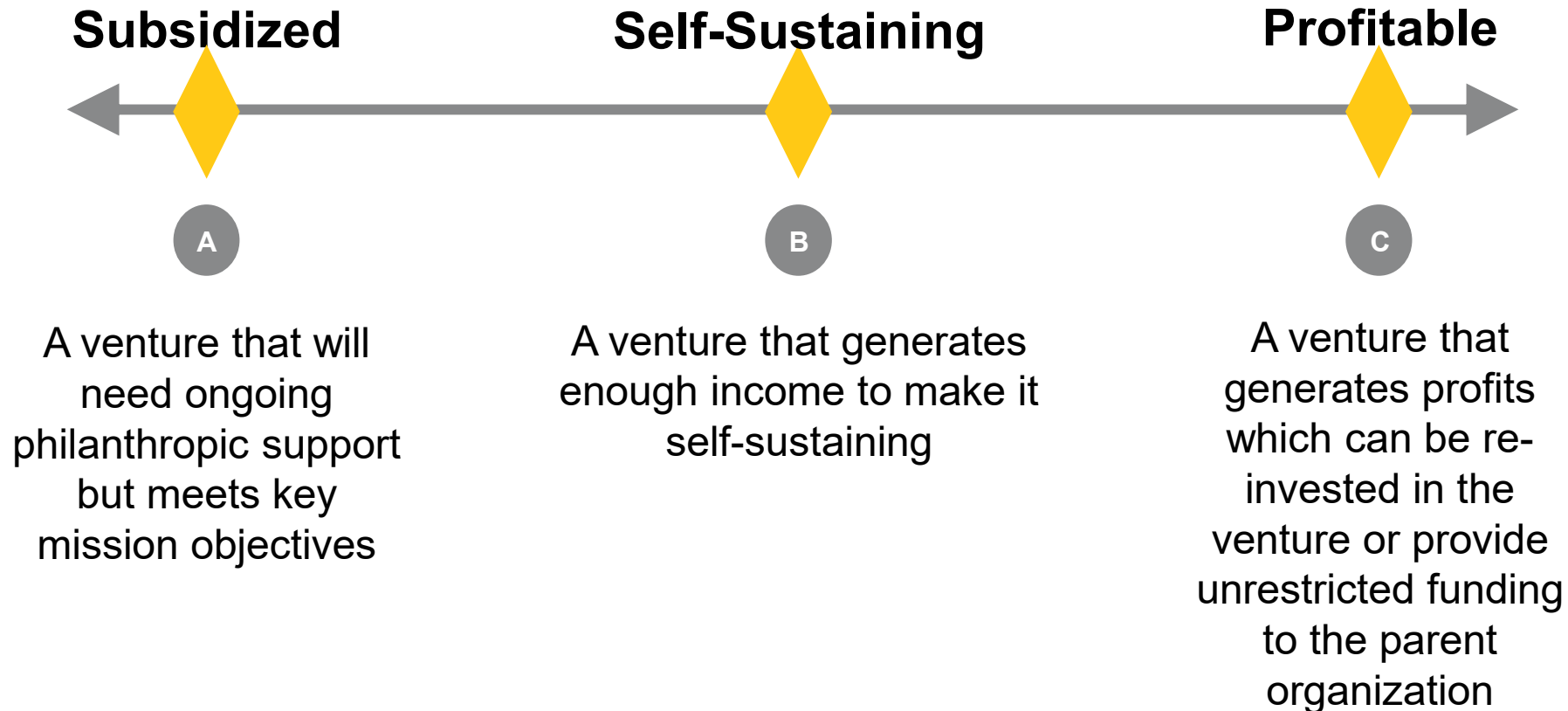
# Assessing readiness



# Process for Developing an Earned Revenue Strategy



# Clarifying Your Goals: Financial goals fall across a spectrum



# Defining your assets



## Things you know

- How to support kids to stay in school
- How to build corporate partnerships
- How to deescalate situations



## Things you do

- Counsel first time homebuyers
- Assess equity impacts of org policies
- Prepare and distribute food



## Things you have

- Network / ability to reach certain groups
- Data sets
- Assessment tools
- Available space

# Assessing Feasibility: Understanding your market

- ✓ **Who might pay for your products or services?**
- ✓ **What do they currently pay for? How much do they pay?**
- ✓ **What competitors are already in the space?**
- ✓ **Who makes purchasing decisions?**
- ✓ **Who influences those decisions?**

# Assessing feasibility: Prioritizing opportunities



<b>Impact Potential</b>	<b>Revenue Potential</b>	<b>Level of Effort</b>	<b>Risk</b>
How much will this accelerate progress toward your mission?	What is the potential to generate significant revenue compared to your organization's budget?	To what extent would this be expensive or require big changes to your operations?	How significant is the risk to your organization or your partners?

# Recommendations for pilot testing

- **Start small.**
- **Learn constantly.**
- **Be patient.**
- **Don't be afraid to back out.**

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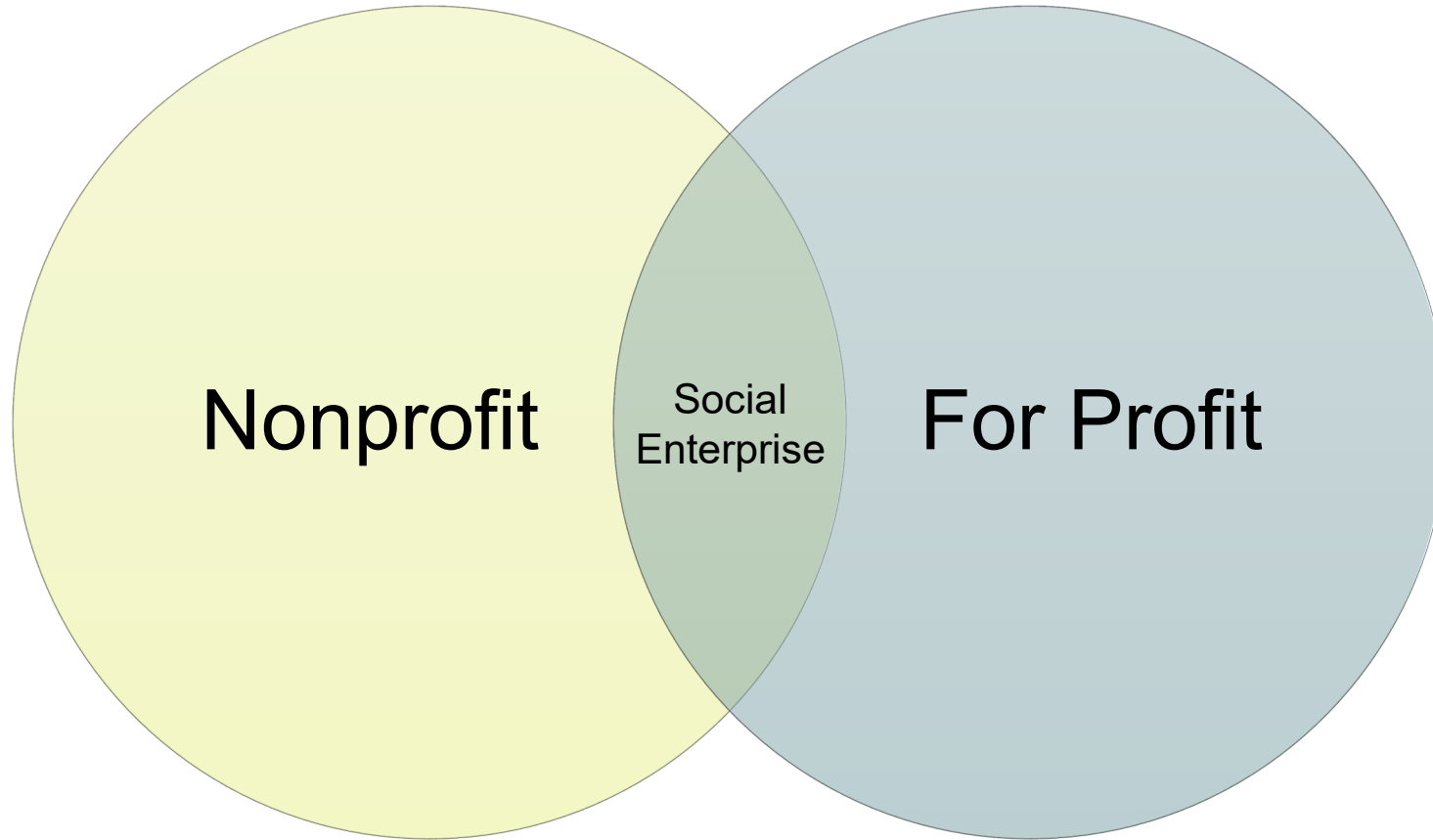
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CPE Credit Tracking Word 2:  
**(risk)**





# What is a Social Enterprise?



# Is Social Enterprise legal?

Yes – but there are a few “guardrails” for 501(c)(3) organizations:

Substantially all activities  
must further the mission

All transactions must be  
Fair Market Value (or better)

Assets dedicated to charity  
at dissolution

No private benefit  
No private inurement

# Nonprofits Can Make “Profit”

- No limit on ability to make profit
  - “Profit” must be retained in corporation or paid out for reasonable expenses
  - No individual shareholder distributions
- But IRS views income differently based on:
  - If from activities related to your mission
    - Exempt from federal and state income tax
  - If from unrelated activity
    - Taxable as “unrelated business taxable income”

# Is it related?

*Activity itself* substantially furthers mission

Selling Goods



Providing Services



# Income

## From **related** activity

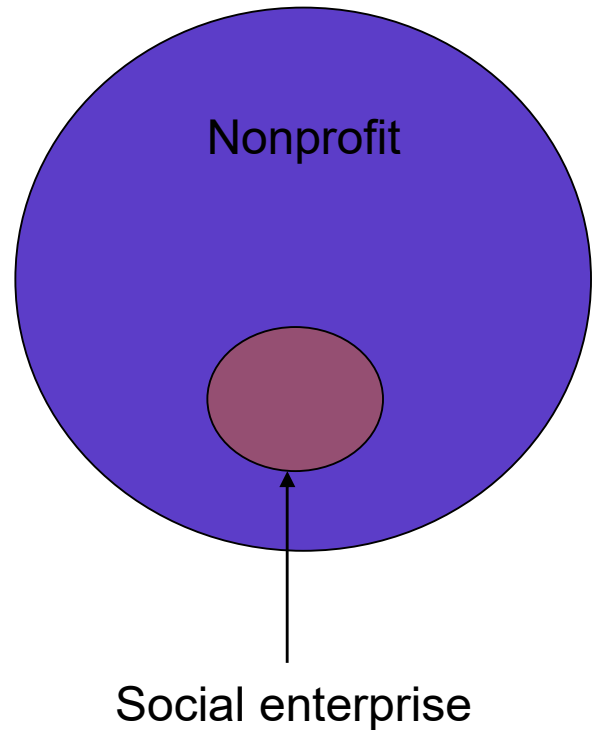
- no limit \$
- use \$ for mission



## From **unrelated** activity

- UBTI
- if < 10-15%, ok
- if more, consider moving “outside” of exempt entity

# Structural Options: Keep it Inside

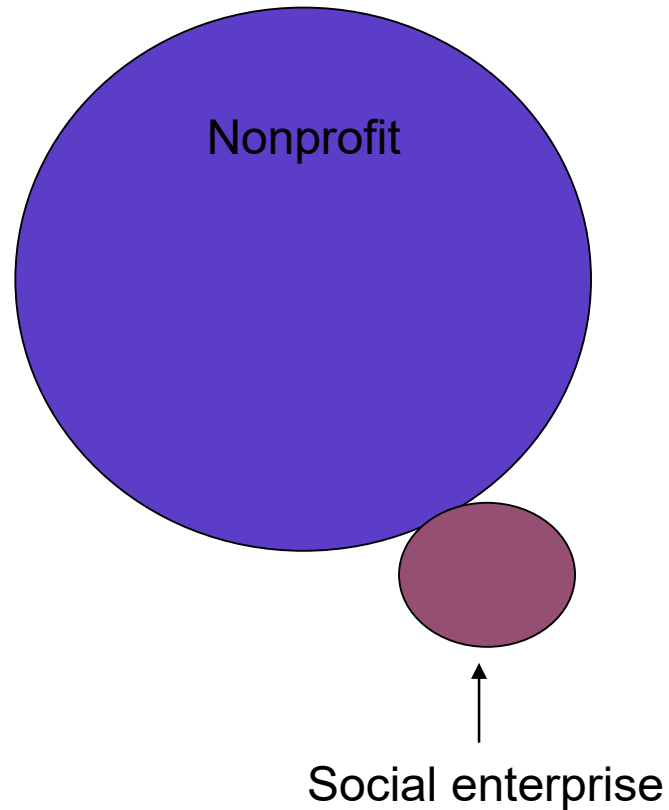


- Related
- Or, unrelated but small
- Simple
- Watch mission drift
- Watch growth if unrelated
  - Keep under 15% of revenues, budget, activities

# Why Form a Legal Entity?

- Limited liability shield
  - Limits personal liability
  - Respect corporate formalities
- Separate entity (“person”)
  - Can enter into contracts, obtain financing, hold bank accounts
- Attract outside funding
  - Investors
  - Grants from private foundations
  - Charitable contributions

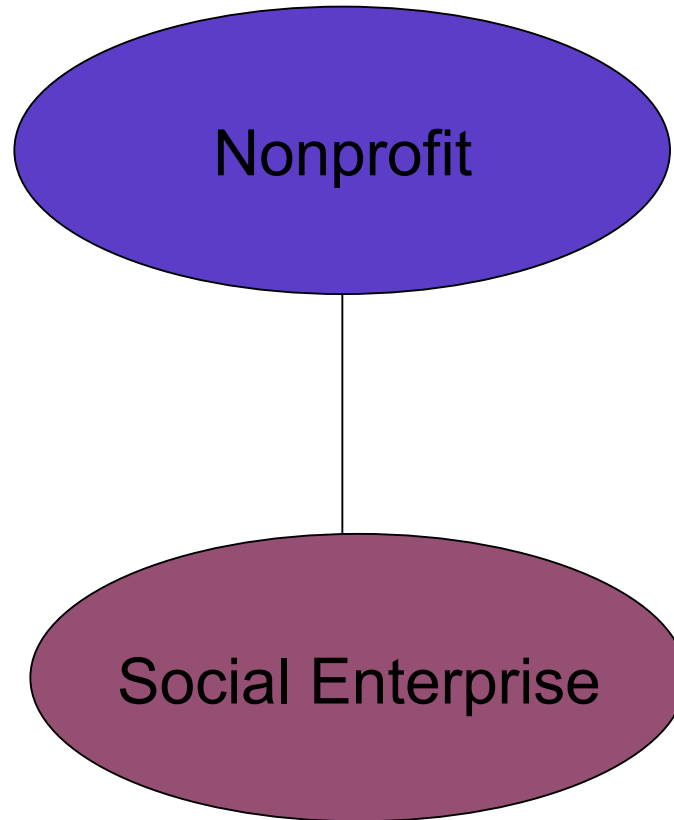
# Structural Options: Inside-out with an LLC



- Related
- Or, unrelated but small
- But other reasons for separation
- Tax-exemption – treated as *inside*
- Liability – treated as *outside*



# Structural Options: Move it Outside - Taxable Subsidiary



- Unrelated activity
- Legal protection
- Protects parent from too much UBTI
- Profits distributed to parent as dividends
- Respect corporate formalities
- Arms' length transactions

# Panel Discussion and Q&A

# Contact information

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CPE Credit Tracking Word 3:  
**(barriers)**

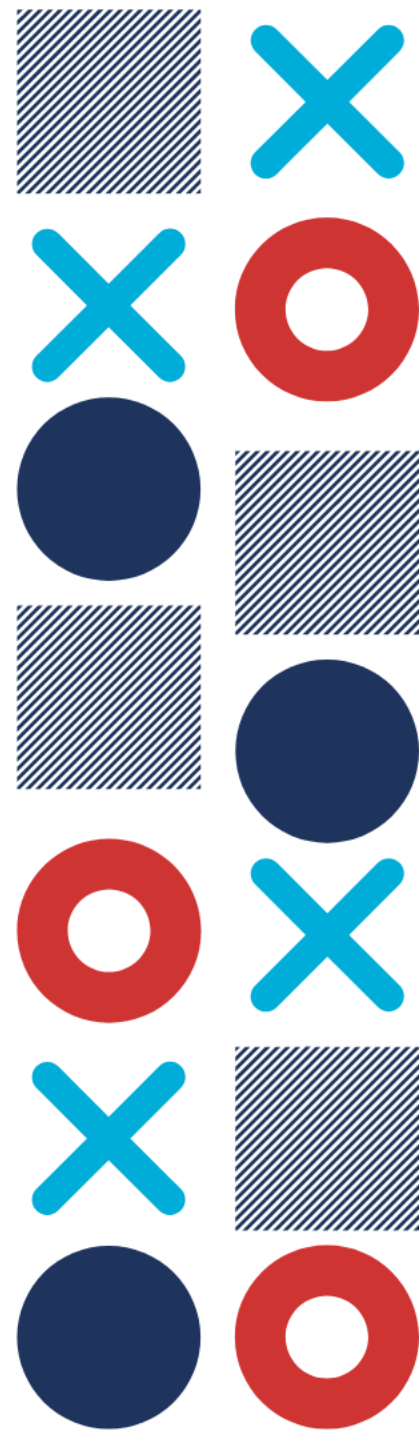


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## 2021 Nonprofit Finance & Sustainability Conference

Playing along with the **Scavenger Hunt**?  
Here's this session's code:

**SE8\$h2**



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Up next...

Are Your Investments Aligned with Your Values?

1:00 – 2:00 p.m. | April 20

Scenario Planning in Uncertain Times

1:00 – 2:00 p.m. | April 20

Telling Your Financial Story During COVID-19

1:00 – 2:00 p.m. | April 20

