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A Typology of the Income-Generating Activities of Nonprofit Organizations in Marin and Sonoma Counties

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**A Typology of the Income-Generating Activities
of Nonprofit Organizations in Marin and Sonoma Counties**

A THESIS SUBMITTED

by

Carolyne Stayton

**In Partial Fulfillment of the Requirements
for the Degree of
Master of Nonprofit Administration**

The University of San Francisco

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A Typology of Income-Generating Activities
of Nonprofit Organizations in Marin and Sonoma Counties

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Carolyne Stayton

This thesis, written under the guidance of the Faculty Advisory
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ABSTRACT

This study examines the income-generating activities of nonprofit organizations. Since the early 1980s, income-generating activities have been increasing due in part to: government funding cut-backs; encouragement from government and big business; incursion into traditional nonprofit areas by for-profit business; and, more recently, economic recession. The increase in activities has apparently cut into for-profit terrain, and small businesses in particular have reacted negatively.

In the last decade the commercial income-generating activities of nonprofits have been cited by small business as a primary concern. Debates over the issue have been waged in Congress between small business advocates and nonprofit supporters. As few studies have been conducted on the impact of commercial income-generating activities on for-profit business, both Congress and the IRS appear reluctant to make significant changes in legislation or tax laws.

This study attempts to secure data on the prevalence, extent, and type of income-generating activities that nonprofit organizations have conducted in recent years or are planning for the future. By ascertaining the extent and prevalence of income-generating activities this study may shed some light on the larger issue: whether or not the small business sector suffers a legitimate threat from the income-generating activities of nonprofit organizations.

A mail survey of 200 nonprofit organizations in Marin and

Sonoma counties that had annual revenues of \$100,000 or more was conducted in April 1995. Results showed that income-generating activities were prevalent and generated substantial portions of the organizations' bottom-line revenues. Almost 90 percent reported conducting at least one income-generating activity and on average, 38 percent of their bottom-line revenues were generated by income-generating activities. Fee-for-service was listed with most frequency as the largest source of funding. Of particular interest is that an average of 22 percent of the organizations' bottom-line revenues were generated by commercial income-generating activities and 72 percent of all of the income-generating activities conducted in the last five years were profitable. Although the results of the survey provide only a small part of the necessary data on the issue, the data do support the assertion that income-generating activities by nonprofit organizations are prevalent and profitable, and that their impact on for-profit business warrants more investigation.

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CHAPTER ONE: INTRODUCTION

Background of the Issue

Virtually all not-for-profit organizations, from cultural institutions to social service centers, are in deep financial trouble. . . . However vulnerable they may be, not-for-profit organizations must now do two things to ensure their survival: stabilize their budgets and diversify their revenue bases (Skloot, 1983, p. 20).

To diversify their revenue bases nonprofit organizations have, among other strategies, created and implemented income-generating activities. This movement into income-generating activities is a trend that appears to be growing. Studies have indicated increasing numbers of nonprofits are engaged in income-generating activities. A 1981-1982 survey conducted by James C. Crimmins and Mary Keil revealed that at that time 69 percent of their respondents had established an income-generating activity within the last 12 years and 60 percent generated a portion of their revenues from income-generating activities (Crimmins & Keil, 1983, p. 14). Another survey of 300 Chicago nonprofits, conducted by the Urban Institute, concluded that almost one in five of the organizations were considering the establishment of a for-profit subsidiary over the following two-year period (Wilson, 1988, p. 11).

The increase in income-generating activities, as well as the sophistication and the success of the activities, has met with opposition from small business. When only a few nonprofits "meddled" in enterprise activities, there was no substantial loss of profit to nonprofit organizations. Consequently, complaints from

business were few and far between. Now, with heightened and purportedly more successful income-generating activities, enterprising nonprofit organizations, small business, the IRS, and government are sorting out who should have what piece of the profit pie. Nonprofit organizations would argue that they have been economically squeezed into income generation, encouraged to undertake it, and obliged to do whatever they can to keep their doors open to meet the increasing demand for services. Small business would argue that nonprofits can indeed do whatever it takes to keep their doors open *except* step into profit-making territory. Consequently, small businesses have wanted activities that resemble profit-making activities examined and taxed.

A basic fear, echoed by Henry Hansmann, a respected researcher, is that given their tax breaks, nonprofits could take over for-profit industries and put them out of business (Hansmann, 1981, p. 378). His research showed that nonprofit organizations were making significant headway in certain industries while some of their for-profit counterparts in the same industries were losing ground. This startling discovery grabbed the attention of small business advocates who proceeded to make their grievances known through well-organized and intensified lobbying. Complaints from business, the IRS, and politicians about nonprofits engaging in unfair competition were debated in Congress and the courts. The first laws and regulations which resulted, while tightening up some loopholes, generally created a favorable climate for income-generating activities of nonprofit organizations. It was not until the end of the

1980s that more stringent tax laws were seriously considered. In 1989 the IRS revised the tax form 990 to require an analysis of all income-generating activities including unrelated business income. This form also required documentation on how income was expended and explanation of how income contributed to the accomplishment of the exempt purposes. The form met with the criticism, according to Streckfus and Jakubowicz (1993), that the IRS allowed nonprofit organizations to complete the form using any accounting method they chose (p. 692). In reaction to the latitude that this free choice allowed, the Financial Accounting Standards Board issued a set of accounting requirements for nonprofit organizations (Alexander, 1991, p. 62). To date standards have not been put into law but are expected to be implemented shortly ("These rules will," Streckfus & Jakubowicz, 1993, p. 6).

The tougher reporting requirements and standards revolved primarily around one type of income-generating activity—the operation of activities that are also conducted in the profit sector. "If a nonprofit organization performs an activity that can be found in the for-profit sector, then by definition, that activity is classified as commercial" (Streckfus, 1992, p. 928). Further, if the income-generating activity is found in the for-profit sector, then that activity should be ". . . taxable under the corporate income tax even if the nonprofit claims that the activity is related to its exempt purpose or provides a community benefit" (Bennett & Rudney, 1987, p. 535). It was this commercial activity of nonprofit organizations that Hansmann had pointed to a decade before as the principal threat

to the profit sector. This perceived threat to for-profit business is the heart of the controversy over the income-generating activities of nonprofit organizations today.

Interestingly, in concert with the intensified protest by small business over income-generating activities, the 1990s saw a proliferation of coalitions and partnerships between big business and nonprofit organizations. While small business opposed the income-generating activities of nonprofit organizations, big business sought out entrepreneurial nonprofit organizations. In fact, big business began a new way of doing business in the 90s. What started as "cause-related" marketing, which linked a corporate identity with a good cause, blossomed to become "cause-marketing" business which marketed the cause along with the business (Oldenburg, 1992, p. 22). To succeed with doing business while doing good, more corporations began seeking out nonprofit organizations to align with and to create cooperative business ventures with. Thus a split in sentiments was created within the for-profit sector itself towards nonprofit organizations. One business faction harbored intense opposition to profitable commercial ventures by nonprofit organizations, while the other faction supported and encouraged them.

Along with the encouragement and support from big business, a new industry emerged that encouraged nonprofits still further. An innovative breed of consultant arose to help nonprofits make the adjustment to self-sufficiency. These consultants knew both the world of business and the capabilities and concerns of the nonprofit

sector. They presented "how-to" workshops, workbooks, books, and lectures on assessing, planning, and implementing income-generating activities. Success stories about how struggling nonprofits were "turned around" created hopeful anticipation that implementing business practices could compensate for funding cuts. Several consultants, including Landy (1989), Steckel (1989), and Skloot (1988), emphasized that the success of any income-generating activity largely relied on tried and true business practices. The two most prominent recommendations they made were: Develop a business plan for income-generating activities; and, hire or appoint a savvy entrepreneurial type of individual, an "enterprise champion," to see the new enterprise through to fruition. Crimmins and Keil stressed the correlation between a successful enterprise and a person with the essential entrepreneurial qualities of "energy, creativity, determination and perseverance" (1983, p. 103). They stated that, "Where we found enterprises performing well, the real story was often in the human factors rather than in the numbers, since it takes individuals, entrepreneurs—to make enterprises succeed" (p. 9).

Not only did big business and nonprofit consultants help nonprofit organizations to create profitable income strategies, but government too encouraged nonprofits to become businesslike and self-sufficient while reducing grants. Urged by government to become more self-sustaining, many nonprofit organizations have developed income-generating activities "with fees and earned income now accounting for more nonprofit income than any other

single item except federal funding" (Brinckerhoff, 1988, p. 8).

Government did not stop with encouraging nonprofits only. According to a study done by Pires on the competition between the nonprofit and for-profit sectors, "government policies directly and indirectly encourage for-profit 'incursion' into nonprofit arenas" (1985, p. 11). Pires gives the example that the federal government in recent years encouraged for-profit firms to compete for human service contracts. The Small Business Administration (SBA) took this opening and used its authority to preclude human service nonprofits from competing for federal government contracts in some areas altogether (p. 11 - 12). Consequently, losing some of their client base to their for-profit counterparts, nonprofit organizations have been compelled to make their income-generating activities more profitable.

Whether by encouragement or necessity, nonprofit organizations have successfully created new income streams, some of them through commercial income-generating activities, to the chagrin of small business. What appears to be lacking in most of the arguments against the income-generating activities of nonprofit organizations, however, is empirical evidence as to the extent, type, profitability and commerciality of the activities.

Crimmins and Keil found that securing usable data was nearly impossible for their 1981-82 study on enterprise due to the inconsistencies in accounting practices from one nonprofit to another. They stated that "many institutions merge the results of their enterprise activities with other operations . . . aren't even

aware that they have enterprises . . . [or] have figures that are so kind to enterprise as to be unusable" (1983, p. 9). However concealed and indistinct the income-generating activities of nonprofits may be, data collection is essential for resolving the arguments surrounding the issues of nonprofit organizations' engagement in these activities.

Statement of the Issue

Nonprofit organizations have faced severe funding cuts over the last decade. Increasing numbers of nonprofit organizations vying for a piece of the shrinking government grant and corporate donation pies have forced nonprofit organizations to consider or implement new income strategies. In concert with this strained economic situation, government encouraged nonprofit organizations to become self-sufficient and for-profit businesses to bid for contracts traditionally given to nonprofits exclusively. Fueled by encouragement and necessity, nonprofits sought advice from the business community and began to assume more business-like practices. As some nonprofits achieved success with new income strategies, small business began to complain.

By the end of the 1980s the situation for nonprofit organizations was summed up in the following statement:

Nonprofits can no longer rely on the donor, the government, or the car washes [and other small community fundraisers] to keep their doors open. They need to market themselves aggressively

and become more self-sufficient in order to ensure their future. Yet, the more adept they become at doing so, the more disturbed small businesses become (Millman, 1989, p. 33).

According to Millman it is clear that the income-generating activities of nonprofits have become an issue of contention with small business. Fueled by Hansmann's research (1981), which concluded that the income-generating activities of nonprofit organizations posed a serious threat to small business, the small business advocates took the issue to Congress to be resolved. Although pro and con arguments were waged, there was inadequate information about the nature and extent of the income-generating activities of nonprofit organizations.

In order to begin to answer the question, *Do income-generating activities of nonprofit organizations pose a legitimate threat to for-profit businesses?*, comparable data are needed to ascertain the prevalence and extent of income-generating activities, as well as the profitability and commerciality of those activities. Also of interest is whether or not nonprofits successful in income-generating activities have applied the business practices that nonprofit business consultants have most stressed as factors leading to a greater chance for success; namely, placing an entrepreneur at the helm, and following a well-crafted business plan.

This study attempts to collect data about the nature and prevalence of the income-generating activities of nonprofit organizations. While it does not address the question whether for-profit businesses are actually harmed by income-generating

activities, this study does help to determine the actual extent to which the income-generating activities of nonprofit organizations exist.

Normative Definitions

The income-generating activities of nonprofit organizations are called by many different names. The IRS has classified these activities with a set of names. Authors have called these activities by many other names. It is therefore necessary to define the different terms as they pertain to this study and to note that the broad base of income activities are referred to, in this paper, as "income-generating activities." This is an umbrella term that encompasses all of the various names.

Following are definitions that clarify the distinctions among the different income-generating terms and definitions of the other variables used in this study.

Nonprofit Organization: For purposes of this study "nonprofit organization" refers to any organization with the Internal Revenue Code 501(c)(3) classification.

Size of organization: Both annual revenue and number of employees are often used to determine the size of an organization. In this study, size is measured by annual revenue.

Funding sources: Nonprofit organizations typically secure income from a variety of funding sources other than income-generating activities.

Income-generating activities: Many nonprofits engage in various activities other than securing grants and eliciting donations to generate income. "Income-generating activities" is a broad category that includes all of these activities.

Unrelated business income: Income that is not "substantially" related to the nonprofit organization's mission is referred to by the IRS as unrelated business income and is subject to tax.

Related business income: This term is used by the IRS to refer to income that is substantially related to the nonprofit organization's exempt purpose. This income is not subject to income tax.

Enterprise: "Those income-producing activities that are beyond the normal mission of an institution" (Crimmins & Keil, 1983, p. 10).

Commercial enterprise or Commercial income-generating activities: Profit-making activities conducted by a nonprofit organization that are also found in the for-profit sector are called commercial enterprises. The income produced by commercial enterprises can be classified, under either of the IRS classifications

"related" or "unrelated" business income, depending on the relation of a particular enterprise to the organization's tax-exempt purpose.

Earned or program-related income: Income that is derived from the pursuit of the nonprofit organization's mission and objectives is called earned or program-related income. This income is always "related business income" and includes such revenues as fees for service, tuition, and admission charges but does not include such revenues as donations, grants etc. Earned or program-related income can be either commercial or noncommercial in nature.

For-profit subsidiary: The IRS has designated a percentage of total income that can be derived from unrelated business activities. The unrelated business income activities could jeopardize a nonprofit organization's exempt status at this maximum point. To curtail this a "spin-off" for-profit business is often created. This spin-off business or "for-profit subsidiary" becomes a separate for-profit business and is subject to the same tax laws that other for-profit businesses are subject to. A "for-profit subsidiary" can also be formed initially, if the intention of the parent nonprofit organization is to create a profitable unrelated business.

Business plan: A business plan is a formal document that provides an in-depth analysis of the proposed business enterprise, including a market analysis and marketing plan, financial plan and financial forecasts, organizational and management analysis, and contingency

plans.

Joint venture: A business partnership between a nonprofit organization and a profit sector business, in this study, is referred to as a joint venture. The venture can be an earned or program-related activity, an unrelated business income activity, or a for-profit subsidiary.

Entrepreneur, Enterprise champion or Director of Enterprise: Nonprofit business consultants generally agree that a highly motivated, entrepreneurial type of person is necessary to see a major income-producing activity through to success and profit.

Specification of the Research Objectives

To determine whether or not nonprofit income-generating activities are significant, this research will attempt to answer the following questions:

Section I. What types and sizes of nonprofit organizations are engaged in income-generating activities? Do larger nonprofit organizations rely more heavily on income-generating activities than do the smaller ones? What is the largest source of funding for the survey respondents? Are there differences in the largest sources of funding for the various types of nonprofit organizations?

Do certain types of nonprofit organizations conduct more income-generating activities than other types? Have organizations had significant increases and decreases in funding sources in recent years?

Section II. What are the income-generating activities that nonprofit organizations are actually engaged in? How much income do these income-generating activities contribute to the organization's bottom-line? Are more activities being planned for the future? If so, what are they? How many of the income-generating activities are commercial in nature? What percent of the organization's bottom-line do these commercial activities represent?

Section III. Do the more profitable income-generating activities employ an entrepreneur or utilize business planning techniques?

Importance of the Study

Income-generating activities of nonprofit organizations have been underway for more than a century. Only Hansmann's study (1981) has asserted that income-generating activities of nonprofit organizations pose a serious threat to small business. He found that nonprofit organizations were making significant advancements in certain industries, and that with their tax breaks they could eventually take over those industries (p. 378). Another study

conducted by the U. S. General Accounting Office (1987) surveyed for-profit firms about the issue of nonprofit competition. Although more than half of the respondents reported competition was more intense in 1985 than in 1980, the study did not determine the impact of income-generating activities on existing for-profit businesses. The study did reveal that little is known about the extent of income-generating activities and pointed to the need for more in-depth analyses (1987, pp. 30-36). Compiled data on the extent of income-generating activities by nonprofit organizations could benefit both the nonprofit and business sectors.

This study does not actually determine whether or not income-generating activities of nonprofit organizations are harmful to for-profit businesses. It does provide some of the research needed to quantify the type, prevalence, and revenue of income-generating activities that are currently in operation or in the planning stages. Recommendations might then be made, based upon such quantifying data.

In the current climate of economic restraint, the dwindling of donated dollars from traditional sources, and the increased competition among nonprofit organizations, income-generating activities may be, for some nonprofit organizations, the only means of survival. If, as some authors suggest, the face of the nonprofit sector is changing from the traditional fundraising charity to a more competitive charitable business, then nonprofit organizations need to prepare themselves with information and skills for a more competitive marketplace. This study will provide in-depth

background information about the issues that surround income-generating activities and provide a typology of past, current, and planned income-generating activities that could be useful to both nonprofit organizations and small business.

The information obtained from this research could further provide a foundation upon which future studies could be developed. It may also generate hypotheses that could be tested out in a later study.

Limitations of the Study

There are four main limitations to this study. These limitations are:

One, the study will not be generalizable. The nonprofit organizations of Marin and Sonoma counties that responded to the survey questionnaire may or may not be representative of other organizations and activities in the San Francisco Bay area, California, the United States, or of the non-responding survey recipients, for that matter.

Two, the study is a typology of the types of organizations that are implementing income-generating activities, their funding sources, and the types of activities they are conducting. Although there may be causal relationships, the study is descriptive in nature and will not test for significance.

Three, there exists a problem in securing conclusive data due to

inconsistencies in terminology regarding income-generating activities, and in accounting practices utilized by nonprofit organizations. Because neither the terminologies nor the practices are standardized, information may not be comparable in some cases. The survey questionnaire attempts to give examples and clarify questions so that responses will be standardized and data will be comparable.

Four, the survey instrument itself has inherent weaknesses. The artificiality of the survey format makes validity of the research somewhat problematical. Inaccuracies of mailing lists, postal services, and the in-house distribution systems may have prevented some questionnaires from reaching the target sample. There may be discrepancies to answers as given by any single respondent; in some cases answers may reflect fact; in other cases answers may be a poor estimation, opinion, or even a gross error. Variations in the participants' level of knowledge regarding the survey topic may result in some questions being answered inadequately. Finally, the survey instrument itself constrains free expression covering related (and perhaps important) information not specifically elicited by the questionnaire items.

CHAPTER TWO: REVIEW OF RELATED LITERATURE

Introduction

The literature concerning nonprofit involvement in income-generating activities is largely devoted to two propositions, that (1) such involvement by nonprofits constitutes unfair competition, and (2) that nonprofit organizations engaged in profit-making activities should observe fundamental business practices. Most commentary on the first point has been written by small business concerns, whereas literature concerning the second point has been written predominantly by nonprofit business consultants.

The literature on the subject of for-profit activity of nonprofit organizations may be categorized into five subject areas: (1) Circumstances that have pressed nonprofits towards the creation of income-generating activities. These include government funding cuts, competition for funding, incursion of for-profit business, entrepreneurial encouragement, cause-marketing businesses and mutually beneficial partnerships, economic recession, and blurring of the sectors. (2) Competition between nonprofits and small business. (3) Advantages and disadvantages that both nonprofits and small business are purported to have in income-generating activities. (4) Strategies for successful income-generating activities suggested by nonprofit business consultants. (5) Proposed solutions to the problem of business competition by nonprofits.

I. Circumstances Leading to the Increase of Income-Generating Activities by Nonprofit Organizations

Government: Funding Cuts and Entrepreneurial Encouragement

Several writers, Bennett and DiLorenzo (1989), Steckel (1989), and Farrell (1983), agree that the governmental funding cuts of the early 1980s were the primary cause that catapulted nonprofits into income-generating activities. A few writers claim that not only did governmental funding cuts turn nonprofit organizations towards profit-making activities, but that government and nonprofit boards and foundations created a climate in which nonprofits were encouraged to become more self-sufficient. For-profit businesses, however, did not react favorably to the new nonprofit profile. Kevin Farrell, in his article Competition from Nonprofits: Are For-Profit Businesses at an Unfair Disadvantage? quotes a Senate Small Business Committee aide as saying, ". . . These [nonprofit] organizations have been encouraged to help themselves, and now that they're really doing it, businesses are complaining" (1983, p. 176). Wellford and Gallagher second this sentiment in an excerpt from their report:

[The] government and for-profit business sectors are sending opposite signals to the nonprofit community. On the one hand, the government encourages entrepreneurial activity as a means of improving self-sufficiency; on the other, the for-profits complain of unfair competition when nonprofits engage in entrepreneurial activities designed to promote self-sufficiency (1988, p. 4)

A 1985 study by Pires reported that government foundations and business all supported and encouraged nonprofit organizations to take care of themselves. The report pointed out,

Directly, both government and business, and many foundations for that matter, encourage nonprofits to be more "businesslike," entrepreneurial and self-sufficient. Many of the nonprofit enterprise activities we found in our survey were encouraged and supported by government, business, and/or foundations. Indeed, they would not have been possible without financial and technical backing from those sectors (Pires, 1985, p. 8).

The report goes on to say that particularly in recent years, ". . . government and business have argued that enterprise can reduce the dependency of nonprofits on government and corporate cash assistance; they encourage the development of more active and self-sustaining partnerships" (Pires, 1985, p. 8).

Competition for Funding

The escalation of community service needs has caused an increase in the numbers of nonprofit organizations.

Because of the broadened scope of community needs and increased demands, there has been a proliferation of not-for-profit organizations—ranging from additional health and human care agencies to grass-roots advocacy groups to arts and cultural associations. As this rapid expansion has taken place, there has not been attendant increase in the level of giving from individuals (who account for 83 percent of all donations), or from corporations, foundations, bequests, or other new funding sources needed to support these expanded initiatives (Overkamp, 1990, p. 23).

The insufficient funding base has affected some nonprofit organization more than others. In these recessionary times many

notable and worthy nonprofit organizations, such as arts, education, and recreation organizations, have found it increasingly difficult to compete with nonprofit organizations that attempt to alleviate human suffering. For those organizations that do receive grants, the grant amounts awarded are often much smaller than requested.

To make the difficult choices about which organizations to fund, funders are having to scrutinize nonprofit organizations more closely. They want to avoid duplication of efforts and ensure that their money goes to the organization that is able to make the greatest impact. Usually older, more stable nonprofits can promise this and many new and experimental nonprofits are left out of the grant-making process altogether (Steckel, 1989, p. 10).

With fewer donated dollars to go around, nonprofit organizations have a stark choice: Scale down their operation, or pursue new profit-making avenues.

Incursion of For-Profit Business

There is a scant amount of literature on the "incursion" of for-profits into the nonprofit arena. Peter C. Brinckeroff claimed that for nonprofit organizations, "one of the most crucial [trends] is increased competition from commercial firms" (1988, p. 8). The traditionally nonprofit dominated fields of health care and education, for instance, have seen the growing intrusion of profit-sector business. Dr. Richard Steckel points out that, "Postal service, correctional facilities, health care, elder care, child care, transportation of the elderly and handicapped, braille translation,

and other traditional nonprofit areas are being invaded by private enterprise" (1989, p. 10). In some cases, government contracts, which were previously offered to nonprofits, were offered only to small business to the exclusion of nonprofit organizations altogether (Wellford & Gallagher, 1988, p. 6). Some businesses have even begun to champion social issues. According to one author, "Business will be more and more directly involved in social issues . . . becoming a major player in the arena once dominated by government and the voluntary sector" (Overkamp, 1990, p.22).

A contrary view on the matter is given by Jay Finegan (1987). Finegan asserts that unfair competition from nonprofits is the number three concern of small business. In the past two decades several small businesses have had to seek other markets when the nonprofit competition offered comparable goods at a lower price. This type of crowding-out phenomena elevated competition by nonprofits to one of the top agenda items of the SBA (Finegan, 1987).

Despite the controversy, nonprofit organizations continued exploring new income strategies throughout the 1980s. At the same time, the for-profit sector continued to move into traditionally nonprofit service areas.

Cause-Marketing Businesses and Mutually Beneficial Partnerships

While many for-profit businesses and nonprofit organizations were moving in on each other's turf, corporate business in general appeared to be taking a more charitable turn. American Express led the way in the late 1980s by promising its credit card users that a percentage of the amount they charged would help refurbish the Statue of Liberty. This marketing strategy gave birth to the popular trend known as "cause-related marketing." A survey published in 1992 by the Public Relations Society showed that "cause-related marketing ranked at the top of a list of the ten hottest trends in the industry" (Oldenburg, 1992, p. 22). D. Sizemore-Elliott writes, "Companies realize that reputations, particularly as they relate to key social issues, affect profitability" (1990, p. 26).

The cause-related marketing trend was further molded by two demands. One demand sprung from a new trade association, Business for Social Responsibility, the other from the growing number of activist-minded baby-boomer consumers. These two demands fundamentally affected how business was conducted in the 1990s.

In the spring of 1992, several representatives of major companies formed Business for Social Responsibility (BSR) which took cause-related marketing to its next step. BSR introduced "cause-marketing" as a means for making a difference in society through the leveraging of business power and resources. To implement this new way of doing business a company had to have a double bottom-line: one for profits and one for social change. Rather

than marketing itself as merely being aligned with a cause, as in "cause-related," the company would market itself and the cause, calling for social change and providing the means for achieving it. One prominent advertising executive, Carol Cone, was quoted as saying, "What's happening is that leading edge companies are believing that they have to have a corporate soul" (Oldenburg, 1992, p. 22). From the practical standpoint, the motivation for this shift was summed up in the words of one of the new BSR members: "You can't run a healthy company in an unhealthy society for long" (p. 22).

The change in business conscience was perhaps propagated by the same population of baby-boomers who were, on the one hand, new executives of companies, and on the other hand, a powerful and growing consumer group. As a consumer group they demanded that companies demonstrate their commitment to a cause by producing results, not just giving lip service. A company of the 1990s now has the task of convincing savvy consumers that it really does care about the consumer and societal issues. To do this, Oldenburg suggests that, "a cause-marketing company must align itself with a credible nonprofit group, make a long-term commitment, and take on a super cause, an issue of urgency and national dimensions" (Oldenburg, 1992, p. 23). He further states, "It [cause-marketing business] aligns all the needs—the company, the nonprofits, the consumer—and puts them all into a strategic alignment and it gives a very powerful message" (p. 22).

Not all cause-marketing companies do align themselves with existing nonprofit groups; some form nonprofit arms of their own.

However, a growing number of companies have aligned themselves with nonprofit groups, as Oldenburg suggested, forming "mutually beneficial" relationships. Steve Rabin (1992) defines this new nonprofit and business partnership: "A partnership is not a charity. By definition, a partnership is a two-way relationship: the partners pool their resources in order to share mutual benefits and achieve common objectives" (pp. 32-33). A nonprofit lends expertise and credibility to the partnership. Business provides new income streams for the nonprofit partner and tremendous resources to leverage the cause. Together the corporation and the nonprofit each extend each other's reach, and as Rabin puts it, "When carefully crafted, these alliances provide a win-win situation for both partners and for the public" (1992, p. 32). Two successful alliances cited by Rabin are between the Dr. Scholl footwear company and the American Association for Retired Persons (AARP), and between the Kellogg Company and the National Cancer Institute. Dr. Scholl and the (AARP) launched a consumer education program called "Walking for Fitness," which promoted the interests of the business by fostering brand loyalty among older people. The campaign also promoted the interests of the nonprofit group by emphasizing healthy exercise for older Americans. The Kellogg Company teamed up with the National Cancer Institute to promote a low-fat, high fiber diet. The diet promoted one of Kellogg's products, All-Bran, while also promoting cancer prevention awareness. So while small business has battled nonprofit entrepreneurial organizations, big business has welcomed them.

Economic Recession

In the last few years, another element has impacted the bottom-line of nonprofit organizations. The general economic recession of the country has driven more people to seek nonprofit services. "Nonprofits are seeing more clients, often in more dire condition, with fewer funds to meet their needs" (Steckel, 1992, p. 44). This increase in the number of clients has underscored, for many nonprofits, how important it is for them to keep their doors open and secure income from any source they can.

Blurring of the Sectors

Cause-marketing businesses, retired executives consulting nonprofit organizations, and community service programs for employees are all examples of recent charitable developments in the business sector. Conversely, nonprofit organizations are becoming more business-like. They are operating profit-making enterprises and forming partnerships with businesses. Government too, with the new push to be "reinvented" and become more efficient and businesslike, is beginning to seek profitable means of carrying out its responsibilities. What we seem to be witnessing is a blurring of traditional boundaries between the sectors.

S. J. Overkamp, senior vice-president of United Way of America, predicts that,

There will continue to be a blurring of the traditional roles of the public sector and the private sector . . . The federal budget deficit will continue to constrain federal action on social problems . . . Business will be more and more directly involved

in social issues (such as education, illiteracy, substance abuse, and AIDS), becoming a major player in an arena once dominated by government and the voluntary sector . . . More coalitions involving business, government, education and the nonprofit sector will emerge to address social problems such as beyond government's ability to address alone (1990, pp. 22-23).

Is redefinition of the public, private and nonprofit sectors in sight? Or, is this blurring of the sectors a trend that will continue? If it is to continue, will the income-generating activities of nonprofit organizations increase more rapidly?

II. The Issue of Competition between Nonprofit Organizations and Small Businesses

The issue of competition between nonprofits and small business is complex and controversial. A review of the evolution of the issue reveals scarcely a mention of the subject before 1982; conversely, in the last thirteen years, an escalating amount has been written. The 1980s saw a diverse array of articles and research works written by those who supported nonprofit business enterprise and by those who opposed it. The paper battle between the interests was heavily waged during the decade and was complemented with congressional debates, which led to moderate changes in income tax reporting (See Appendix D, Summary of legislation and judicial decisions regarding the income-generating activities of nonprofit organizations). Since 1990 small business concerns have focused even greater attention on the subject of unfair competition by nonprofit organizations. This agitation has resulted in impending

tax changes.

Literature from small business interests on the subject of unfair competition has substantially outweighed the literature from nonprofit organizations on the subject. Much literature from nonprofit interests can be found, however, on the subject of starting a for-profit enterprise.

Several articles and studies written in the early 1980s, Skloot (1983), Crimmins and Keil (1983), and Simons, Miller, Lansfelder (1984), and Brown (1986) pointed nonprofit organizations in the direction of income-generating activity, providing valuable information on business start-up opportunities and pitfalls. Nonprofit organizations that heeded the call to create income-generating activities, "how-to" books and articles like those mentioned above, and the advent of workshops on how nonprofits should select and start businesses, no doubt galvanized the caustic response from small business.

A report issued by the Small Business Administration in 1984 articulated the issue of unfair competition and started the ball of contention rolling towards more restrictive legislation. Entitled Unfair Competition by Nonprofit Organizations With Small Business: An Issue for the 1980s the report contended that nonprofits which engage in commercial activities and earn all, or part, of their income from sales or fees, as opposed to gifts and donations, compete unfairly with small business (Walters, 1984, p. 66). The report charged that nonprofits have unfair advantages in the marketplace, namely, exemption from corporate income tax, taxation

at the lowest corporate rate for unrelated business income, postal rate reductions, and fewer regulations, not to mention a public favorable to charitable causes.

The report claimed that as nonprofit organizations embark on commercial enterprise under the umbrella of corporate income tax exemption, fundamental questions need to be examined: "What are the rationales for granting nonprofits tax-exempt status, and are they still valid? What is the level of commercial activity by nonprofits in various industries? What is the economic effect of tax exemption and other factors on competition between nonprofit and for-profit firms?" (SBA, Office of the Chief Counsel for Advocacy, 1984, p. 2). In an attempt to answer the first question, two common rationales were cited. The "public goods" rationale suggests that "nonprofits should be granted tax exemption for providing services that would otherwise have to be provided by government" (p. 4). The "quality assurance" or "fiduciary duty" rationale which holds that nonprofit organizations provide a higher quality service at modest prices, whereas a for-profit firm may charge excessive prices for a service that is inferior (p. 5). The SBA report contended that the public goods rationale may be accurate in cases in which the charity provides a service to the poor, but it certainly does not justify tax exemption for "many nonprofit hospitals, nursing homes and day care centers operating today" (p. 5). The quality assurance or fiduciary rationale, the report also asserted, was not backed by any empirical evidence whatsoever, and real data may prove the rationale to be false.

In looking at the issue raised by the second question, "What is the level of commercial activity by nonprofits in various industries?" (SBA, Office of the Chief Counsel for Advocacy, 1984, p. 2), the report cited case studies of nonprofit organizations in diverse fields, noting that in all of the commercial fields mentioned, marked increases in the size and scope of the nonprofit sector were evident. In 1987 the U. S. General Accounting Office (GAO) attempted to obtain information on the level of nonprofit competition in six industries by surveying profit sector firms. The study found that nonprofit competition was evident in all six industries but the intensity varied across the industries (Bennett & DiLorenzo, 1989, p. 34).

Some of the literature from small business concerns suggested that untaxed commercial enterprise activity by nonprofits unleashed could destroy, or at least greatly impede, the growth of the private sector. Henry Hansmann wrote in 1981, "If the for-profit firms in the industry are subject to income taxation, then it will be more likely that nonprofit firms will ultimately take over the industry" (Hansmann, 1981, p. 378). It has been advised that nonprofit organizations that engage in income-generating activities meet a "commerciality test." If the income-generating activity is found in the for-profit sector, then that activity should be ". . . taxable under the corporate income tax even if the nonprofit claims that the activity is related to its exempt purpose or provides a community benefit" (Bennett & Rudney, 1987, p. 535). If implemented, the commerciality test would represent, ". . . a radical restructuring of

current and historical thinking about nonprofit tax exemption" (Wellford & Gallagher, 1988, p.6). Although not passed into law, the commerciality test has had an impact. Some IRS critics have already cited cases in which "Judges just label an activity as 'commercial' and conclude that it is unrelated and, if substantial, then the organization loses or is denied tax-exempt status" (Streckfus, 1992, p. 928).

Very little analysis has been done pertaining to the third question, "What is the economic effect of the tax exemption and other factors on competition between nonprofit and for-profit firms?" (SBA, Office of the Chief Counsel for Advocacy, 1984, p. 2), although the need for it was evident, the report found.

In response to the controversial SBA report, a 1985 study commissioned by the National Assembly of National Voluntary Health and Social Welfare Organizations, Competition Between Nonprofit and For-Profit Sectors (Pires, 1985), looked further at the issue of competition between the nonprofit and for-profit sectors.

According to Pires,

Nonprofit enterprise has been increasing in recent years due to the shortfall in the more traditional funding streams, increased competition for funds and an increased demand for services. . . . For many nonprofits, enterprise activity has emerged as the only viable alternative to cutting programs, cutting clients or reducing quality of services (1985, p. 8).

Pires (1985) also pointed out that not only had nonprofits been moving into the for-profit arena but that the entry of for-profit corporations was increasing in traditionally nonprofit fields. She found that the federal government had, in fact, been encouraging for-

profit firms to compete with nonprofits for federal grants and contracts. The SBA, too, had entered the arena by using its authority to reserve federal contracts for for-profit businesses. This excluded nonprofit organizations from competing. In response, some nonprofits created for-profit subsidiaries so that they could be eligible to bid on these particular contracts (see discussion pp. 11-12).

In their book, Unfair Competition: The Profits of Nonprofits (1989), Bennett and DiLorenzo contend that the present arrangement that nonprofits enjoy has serious repercussions in the marketplace and needs to be changed. According to the authors, in 1985, the nonprofit sector was comprised of approximately 1.2 million organizations. Of that number only 10 percent had the charitable objectives of serving the poor, unemployed, hungry, or unfortunate; the remainder were religious, educational, research, scientific organizations, or trade unions and business associations (1989, p. 3). Bennett and DiLorenzo cite a Newsweek article from 1987 which reported tax-exempt organizations were one of the fastest growing segments in the economy. The authors contend that as the sector grows, its commercialization becomes dangerous to the rest of the economy. In a 1988 article in Business and Society Review Bennett and DiLorenzo state "Not only is competition from the commercial nonprofit sector damaging existing firms, it also discourages the formation of new ones" (p. 41).

The growth of the nonprofit sector, a threat to business in the views of Bennett and DiLorenzo (1988 & 1989) and Hansmann (1981),

was seen by other authors, McLaughlin (1991), Steckel (1992), and Byrne (1990), as a positive trend. McLaughlin said that the nonprofit sector supported the economy by employing a significant number of workers. In 1987 the 907,000 public charities he examined "employed 7.4 million people, or 6 percent of the entire workforce" (McLaughlin, 1991, p. 5). The sheer size and scope of the nonprofit sector give it an economic power of its own. One author cites the nonprofit sector to be comprised of nearly one million nonprofit organizations or about half of the organizations and enterprises in the United States (Dabbs, 1991, p. 68). Together these nonprofits possess \$1 trillion in assets, account for 6 percent of the gross national product, and employ 7 million people (Zagorin, 1993, p. 36). With annual expenditures of nonprofit organizations exceeding \$130 billion in recent years (Dabbs, 1991, p. 68), it follows that the well-being and financial security of the nonprofit sector is important to the economic well-being of the country.

Not only an important contributor of jobs in this country, the nonprofit sector also provided leadership. In an article by Steckel (1992), Peter Drucker is quoted as saying, "Our nonprofit organizations are becoming America's management leaders . . . They are practicing what American businesses only preach . . . working out the policies and practices that business will have to learn tomorrow" (p. 44). Echoing Drucker, John Byrne (1990), in a *Business Week* cover story, stated that nonprofit organizations are some of the best-run organizations today. Byrne cited several examples of exceptional leadership that had emerged from the nonprofit sector

to the benefit of business.

While the above authors cite some of the benefits given to the economy and to business by the nonprofit sector, Bennett and DiLorenzo provide a number of arguments and examples about the harm to our economic structure when unfair competition from nonprofits is allowed. They claim that small businesses are the most susceptible to nonprofit competition and, "In many cases, existing profit-seeking firms have been driven from the market or have suffered economic losses, and new firms have been discouraged from entering markets in which nonprofits operate" (1989, p. 2). Bennett and DiLorenzo further emphasize that, "because small firms are the primary sources of both new jobs and innovations in the U. S. economy, unfair competition from nonprofits has slowed economic growth and technical change and has reduced economic opportunities" (p. 2). The authors' sentiment was, perhaps, summarized in their following statements:

The issue is not competition per se, but unfair competition. Whenever a nonprofit produces goods and services in competition with for-profits, simple equity demands that the nonprofit be subject to the same tax laws, pay the same postal rates, and be governed by the same regulations as its profit-seeking counterparts. In short, if a nonprofit wants to operate a commercial enterprise, it should set up a for-profit subsidiary (p. 3).

Two other authors who have approached the issue of unfair competition through the narrower perspective of the human service and social welfare fields, Harrison Wellford and Jayne Gallagher, have offered views contrary to those of Bennett and DiLorenzo. In their 1985 study called The Myth of Unfair Competition by Nonprofit

Organizations, Wellford and Gallagher concluded that tax exemption "does not afford nonprofit organizations a significant competitive advantage, and that proposals to change the basis for exemption, modify the concept of "unrelated business," limit nonprofits' ability to compete for government contracts, and other remedies proposed by small business advocates are not warranted" (1985, p. iv). The authors presented a similar perspective in their later work, Unfair Competition? The Challenge to Charitable Tax Exemption (1988) and complemented their view with a historical review of charitable organizations and the tax laws state by state.

The two above-mentioned works by Wellford and Gallagher were based on two rationales, the "public purpose" rationale and the "relieving a government burden" rationale. These rationales for tax exemption could be justified by the majority of human health and social welfare organizations but could not be so easily transferred to nonprofit organizations in some of the other fields that Bennett and DiLorenzo investigated. Both rationales are articulated in the statement, "The exemption from taxation accorded nonprofit organizations recognizes the public purpose and numerous contributions to community life made by nonprofit organizations, and it acknowledges that voluntary organizations often substitute for the government in providing services" (Wellford & Gallagher, 1988, p. iv). Bennett and DiLorenzo would argue that the rationales that had been employed to grant tax exemption can no longer be applied to nonprofits engaged in commercial activities.

Many writers, such as Goodale (1988), Bacon (1989), and Cook

(1990), have argued that both nonprofit organizations and government agencies have taken advantage of their tax-exempt status and have provided services and products that the profit sector could easily provide. This charge was brought out perhaps most vehemently in the SBA report of 1984 that spurred the debates of the 1980s. That report had a larger issue in mind than that of unfair competition by nonprofit organizations. It stated,

The issue of competition by nonprofits with small business is part of the much larger problem of government competition with the private sector. To the extent that the Federal government subsidizes nonprofit organization activity through the corporate income tax exemption in the Internal Revenue Code, nonprofit activity represents a form of indirect government competition with the private sector. This can be distinguished from direct government competition with the private sector, in which the government supplies to itself commercial goods and services which are available from the private sector (Office of the Chief Counsel for Advocacy, 1984, pp. 1-2).

III. Advantages and Disadvantages for Nonprofits and Small Business

Both nonprofit interests and small business interests have accused each other of having advantages in the marketplace.

Wellford and Gallagher (1985) cited several small business advantages. They stated that,

The SBA guarantees loans to small businesses that cannot obtain ordinary bank loans. The set-aside program permits only small businesses to compete for certain federal contracts, and the Office of Advocacy promotes the interests of small businesses. Some of these programs disadvantage non-profit organizations or prohibit them completely from competing for government contracts" (p. v).

The authors also remarked that nonprofit organizations operate income-generating activities under several constraints that for-profit businesses are free of. The most important constraint was that a nonprofit "must devote its income to carrying out its public purpose" (p. 14). Secondly, a nonprofit that was operated primarily for commercial purposes will lose its tax-exempt status (p. 8). A third constraint mentioned was "The Internal Revenue Code also prohibits nonprofits from operating to enrich any private interest" (p. 9). The authors asked, with these constraints and the advantages that small businesses have as mentioned above, what advantages could nonprofits have in the marketplace?

The most significant advantage that nonprofits are purported to have is illustrated in the example from Toni Goodale's article which appeared in *Fundraising Management*. The article pointed out the fundamental distinction between a for-profit organization and a nonprofit organization in the same field. It stated, "If one publisher has to pay taxes on its profits and another does not, the first publisher is, in effect, subsidizing the business of the second" (1988, p. 72). As well as nonprofit organizations being subsidized by their competitors, Donald Bacon (1989) stated that nonprofits also enjoy lower postal rates, receive special treatment with unemployment insurance, minimum wage, securities, bankruptcy, and anti-trust matters. To top these advantages off, James Cook (1990) claimed that the "nonprofit designation is itself a powerful marketing tool . . . what the for-profit sector calls the halo effect" (p. 100).

The advantages that nonprofits do enjoy may not be inherently unfair but when applied to nonprofit organizations that are operating the same or similar enterprises as those found in the profit sector, the advantages may seem to give nonprofits an unfair edge. Consequently, the SBA and other small business coalitions have been frenetic in stating their grievances and calling for legislative changes with regard to income-generating activities of nonprofit organizations. According to the Frederick Rothman in Tax-Exempt Organizations Face New Hurdles--Part II, a House Ways and Means Oversight Subcommittee was formed in June of 1987 to begin discussion and hold hearings on the for-profit activities of nonprofit organizations (Rothman, 1988, p. 40).

Hopkins (1987), Rothman (1988), and Millman (1989) were among several authors of the late 1980s who saw the writing on the wall and expected new legislation to tighten up the regulations governing the related and unrelated business activities of nonprofit organizations. Judith Millman cautioned that new laws would allow only those sale items and services that are directly related to the organization's tax exempt purpose to go untaxed (1989, p. 34). Rothman too anticipated that Congress, the IRS, and the SBA would be keeping a closer eye on nonprofit activities in the future (1988, p.44). Hopkins concluded that wide-ranging inquiry would set the stage for "legislation of immense importance to the nonprofit sector" (1987, p. 32). In view of stringent changes in accounting standards expected to take effect sometime after December 1994, a newly assembled IRS team of accountants and lawyers, and probable

increases in postal rates for nonprofits, the predictions of the above authors certainly seem to be coming true. Many of the perceived advantages that nonprofit organizations have in relation to for-profit enterprise may soon be a thing of the past.

IV. Suggested Strategies for Successful Income-generating activities

Despite all the furor, new legislation, and increased scrutiny, the current economic climate will continue to compel many nonprofit organizations to consider income-generating activities in the 1990s. With increased competition from within the nonprofit sector itself and heightened competition from without, the nonprofit organization that chooses income-generating activities better be equipped, not only to overcome the tax hurdles, but to compete and win in an increasingly competitive market.

To help nonprofit organizations succeed in business, consultants with business expertise and savvy have found a growing market for their skills and ideas. One such consultant, Richard Steckel, former director of the Children's Museum of Denver and current president of the business consulting firm AddVenture Network, Inc., believes that all nonprofits should be run as businesses. His view is, "You can only beg so much, and it's no fun" (Skrzycki, 1984, p. 65). Steckel's strict for-profit business view might be summarized in the following quote cited in an article by Calonius, Hutchison, Quade and Risinger (1987): "We realize that we don't have to be humble to be successful

. . . We have three tenets: fairness, competitiveness, and greed" (p. 38). Although Steckel's message to nonprofits may be somewhat tongue-in-cheek, it does ring of his own success. Beginning with his directorship, the Children's Museum skyrocketed from nearly closing its doors to producing 95 percent of its income through for-profit enterprise (Calonius et al., 1987, p. 38).

To the struggling nonprofit, Steckel's business style might look very appealing. To the Small Business Administration, however, it may appear rather threatening. Peter C. Brown, a business consultant who specializes in entrepreneurship in corporations and nonprofit organizations, would temper Steckel's business-for-its-own-sake approach and encourage nonprofits to meld "the mission and sensitivities of the nonprofit sector with the risks, rewards, and bottom-line discipline of the for-profit sector" (Brown, 1986, p. 13). He calls this regenerative funding. "Unlike entrepreneurship," Brown further states, "making money is not the ultimate priority of regenerative funding—achieving the agency's mission is the real ultimate goal" (p. 13).

Not all nonprofits can or should venture into for-profit enterprise, according to Edward Skloot (1983) in Should Not-for-Profits Go into Business? Unless a nonprofit has something to sell, a market that will buy it, expertise to manage it, trustees to support it, a businesslike approach and people to invest in it, then the organization does not have what is necessary to undertake a successful for-profit venture (pp. 21-24). If, in the final analysis, the essentials are in place, says Skloot "the economic climate

virtually demands the pursuit of earned income" (p. 20).

Although Skloot (1983), Steckel (1989) and Brown (1986) may not agree on all points, they would agree that a for-profit enterprise should utilize, from its conception, business tools and principles. While Steckel may encourage nonprofits generally to pursue for-profit enterprise and move toward self-sufficiency, Brown and Skloot would encourage only a few. All three of these consultants, however, emphasize the importance of thorough planning and recommend the preparation and implementation of a business plan.

The importance of a thorough business plan cannot be underestimated. Leslie Wilson (1988) states that, "Today over half of all new businesses fail within the first two years of operation, and over 90 percent fail within the first 10 years" (p.11). Wilson says, "According to bankers and lenders, one of the major reasons for these failures is lack of planning" (p. 11).

Most authors agree that planning is an essential ingredient for success, but as one author puts it, "the greatest plan won't make your business a success. That part is up to you" (Woolley, 1989, p. 125). According to Steckel (1989), Landy (1987), Skloot (1988), and Humphrey (1987) a champion is needed for the venture to succeed. Humphrey says that "new ideas either find a champion or they die" (1987, p. 102). Steckel nearly echoes Humphrey and adds, "the department must have a full-time (or very close to full-time) champion, a captain who gives the department backbone and direction; someone whose primary responsibility is to sell ventures and see them through to implementation" (1989, p. 187). Steckel

also says that an enterprise champion is necessary both on staff, as the manager who will see the venture through to implementation, and on the board, as the trustee who believes in, understands the business concept, and can persuade and influence the other trustees (p. 57). "Champions maintain a focused drive to overcome every obstacle, and their unshakable confidence both inspires their team and maintains their momentum" (Humphrey, 1987, p. 103).

Along with having an enterprise champion and a well thought out business plan, Steckel promotes joint ventures with corporate partners as an important business practice. In his book Filthy Rich & Other Nonprofit Fantasies: Changing the Way Nonprofits Do Business in the 90s and subsequent articles (Steckel, 1992 & 1993), Steckel (1989) points out the advantages of partnerships. Nonprofits, in order to meet competition head-on, "have developed business partnerships with for-profits in order to offer services jointly" (1992, p. 45). The joint venture can provide benefits for both nonprofits and businesses. Nonprofits benefit with the help of business, "because business, with its money, manpower, talent banks, and powerful role in society, is uniquely positioned to help them make a difference" (1992, p. 44). The partnership practice is a win-win situation but follows the basic business principle that is, one of Steckel's key messages to nonprofits: "Money—don't use yours, use theirs" (1989, p. 137).

In an entrepreneurial climate first warmed in the 1980s by government encouragement and now by businesses seeking nonprofit partners, the nonprofit sector has found a firm foothold in for-profit

enterprise that increased scrutiny by the IRS or new legislation may not be able to fault.

V. Proposed Solutions to the Problem of Business Competition by Nonprofits

Although forces of opposition appear to have recently gained more support in Congress and with the IRS, two authors point out that the dispute between for-profits and nonprofits, ". . . tends to ebb and flow with the economic cycles of small business sectors and the shifting fashions of entrepreneurial activity" (Wellford & Gallagher, 1988, p. 7). Regardless of the flux of the economy, solutions to the problem of unfair competition have been proposed by various advocates, scholars and politicians. These solutions range from prohibiting nonprofits from engaging in any income-generating activity that can either be found presently in the profit sector or can be potentially undertaken by the profit sector, to assisting nonprofit organizations become self-sufficient by subsidizing start-up income-generating activities. Despite such divergent opinions, several advocates from both the business and nonprofit sectors concur that for some commercial income-generating activities, a nonprofit organization should setup for-profit subsidiaries. Krueckeberg and Squires suggest that if properly structured and managed ". . . a profit-making subsidiary enables nonprofits to diversify their funding base while preserving their tax-exempt status. Through a for-profit subsidiary, the organization can

increase its financial stability and become more self-sufficient" (1988, p. 6).

Some others proposing solutions believe that a new entity should be established for those nonprofit organizations that want to engage in substantial income-generating activities. One idea offered was to establish a 501(c)(3)x designation. To qualify, an enterprising nonprofit could raise a maximum of 80 percent of its operating funds from income-generating activities, but must raise at least 20 percent through community support. For whatever portion of the 80 percent came from unrelated business activities, the 501(c)(3)x organization would file a tax form on the income. However, ". . . rather than turning over the assessed taxes to the IRS or state tax agencies, it would have to designate that amount to its parent for program-related expenses. It could not reinvest these 'taxes' in the enterprise" (Crimmins & Keil, 1983, p. 115).

Another proposed solution is to form coalitions between nonprofits, business, and government to virtually eliminate competition if clear agreements among the partners are met.

Amidst the coalitions, businesses becoming more involved in social issues, government becoming more entrepreneurial, and nonprofits increasingly showing business savvy, there is a blurring of the traditional boundaries that formerly set the sectors apart. This blurring may not be a "solution" to the problem of unfair competition, but it certainly makes it more difficult to point the finger at anyone in particular.

CHAPTER THREE: METHODOLOGY

Introduction

To discover the types of income-generating activities in which nonprofit organizations are engaged, a research design using descriptive statistics was selected. The following sections of this chapter reflect the process and rationale behind the selection of subjects, research design, instrumentation, procedures, and treatment of the data.

Subjects

Sample

The population to be studied are nonprofit organizations classified by the Internal Revenue Service as 501(c)(3) organizations in Sonoma and Marin counties with annual incomes of \$100,000 or more. Although the IRS has designated the annual income amount of \$25,000 and above as the amount at which nonprofit organizations are required to complete and submit the IRS form 990 on a yearly basis, the Crimmins and Keil study (1983) found that organizations with budgets under \$100,000, in general, did not rely on income-generating activities to any significant degree (p. 17). Consequently, as this amount was significant in the Crimmins and Keil study, the researcher has chosen to use the delineation Crimmins and Keil used rather than the IRS delineation, and to study those organizations that have a yearly income of at least \$100,000.

Excluded from the study are particular nonprofit exemption and IRS activity-coded organizations: Trusts and foundations, mutual benefit organizations, churches, and hospitals. The rationale for excluding these organizations is as follows:

Trusts and foundations provide gifts and grants to other organizations and operate differently from most other nonprofit organizations.

Mutual benefit organizations operate on a cooperative basis and generally do not benefit the general public.

Churches, which include synagogues, associations, or conventions of churches, and religious orders were excluded because they are not required to report to the IRS.

Hospitals were excluded from this study because they are already largely incorporated in the profit sector and are also subject to different tax reporting requirements.

With the above organizations excluded, the number of nonprofit organizations in Sonoma and Marin counties with annual incomes of \$100,000 or more is 431. From this population of 431 a random sample of 200 was generated. The rationale for selecting this sample size is to make the study more manageable and to lower research costs.

Research Design

There are few previous studies in this particular topic area of income-generating activities operated by nonprofit organizations. Consequently, the researcher has chosen to use a survey questionnaire to obtain data from a large number of sources and a typology to classify the data. As the study is exploratory in nature, descriptive statistics rather than inferential statistics were chosen to describe the data. When collected the data were classified in several different ways: type of income-generating activities undertaken; the revenue these activities contribute; the amount and type of commercial enterprise activities; future plans for instituting income-generating activities; the size and type of nonprofit organizations that operate the activities; and the utilization of business plans and entrepreneurial leadership as practiced by in income-generating entities.

Instrumentation

Pretest

A pretest was first administered to six nonprofit executive directors. The questionnaire was consequently revised based on the information gathered. A second pretest was administered to participants at a conference of nonprofit executives in Sonoma County. The participants were primarily from Sonoma County but also came from surrounding areas. The survey questionnaires were

given to all of the participants at the conference. Completed questionnaires were studied. Problem areas in the design and format were detected and clarifications and changes were then implemented in the final questionnaire. None of the participants from the two pre-tests were included in the final sample.

Questionnaire

The rationale for selecting a survey questionnaire is as follows: Financial data are obtainable from IRS Form 990. A criticism of the form is that the IRS allowed nonprofit organizations to use any accounting practice they chose (Strekfus & Jakubowicz, 1993, p. 692). Crimmins and Keil (1983) found that nonprofit organizations used a hodge podge of accounting practices making it nearly impossible to secure comparable data. The intention behind using a survey questionnaire was to obtain isolate specific information about a variety of income-generating activities and practices in order to obtain comparable data.

A survey questionnaire (Appendix A) consisting of three sections was constructed to identify the types of for-profit enterprises nonprofit organizations of Sonoma and Marin counties are currently engaged in, have operated in the past, or have plans to implement in the future.

The first section of the questionnaire is designed to collect background information about the organization. This includes sources of funding, annual income, and type of organization.

The second section specifically asks for information about all

of the organization's income-generating activities of the last five years. Respondents are asked to complete a table on specific income-generating activities and what these activities contribute to the organization's bottom-line. Respondents are also asked about their plans for future income-generating activities and about profit sector businesses conducting the same or similar income activities.

Section three is concerned with other business practices that contribute to an organization's income-generating activities. This section is designed to elicit information about an organization's use of formal business plans and the role of entrepreneurs in the enterprise process.

Procedures

Sample Selection

The names and addresses of all 501(c)(3) nonprofit organizations in Sonoma and Marin counties with annual incomes of \$100,000 were generated from the University of San Francisco's Institute for Nonprofit Organization Management database. The population was categorized by specific IRS activity codes. Upon analysis of the organizations listed under the activity codes it was decided to exclude foundations and trusts, mutual benefit organizations, churches, and hospitals from the population primarily because they either operate differently from most other 501(c)(3) organizations or are not required to file yearly tax forms.

A random sample of the population was then generated from the

Institute of Nonprofit Management database system.

The rationale for using a computer-based random sample selection program is that the sample reduces the study to a manageable size. Using a random-selection computer program to select the sample gives every element an equal chance of being selected. This method further avoids conscious and unconscious biases in element selection on the part of the researcher. The University's database also provided a recently updated population and the random sample selection was relatively simple to generate.

The cover letter was directed to the attention of the executive director.

Each questionnaire was coded so that when returned the researcher would know who had responded and who had not.

After two weeks those who had not responded were given a telephone reminder to submit the questionnaire as soon as possible. Another questionnaire was sent out if the executive director had misplaced the original one.

Data from returned questionnaires were entered into a spreadsheet and charted on a variety of graphs. The final results were tabulated six weeks after the original questionnaire was sent out. The data were analyzed using descriptive statistics to summarize the observations.

Operational Definitions of Relevant Variables

The questionnaire has operationalized relevant variables in the following ways:

Nonprofit organization: 501(c)(3) organizations—with the exception of foundations and trusts, mutual benefit organizations, churches, and hospitals—were included in the population to be surveyed. The population and sample were generated by computer.

Size of organization: For this research, only nonprofit organizations with annual income of \$100,000 or more were included in the survey population. Section one of the survey asks respondents to indicate their organizations' annual incomes.

Funding sources: Respondents were asked to rank their funding sources and list the one that had increased most significantly and the one that had decreased most significantly.

Income-generating activities: Section two of the survey is a table listing income-producing activities. Unrelated business income activities, earned income activities, for-profit subsidiaries, and joint ventures with corporations are all included in the table. Respondents were asked to fill in the table and indicate which activities they currently operate, have operated in the past five years and whether the activity has been profitable for the

organization. Also requested was the percentage of total organizational income generated by the activities in the last fiscal year.

Commercial enterprise or Commercial income-generating activities: The latter part of section two of the questionnaire deals with commercial enterprise. Respondents are asked to answer questions relating to the income-generating activities they have in common with the profit sector and estimate how much of their organization's total income is secured from these enterprise activities.

Business plan: Many nonprofit consultants stress the importance of using a business plan. Section three of the questionnaire asks respondents to indicate whether or not they have used the four major components of a formal business plan for any of their income-producing activities: Market analysis and plan, financial plan, organization and management analysis or contingency plan. Respondents were then asked to select which of the specific business plan components they utilized for which income-generating activities.

Entrepreneur: Several nonprofit business consultants insist that for an income-generating activity to succeed and make a profit an entrepreneur is needed to see the activity through to completion. Section three of the questionnaire asks respondents whether or not a

highly motivated individual was the driving force behind any of the organization's profitable income-generating activities. This section also asks respondents to list the activities.

Treatment of Data

Data from the returned questionnaires were entered into a spreadsheet program and manipulated using a variety of simple mathematical and logical formulas. Frequency and percentage distributions were generated. Contingency tables were used to present the data. Several variables were compared, such as the percentage of total income generated by income-generating activities in relation to the size of organizations, types of organizations that conduct income-generating activities; and primary funding sources relative to size and type of organization.

CHAPTER FOUR: RESULTS

This chapter presents the results of the survey questionnaire administered to a random sample of 200 nonprofit organizations in the counties of Marin and Sonoma with annual revenues equal to or exceeding \$100,000.00. A discussion of the survey responses and survey population precedes the survey findings. The findings primarily relate to the research objectives from Chapter One; however, other relevant findings will also be discussed.

Survey Response

A total sample of 200 survey participants from Marin and Sonoma counties was selected from a population of 431 organizations that met the criteria for the study. Of the questionnaires that were sent out, 98 questionnaires went to Marin County and 102 to Sonoma County. The survey questionnaire was mailed the first week of April 1995. Responses continued arriving until May 15, 1995 when final results were tabulated. Prior to the tabulation, three of the sample organizations called to disqualify themselves because their prior fiscal year's revenues were less than the study criteria of \$100,000.00. In the subsequent week, six returned and completed questionnaires were disqualified for the same reason of failing to meet the study criteria of annual revenue. In the end, of 78 questionnaires received, 72 met the annual revenue criteria. The 78 questionnaires represent a response rate of 39 percent, while the 72 acceptable questionnaires represent a response rate of 36 percent. The data from the 72 questionnaires

are discussed in the following sections.

Findings

The survey questionnaire was divided into three sections. Section I dealt with organization background information; Section II focused on specific income-generating activities and their impact on the organization's bottom-line; and Section III concentrated on the utilization of business plan components and entrepreneurs.

Respondents generally answered all questions in Section I; fewer answered questions in Section II; and fewer still in Section III. This was expected, because Section I dealt with general information about the organization and Sections II and III focused on more specific information about particular income-generating activities. Therefore comparisons between sections were dictated by the number of respondents who answered the questions in the latter two sections.

Following are discussions of Section I, Section II and Section III findings based on the specific research questions of the study as outlined previously in Chapter One.

Section I. Organizational Background Information

In this section survey participants were asked general questions about the type of nonprofit they operate, the organization's annual revenue, the organization's funding sources, and significant increases and decreases in those funding sources.

1.1 What sizes and types of nonprofit organizations are engaged in income-generating activities?

Categorized by size.

A nonprofit organization's size, in this study, is determined by its annual revenue, (See Appendix E, Chart 4.1 for Income categories of respondents). Table 1 represents respondents that have some degree of income-generating activity, ranked by their revenue size. The data show that of the 68 organizations that responded to this question, 88 percent engaged in some income-generating activity.

**Table 1
Number and Percentage of Respondents
Reporting Income-Generating Activity
Ranked by Annual Revenue**

Size by annual revenue (\$)	Respondents in this size category		Reporting income- generating activity	
	no.	%	no.	% in this size
100,000-249,000	22	31	20	91
250,000-599,000	16	22	13	81
600,000-899,000	9	13	7	78
900,000-1,499,000	6	8	5	83
1,500,000-5,000,000	15	21	15	100
No response	4	5		
Total	72	100	60	88

As the table indicates, all revenue categories exhibited a high incidence of income-generating activities, with the revenue category of \$600,000 to \$899,000 having the lowest incidence (78 percent of respondents in that category), and the revenue category \$1,500,000 to \$5,000,000) having the highest incidence (100% of respondents in that category). Of the 68 respondents who indicated their annual revenue on the survey questionnaire, 88 percent engaged

in income-generating activity to some degree.

Categorized by type.

The bulk of respondents to the questionnaire were human service organizations and arts/education organizations. The remaining, 13 in number, were a combination of the following nonprofit types: recreational/social, cultural/historic, conservation/environmental, human rights/political, and religious. The numbers of respondents in each of these categories were so low or negligible that the researcher combined them into the category called "other". The data are presented in Table 2.

Table 2
Types of Nonprofits
Conducting Some Income-Generating Activity

Types of nonprofits	Respondents in <u>this type category</u>		Conducting some income- <u>generating activity</u>	
	no.	%	no.	%
Human service/medical	35	49	30	86
Arts/education/research	24	33	23	96
Other	13	18	9	69
Total	72	100	62	87

The category "other" reported the lowest incidence of income-generating activity and arts/education reported the highest. On average, 87 percent of the survey organizations conduct some income-generating activity. (See Appendix E, Chart 4.2).

Table 3 compares the three types of nonprofit organizations by revenue size.

Table 3
Three Types of Respondents by Revenue Size

Size by annual revenue (\$)	No. respondents		
	Human service	Arts/education	Other
100,000-249,000	5	12	5
250,000-599,000	8	6	2
600,000-899,000	5	2	2
900,000-1,499,000	1	2	3
1,500,000-5,000,000	14	1	0
Total	33	23	12

Human service organizations had the largest number of respondents (14 out of 33) in the highest income category. Arts/education had the largest number of respondents (12 out of 23) in the lowest income category. The type "other" had the largest number of respondents (5 out of 12) in the lowest income category.

1.2 Do larger nonprofit organizations rely more heavily on income-generating activities than do smaller ones?

Categorized by size.

The data show that 20 of 22 organizations in the smallest revenue category (\$100,000 to \$249,000) generate an average of 55 percent of their total organizational bottom-line revenue from income-generating activities. Fifteen of 16 organizations in the largest revenue category (\$1,500,000 to \$5,000,000) generate an average of 16 percent of their total bottom-line revenue from income-generating activities.

Table 4
Average Percentage of Total Bottom-line Income
Derived from Income-Generating Activities
by Revenue Size

Size by annual revenue (\$)	Respondents in this <u>size category</u>		Average % total bottom- line from income- generating activities
	no.	% total	
100,000-249,000	22	31	55
250,000-599,000	16	22	33
600,000-899,000	9	13	36
900,000-1,499,000	6	8	48
1,500,000-5,000,000	15	21	17
No response	4	5	
Total	72	100	38

Table 4 illustrates that the smaller nonprofit organizations generate more bottom-line revenue from income-generating activities, in general, than do the larger nonprofits. The smaller nonprofit organizations are primarily arts/education organizations. The largest organizations are primarily human service organizations.

1.3 Do certain types of nonprofit organizations conduct more income-generating activities than other types?

Categorized by type.

Arts/education organizations conducted income-generating activities that produce more than two times the bottom-line revenue than is produced by human service organizations. In general, arts/education organizations had a higher percentage of income-generating revenue than did either human service organizations or the category type "other," with 57 percent, 26 percent and 36 percent respectively. Table 5 presents this data.

Table 5
Average Percentage that Income-Generating Activities
Contribute to Total Bottom-line
for Types of Nonprofits by Revenue Size

Size by annual revenue (\$)	<u>Human service</u>		<u>Arts/education</u>		<u>Other</u>	
	no.	% av.	no.	% av.	no.	% av.
100,000-249,000	5	54	12	67	5	28
250,000-599,000	8	19	6	43	2	58
600,000-899,000	5	33	2	80	2	0
900,000-1,499,000	1	10	2	48	3	61
1,500,000-5,000,000	14	18	1	1	0	0
Total no./% average	33	26	23	57	12	36

The one arts/education organization in the revenue category \$1,500,000 to \$5,000,000 showed an extremely low percentage (1 percent) of bottom-line revenue generated by income-generating activities. This organization awards educational scholarships, has a gross annual income of \$2,200,000, and is funded primarily by foundations and government grants. This organization did not suffer any decreases in funding sources over the last five years. The only income-generating activities it conducts are a few special events, and it has no plans to implement any income-generating activities in the future. This organization seems to be an anomaly when compared to the other arts/education organizations in this study. All of the other organizations are smaller and, with the exception of one organization, generate a substantial portion of their bottom-line revenue from income-generating activities.

1.4 What is the largest source of funding for the survey respondents?

Table 6 illustrates the funding sources that provide the largest single portion of total revenue to the responding organizations. Respondents were asked to rank their funding sources from a list. Of the 65 that responded to this question, 6 respondents (8 percent) ranked sources other than those listed on the questionnaire as their largest funding source. Some of the sources they listed were weekly bingo nights, tax credits, and Medi-Cal reimbursements.

**Table 6
Largest Source of Funding**

Funding sources	No. of respondents	Percentage of respondents
Fee-for-service/earned	22	31
Government contracts	13	18
Individual contributions	6	8
Government grants	5	7
Foundation grants	5	7
Retail sales	3	4
Membership fees	2	3
Special events	2	3
United way	1	1
Various other sources	6	8
No response	7	10
Total	72	100

Thirty-one percent of the respondents ranked fee-for-service/earned income as their largest funding source. Second-ranked was the category of government contracts, with 18 percent of the respondents citing this as their largest funding source. United Way rated almost dead last, being cited by only one

organization as a major funding source.

1.5 Are there differences in the largest sources of funding for the various types of nonprofit organizations?

Participants were asked to rank their funding sources. Table 7 lists the largest funding source for each of the three types of nonprofit organizations.

**Table 7
Largest Source of Funding
for the Three Types of Nonprofits**

Largest funding source	Human Service		Arts/education		Other	
	no.	%	no.	%	no.	%
Fee-for-service	8	11	8	11	3	4
Government contracts	8	11	3	4	2	3
Government grants	4	6	0	0	0	0
Earned income	3	4	6	8	1	1
Foundation grants	2	3	3	4	0	0
Individual contributions	2	3	1	1	3	4
Retail sales	2	3	1	1	0	0
United Way	1	1	0	0	0	0
Special events	1	1	0	0	1	1
Fundraising	1	1	0	0	0	0
Membership fees	0	0	0	0	2	3
Other	2	3	1	1	0	0
No response	1	1	1	1	1	1
Total Respondents	35	49	24	33	13	18

As illustrated, fee-for-service is the largest funding source of human service, arts/education and "other" organizations and is the category that was ranked as primary by the greatest number of respondents. Government contracts was next for human service organizations and earned income for arts/education organizations.

1.6 Have the respondents had significant changes in funding sources in the last five years?

Participants were asked what funding sources increased most significantly and decreased most significantly in the last five years. The data are listed in Table 8 by number and percentage of respondents.

**Table 8
Most Significant Increases
in Funding Sources in Last Five Years**

Funding sources	Reported increases respondents	
	no.	%
Fee-for-service/earned	18	25
Government contracts	9	13
Special events	8	11
Individual contributions	6	8
Government grants	5	7
Foundation grants	4	6
Retail sales	2	3
Unrelated bus. income	1	1
Corp. grants/donations	0	0
United way	0	0
Member fee	0	0
Various other sources	6	8
No increase	10	14
All increased	0	0
No response	3	4
Total respondents	72	100

Revenue from fee-for-service/earned income activities increased most significantly, with revenues from government contracts second, and special events, a close third. Fewer respondents reported increases in all other funding sources. (See Appendix E, Chart 4.3).

Table 9
Most Significant Decreases
in Funding Sources in Last Five Years

Funding sources	Reported decreases	
	respondents no.	%
Government grants	9	13
Foundation grants	9	13
United way	6	8
Individual contributions	5	7
Corp. grants/donations	4	6
Fee-for-service/earned	3	4
Member fee	3	4
Special events	3	4
Government contracts	1	1
Retail sales	1	1
Unrelated bus. income	0	0
Various other sources	2	3
No decrease	17	24
All decreased	2	3
No response	7	9
Total respondents	72	100

Revenues from government grants and foundation grants decreased most significantly for the greatest number of respondents. United Way and individual contributions also decreased significantly for the second and third greatest number of respondents, (See Appendix E, Chart 4.4).

While fee-for-service/earned income revenues and government contracts increased most significantly for the greatest number of respondents, revenues from grants, both government and foundation, and contributions from both United Way and individuals decreased most significantly for the greatest number of respondents.

One question that might have elicited interesting information is: Have the organizations that have suffered from marked

decreases in funding sources increased their income-generating activities? This survey questionnaire asked only for the funding source that decreased most significantly over the last five years and did not specifically secure data on overall decreases in funding. Likewise, the questionnaire did not specifically secure data on overall increases in income-generating activities over the last five years. Answering the above question could provide valuable information to this field of research.

Section II. Income-Generating Activities

In this section respondents were asked to complete two tables and answer several questions about their past, current and planned income-generating activities.

2.1 How much income do current income-generating activities contribute to the organization's bottom-line?

The survey participants were asked what percentage their income-generating activities contribute to their organization's bottom-line. The respondents indicated a range from 1 to 100 percent of their total organization's bottom-line revenue was generated by income-generating activities, for an average of 45 percent.

**Table 10
Income-Generating Activities
as Percent of Total Revenue for Respondents**

% Total revenue	Respondents	
	no.	%
0	2	3
1 - 10	16	23
11 - 20	3	4
21 - 30	5	7
31 - 40	6	8
41 - 50	4	6
51 - 60	6	8
61 - 70	5	7
71 - 80	2	3
81 - 90	1	1
91 - 100	11	15
No response	11	15
Total	72	100

2.2 What are the income-generating activities that nonprofit organizations actually engaged in?

Respondents completed a table about the income-generating activities they have operated in the last five years or are currently operating. Table 11 reflects this data.

**Table 11
Income-Generating Activities
of Respondents in Last Five Years**

Income-generating activities	No. respondents	% respondents
Special events	43	60
Fee-for-service	40	56
Workshops/trainings	22	31
Admission/tickets/tuition	18	25
Rent/lease property or facility	14	19
Other product sales	13	18
Publications	11	15
Retail store	9	13
Refreshment sales	9	13
Mailing list/advertising/royalties	8	11
Investments	7	10
For-profit subsidiary/joint business	5	7
Other than above	7	10
No response	10	14

While special events, such as annual banquets, are often fundraising activities, they are also significant income-generating activities. Sometimes these are directly related to the purpose of the organization and are regularly carried out. For example, a group of Tibetan monks holds chanting and meditation events. These activities are directly related to their exempt purpose and provide their only source of income. Special events was included in the table to collect data from respondents who hold activities in the

manner described above. Of the 62 who responded to this table, 5 conducted only special events activities, and 57 engaged in activities as well as, or other than, special events. However, special events activities were conducted by the greatest number of respondents, with fee-for-service closely following. Respondents conducted these two activities approximately twice as frequently as the third and fourth ranking activities (workshops/trainings and admission/tuition, respectively). (See Appendix E, Chart 4.5).

2.3 How many income-generating activities are nonprofit organizations engaged in?

Respondents generally reported they were engaged in more than one income-generating activity. Table 12 reflects this data.

**Table 12
Number of Income-Generating
Activities Respondents Have Conducted
in Last Five Years.**

No. of activities	Respondents	
	no.	% total
1	12	17
2	13	18
3	11	15
4	11	15
5	3	4
6	7	10
7	3	4
8	2	3

Fifty respondents, or 69 percent of total respondents, engaged in more than one income-generating activity in the last five years. Seventeen percent engaged in just one activity. Fourteen percent

engaged in no income-generating activity.

Respondents were next asked to complete the income-generating activities table and indicate which activities they had implemented, which activities were profitable, and which activities they were currently operating. Their responses were broken down into four categories:

1. implemented/profitable/currently operating
2. implemented/currently operating
3. implemented/no longer operating
4. implemented/profitable/no longer operating

Table 13 illustrates the results in the four categories.

Table 13
Number of Respondents
in the Four Categories of Implementation
of Income-Generating Activities

Income-generating activities	1		2		3		4		Total	
	no.	res.	no.	res.	no.	res.	no.	res.	no.	res.
Special events	35		2		3		3		43	
Fee-for-service	31		8		1		0		40	
Workshops/trainings	13		6		2		1		22	
Admissions/tickets/tuition	12		3		2		1		18	
Rent/lease property or facility	11		0		3		0		14	
Other product sales	8		1		2		2		13	
Publications	4		4		2		1		11	
Retail store	7		2		0		0		9	
Refreshment sales	6		0		2		1		9	
Mailing list/advertising/royalties	6		2		0		0		8	
Investments	6		1		0		0		7	
For-profit sub./joint business	3		1		1		0		5	
Other	6		1		0		0		7	
Total	148		31		18		9		206	
Percentages	72		15		9		4		100	

1. implemented/profitable/currently operating
 2. implemented/currently operating
 3. implemented/no longer operating
 4. implemented/profitable/no longer operating
- no. res. = number of responses

The data show that the majority (72 percent) of all income-generating activities of the last five years falls into category 1, implemented/profitable/currently operating. The data also show that category 1 special events and fee-for-service activities are the most prevalent activities, (See Appendix E, Charts 4.11 to 4.18). Further revealed is that very few (4 percent) of the profitable income-generating activities that were implemented are no longer operating. A total of 24 percent of income-generating activities, currently or no longer operating, were not profitable. Seventy-six percent of income-generating activities, currently or no longer

operating, were profitable.

2.4 What are the most profitable income-generating activities?

On the survey questionnaire this question was an open-ended question. Consequently, five respondents reported that fundraising was the most profitable income-generating activity. Had this been a table or multiple choice the researcher would not have included fundraising because fundraising activities such as individual contributions, corporate contributions and special events were included as categories in the sources of funding questions of Section I of the survey questionnaire. This portion of the questionnaire specifically refers to more "business-like" activities although special events were included for reasons already mentioned. In total 57 in number, or 79 percent, responded to this question. Following are the results.

Table 14
Most Profitable Income-Generating Activities

Income-generating activity	Respondents	
	no.	%
Special events	19	26
Fee-for-service	14	19
Fundraising	5	7
Admission/tickets/tuition	4	6
For-profit subsidiary/joint business	3	4
Workshops/trainings	3	4
Retail store	3	4
Rent/lease property or facility	3	4
Refreshment sales	1	1
Other product sales	1	1
Investments	1	1
No response	15	21
Total	72	100

Special events was reported to be the most profitable income-generating activity. Fee-for-service was next. These two activities yielded substantially greater revenues than any of the other activities respondents listed as most profitable. (See Appendix E, Chart 4.6).

2.5 Are more income-generating activities being planned for the future? If so, what are they?

Survey participants were asked an open-ended question to list one income-generating activity they had planned or were planning for the future. Forty-four percent of the respondents reported that they had plans for future income-generating activities or were in the planning stages for unspecified activities. Of those who responded to this question, 12 percent were planning other activities such as: a private foundation, retail store, refreshment

sales, securing contracts, or merger. Table 15 illustrates the activities that were listed by two or more respondents.

Table 15. Income-Generating Activities Being Planned for the Future

Income-generating activity	Respondents	
	no.	%
No plans	30	42
Special events	8	11
Fee-for-service	4	5
Fundraising	3	4
Other product sales	2	3
Workshops/training	2	3
For-profit business	2	3
Planning stages	2	3
Other	9	12
No response	10	14
Total	72	100

Almost half of the 62 respondents to this question had no plans for future income-generating activities. Of those that were planning an activity the largest number (11%) were planning a special event. (See Appendix E, Chart 4.7).

2.6 How many of the income-generating activities are commercial in nature?

Survey participants were asked to check-off, from a table of income-generating activities, those activities that they conduct that are also found in the profit sector. The results are not definitive but reflect the opinion and level of knowledge of the respondent. Table 16 presents these findings.

**Table 16
Commercial Income-Generating Activities**

Income-generating activities	Respondents conducting commercial activities		Respondents conducting any income-generating activities	
	no.	% total	no.	% total
No commercial activities	21	29		
Fee-for-service	19	26	43	60
Mail list/adverting/licensing/royalties	11	15	40	56
Special events	9	13	22	31
Retail store	8	11	18	25
Rent/lease facility or property	8	11	14	19
Admission/tickets/tuition	7	10	13	18
For-profit sub/joint bus/business	6	8	11	15
Product sales	5	7	9	13
Workshops etc.	5	7	9	13
Refreshment sales	5	7	8	11
Publications	5	7	7	10
Investments	2	3	5	7
Other activities	2	3	7	10
No response	13	18	10	14

Twenty-nine percent of respondents reported that they were not engaged in any commercial activities. Twenty-six percent reported that they were engaged in commercial fee-for-service activities. (See Appendix E, Chart 4.8). A total of 206 income-generating activities were conducted. Of those, 92 were commercial activities.

2.7 What percentage of organizational bottom-line revenues do commercial activities represent?

The survey participants were asked what percentage of their organization's total income is generated by the commercial enterprise activities that were listed in the table for the previous question. Although several had not completed the table on the

questionnaire, they responded to this question. A total of 43 responded to this question (60 percent of total respondents) whereas only 38 (53 percent of total respondents) completed the table. The range of responses was from <1 percent to 100 percent. The sum of commercial revenue percentages divided by the number of respondents to this question yielded the average income generated by commercial enterprise activities to be 22 percent of the bottom-line.

Table 17
Commercial Income-Generating Activities
as Percentage of Total Revenue

% Total revenue	Respondents	
	no.	%
0	8	11
1-10	17	23
11-20	2	3
21-30	3	4
31-40	2	3
41-50	2	3
51-60	0	0
61-70	4	6
71-80	1	1
81-90	5	7
91-100	5	7
No response	23	32
Total	72	100

Section III. Business Plans and Entrepreneurs

Nonprofit business consultants have stressed the use of business plans and entrepreneurs for successful income-generating activities. Due to the emphasis put on these two enterprise tools the researcher included several questions on business plan components and entrepreneurs in the survey questionnaire. Many of the survey respondents did not answer this section at all. Therefore the data collected are inconclusive.

3.1 Do nonprofit organizations use business plans for their income-generating activities?

The four business plan components (market analysis and plan; organizational and management analysis; financial plan; and contingency plan) were listed for respondents to check-off. Twenty-four respondents used at least one business plan component. Twenty-one of these respondents used two or more of the business plan components. A total of 33 percent of the respondents use business plans for their income-generating activities.

Table 18
Percent of Respondents
Using Business Plan Components

Business plan components	Respondents	
	no.	% total
Market analysis and plan	15	21
Organizational and management analysis	17	24
Financial plan (including forecasting)	21	29
Contingency plan	8	11

When broken down into individual income-generating activities, the numbers were so small as to be inconclusive. Fee-for-service had the greatest number of responses with a total of 8 responses (11 percent).

3.2 Do profitable income-generating activities employ an entrepreneur?

Twenty respondents (28 percent of total respondents) answered affirmatively to the question about having an entrepreneur responsible for their organization's profitable income-generating activities. Thirty percent reported that an entrepreneur was not responsible for their profitable income-generating activities. Further, 42 percent did not respond to this question.

Table 19. Entrepreneur Responsible for Profitable Income-generating Activities

Entrepreneur?	Respondents	
	no.	%
No response	30	42
No	22	30
Yes	20	28
Total	72	100

Those that did respond affirmatively indicated the activities that the entrepreneur was responsible for. Like the business plan section, the response numbers were so small as to make data inconclusive; however, fee-for-service had the most responses, with a total of 6, or 8 percent.

CHAPTER FIVE: SUMMARY AND CONCLUSIONS

Review of the Problem

Nonprofits have been engaged in income-generating activities throughout this century. In the last decade small business has reacted to these activities and called them unfair. A researcher in the early eighties (Hansmann, 1981) asserted that nonprofit organizations posed a serious threat to the for-profit sector, particularly if they engage in commercial income-generating activities. What has not been known definitively is what types of income-generating activities nonprofit organizations are actually engaged in, how much those activities contribute to nonprofit organizations' bottom-lines, and how many of the activities are commercial in nature. It is hard to believe that the existence of nonprofit organizations' income-generating activities threatens the free enterprise system. Until more data are collected it is nearly impossible to ascertain whether or not nonprofit engagement in income-generating activities has a negative impact on the profit sector.

Discussion of the Results

Section 1. Organization Background Information

Sizes of nonprofits engaged in income-generating activities

The Crimmins and Keil study (1983) found that income-generating activities were being conducted throughout all revenue sizes. They found that organizations that relied on income-generating activities for 10 percent or more of their total revenues did not fall into any particular revenue category. They concluded that the size of the organization was not a determining factor in income-generating activity. They stated that "enterprise is more a reflection of other factors, such as management, than budget or staff size" (p. 132). In their study, 60 percent of the responding organizations generated some portion of their revenues from income-generating activities. Conversely, they found that 40 percent generated *none* of their revenues from income-generating activities (p. 131).

The data collected by survey questionnaire in the Marin and Sonoma study also show that income-generating activities are scattered throughout all sizes of nonprofit organizations. Eighty-seven percent of the responding organizations conducted income-generating activities that provided some portion of total revenue. Only 13 percent did not report any income-generating activities, presumably indicating that they had not conducted income-generating activities. Although size was not a determining factor in

the Crimmins and Keil study, the Marin and Sonoma study found that organizations from smaller and mid-range revenue categories produced a greater percentage of bottom-line revenue from income-generating activities than did the organizations from the largest revenue category. Generally arts/education organizations and those in the combined category "other" were smaller in revenue size than were human service organizations. Nearly one-half of the responding human service organizations fell into the largest revenue category, whereas only nine percent of arts/education organizations fell into this category. No organizations from the category "other" were in the largest revenue category.

Types of nonprofits engaged in income-generating activities

The types of organizations that conduct income-generating activities are primarily arts/education and human service organizations. This is principally due to the fact that the majority of nonprofit organizations fall within these two categories. More respondents in the arts/education type operated income-generating activities than did either of the other two types, human service or "other." Ninety-six percent of the responding arts/education organizations conducted some income-generating activity while 86 percent of human service organizations and 69 percent of "other" organizations conducted some income-generating activity.

When these three types of nonprofits were compared, it was found that arts/education organizations had the highest percentage

of bottom-line revenue from income-generating activities of the three types. Arts/education organizations generated an average of 57 percent of bottom-line revenues from income-generating activities. Human service generated 26 percent and "other" generated 36 percent.

It is clear that nonprofit organizations conduct income-generating activities. The key issue may not be that nonprofit organizations conduct these activities but, rather, how much they conduct them.

Summary of size and type of nonprofits engaged in income-generating activities

Almost 90 percent of the nonprofit organizations in Marin and Sonoma counties, regardless of their revenue size conduct some type of income-generating activity. However, smaller and mid-range organizations (\$100,000 to \$ 1,499,000) generate substantially more bottom-line revenue from income-generating activities than do the largest organizations (\$1,500,000 to \$5,000,000). Generally, arts/education organizations are smaller than human service organizations and generate more bottom-line revenue from income-generating activities than do human service organizations or organizations in the category "other."

Why do arts/education organizations generate more bottom-line revenue from income-generating activities than the other categories of nonprofits? Perhaps the nature of art/education organizations lend themselves to establishing income-generating activities more

easily than do human service organizations, with more consumer-ready products and services to sell. Perhaps it is by virtue of their size (being smaller and possibly less bureaucratic) that makes art/education organizations more responsive to the establishment of income-generating activities. Whether or not type or size is a determining factor in income-generating activity, this study does show that smaller and mid-size arts/education organizations produce 2.2 times more of their bottom-line revenue through income-generating activity than human service organizations do, and 1.6 times more than organizations from the category "other".

Largest source of funding of responding organizations

Respondents of this study reported that the two revenue categories fee-for-service/earned income revenues and government contracts increased most significantly in the last five years. Revenues from grants, both government and foundation, and contributions from United Way and individuals decreased most significantly. Thirty-one percent of respondents ranked fee-for-service/earned income as the largest revenue source. Nearly half as many ranked government contracts as their largest revenue source, with substantially fewer organizations utilizing other sources (including, in declining order: individual contributions, government grants, foundation grants, retail sales, membership fees, special events, United Way and various other sources). When examined by types of nonprofit organization, fee-for-service was most frequently listed as the largest source of funding in all three

categories of nonprofits.

A 1987 survey conducted by Carol Schilling of executive directors in San Francisco found the primary source of funding for the survey respondents was government. Next were private contributions, then fee income. Additional revenue including investment income, special events and rental income were the least important funding sources. In Schilling's study 36 percent cited government as their primary funding source and 25 percent cited fee-for-service (1988, p. 49).

Although data from the two studies are only marginally comparable due to the different regions, instruments and organizational types, results from the Marin/Sonoma study indicate fee-for-service income has increased and government funding has decreased significantly since Schilling's study in 1987. This supports the pattern or trend stressed by several authors, including Crimmins and Keil (1983), Pires (1985), Brinkerhoff (1988), Bennett and DiLorenzo (1989) that income-generating activities, particularly fee-for-service, have been on the rise in recent years while government funding has been steadily declining.

Section II. Income-Generating Activities

Prevalence of income-generating activities

The Crimmins and Keil study was conducted on a national level in 1981-82. Almost 25 percent of their respondents generated 10

percent or more of their bottom-line revenue from income-generating activities (1983, p. 133). In the Marin/Sonoma study, 65 percent of the responding organizations indicated they generated 10 percent or more of their bottom-line revenues from income-generating activities within the last five years. In fact, 55 percent generated 21 percent or more of their bottom-line revenue from income-generating activities and 15 percent generated more than 90 percent. This may point to a significant increase in the prevalence of income-generating activities since 1983. However, it could be the case that California nonprofits or Marin and Sonoma nonprofits engage in a greater amount of income-generating activities.

Types of income-generating activities

In the Marin/Sonoma study more than half of the respondents reported conducting special events and/or fee-for-service activities. This was almost twice as many respondents as reported conducting the next highest ranking activity, workshops/trainings. When respondents were asked which income-generating activities were most profitable, special events and fee-for-service activities were again at the top of the list. Respondents also indicated that, in nearly all cases, these two activities were still in operation. In fact, 72 percent of all of the income-generating activities that were implemented in the last five years were reported as profitable and still in operation. These activities provided an average of 45 percent of the total bottom-line revenues of the responding organizations.

In the commercial activities portion of Section II respondents were asked if any of the income-generating activities they were conducting, to their knowledge, were also being conducted in the profit sector. Although 29 percent said "no," 26 percent stated that they believed a same or similar fee-for-service activity was being conducted in the profit sector. In this case, more than twice as many reported fee-for-service than reported special events. The average percent of total bottom-line revenue generated by commercial activities was 22 percent. Presumably, fee-for-service was the most substantial contributor to this figure.

When asked which income-generating activities were being planned for the future, the majority of respondents listed either special events or fee-for-service. In this case, twice as many respondents indicated special events than indicated fee-for-service.

Summary of types of income-generating activities

The results of the income-generating activities portion of the survey suggest that fee-for-service activities and special events, in particular, are activities that are frequently carried out in the nonprofit sector and are the most profitable of all income-generating activities.

Respondents indicated that they were aware of profit sector businesses conducting the same activities. What we do not know is whether or not these activities do pose a threat to for-profit businesses. Perhaps a review of commercial activities, in particular fee-for-service, would provide more comprehensive

grounds for conclusions to be reached. It would certainly seem that commercial income-generating activity is significant. Despite the significance, the actual threat to profit sector businesses is beyond the scope of this study and warrants future research.

Section III. Business Plans and Entrepreneurs

The nonprofit business consultants Humphrey (1987), Landy (1987), Skloot (1988) and Steckel (1989), stressed that for an enterprise to succeed an entrepreneur was needed at the helm. Crimmins and Keil (1983), also pointed out that in their study that whenever they found a high level of success, they found an entrepreneur.

A total of 33 percent of the respondents in this study used at least one business plan component for one or more income-generating activities. The greatest number used their plans for fee-for-service activities, twice the number that responded to the next highest ranked activity, retail store.

The number of responses for this section was lower than for the other sections; however, there does seem to be some measure of application of business planning techniques as the nonprofit business consultants Skloot (1988) and Steckel (1989), recommended.

A total of 28 percent of the respondents (20 in number) answered that entrepreneurs were responsible for some of their profitable income-generating activities. These respondents are

conducting, or have conducted within the last five years, a combined total of 41 profitable income-generating activities. Thirty percent of the respondents (22 in number) answered that entrepreneurs were not responsible for their profitable income-generating activities. These respondents are conducting, or have conducted in the last five years, 58 profitable income-generating activities. The respondents who are conducting, or have conducted, the remaining 58 profitable income-generating activities did not indicate whether or not entrepreneurs were responsible for their income-generating activities. The data indicate that 76 percent of the income-generating activities (157 in number) in operation in Marin and Sonoma counties in the last five years were profitable and 26 percent of these activities were aided by entrepreneurs. Thirty-seven percent of the profitable activities did not employ entrepreneurs. It is unclear whether or not the remaining 37 percent of profitable activities employed an entrepreneur or not. No correlations were performed; however, the data do suggest that entrepreneurs are not essential to the profitability of income-generating activities, as was previously argued in the Crimmins and Keil study (1983).

Conclusions

The data show that income-generating activities of nonprofit organizations are prevalent in Marin and Sonoma counties. Almost 90 percent of the survey respondents engage in some income-generating activity. Fee-for-service income, which was second to government funding in previous studies, takes precedence in this study. It appears likely that services which may have been provided for free and subsidized by government are now being charged to the client. Perhaps the government encouragement of nonprofit organizations to undertake income-generating activities and substantial federal funding cut-backs helped to promote the shift from government and corporate dependence to organizational self-sufficiency.

Whether through technical assistance from government or foundations, sound business practices, or economic good fortune, Marin and Sonoma counties nonprofit organizations have managed to generate an average of 38 percent of their bottom-line revenues from income-generating activities. Twenty-two percent of that revenue is specifically from commercial income-generating activities. This is a substantial amount considering that the total revenue, for the 68 organizations that listed their revenue, amounted to 88 million dollars. The 38 percent of revenue derived from income-generating activities amounted to 33 million dollars, and the 22 percent that was derived from commercial income-generating activities amounted to 19 million dollars. Because four

organizations did not list their revenue and 10 did not list the percentage of bottom-line revenue they derived from income-generating activities, the dollar amounts reported are not accurate and are probably lower than actual revenue. Whether or not these dollars would otherwise have been secured by profit sector businesses cannot be demonstrated by this particular study. Considering that almost three-quarters of the income-generating activities these organizations are conducting are profitable, the revenue from these activities will likely be increasing.

The California State Board of Equalization estimated that in 1993 Sonoma County profit-sector businesses generated 3.8 billion dollars in taxable sales revenue alone. In Marin County the taxable sales revenue of 1993 was estimated at 2.5 billion dollars. The total taxable sales revenue of the two counties was estimated at 6.3 billion dollars (1993, p. 3). This figure does not include sales of goods such as those shipped to other states or countries or revenues generated from manufacturing. Therefore, these figures partially represent total profit-sector revenues which probably are considerably higher. In this study the 68 respondents that listed their annual revenues represent 16 percent of Marin and Sonoma counties' nonprofit organizations that have revenues of \$100,000 or more. This 16 percent generated 33 million dollars through their income-generating activities. When extrapolated, all of Marin and Sonoma counties' nonprofit organizations with revenues of \$100,000 or more (431 in number or 100 percent) would have generated 206 million dollars from income-generating activities and 119 million

dollars of that revenue from commercial income-generating activities. When compared to the taxable sales figure of 6.3 billion dollars, the 206 million dollars from income-generating activities of nonprofits represent 3.3 percent of that figure and the 119 million dollars from commercial income-generating activities represent 1.8 percent of that figure. In this comparison, the revenues generated from income-generating activities and commercial income-generating activities appear rather insignificant.

Nonprofit organizations operate under certain conditions. One condition is that profits from activities cannot be used to benefit interested persons, i.e., members of the board of directors. Consequently, all profits go back into the corporation. When considering this, the "profits" generated by income-generating activities can only benefit the organization and the constituents it serves. Therefore it is obvious that the profits contained in the figures above would be used much differently by nonprofit organizations than by businesses.

Fee-for-service activities were reported as the largest source of income by almost one-third of the respondents and were most frequently cited by each of the three types of nonprofits as their largest funding source. This activity appears to be the single most important and broadly used income-generating activity and consequently deserves more review than this study provides.

Because fewer than one-third of the respondents responded to Section III of the questionnaire it was not possible to arrive at any

substantive conclusions about utilization of business planning components or entrepreneurs being responsible for profitable income-generating activities. Perhaps the lack of responses signifies that fewer organizations use business planning techniques or employ entrepreneurs, but it may be that respondents were fatigued by the questionnaire and decided not to complete it or that this section was unclear or confusing.

Overall, the study generated the interest of a number of respondents. More than a dozen have requested a copy of the results. Several others commented about the importance of such research. Sadly, several respondents commented about the difficult economic times their organizations are facing, their concern for the survival of the organization and their sorrow about not being able to adequately address the needs of their constituents.

Recommendations for Future Research

This study, conducted in Marin and Sonoma counties, indicated a significant increase in the prevalence of income-generating activities in comparison with previous studies conducted by Crimmins and Keil (1983) and Schilling (1988). The results of these three studies, as previously mentioned, are only marginally comparable. More hard data are needed to be able to quantify results and reach viable conclusions. However, because the accounting practices of nonprofits are inconsistent, some means of establishing

uniformity would need to be implemented before comparable data could be obtained. In the case of this study, the survey questionnaire was an effort to create the uniformity needed for comparable results.

Also inconsistent are the terms used to define income-generating activities. As the IRS continues to define activities, perhaps these will become the standard terms used to describe such activities. If not, consistent terminologies would be helpful in efforts to collect comparable data.

As a small first step in the process of collecting comparable data, this study relied on executive directors in an attempt to bypass variable accounting practices. Similar surveys of executive directors could be conducted over several larger and more varied economic areas that would include a mix of urban and rural areas. This would provide more accurate representation of nonprofit organizations thereby allowing for more substantive conclusions to be reached.

As mentioned previously, in Marin and Sonoma counties income-generating activities are more frequently carried out by small and mid-size organizations and by arts/education organizations. Arts/education organizations generate more bottom-line revenue from income-generating activities than do human service organizations. Why is this? What components of arts/education organizations lend themselves to the creation of income-generating activities? Further studies could examine whether it is a matter of revenue size or type of nonprofit that determines the frequency and

size of income-generating activities.

Perhaps the crux of the issue of income-generating activities by nonprofit organizations is commercial income-generating activities. Studies comparing commercial activities conducted in the nonprofit sector with similar activities conducted in the business sector could examine significant differences and similarities. These data would be valuable in ascertaining whether or not commercial activities by nonprofits compete with for-profit businesses and if so, to what degree and in which sectors of the economy. Any peculiarities or anomalies could be further examined. This may lead to some interesting and valuable case studies.

The U. S. Government Accounting Office (1987) conducted a survey among for-profit businesses on the subject of competition from nonprofits in an attempt to ascertain the current level of nonprofit competition in six industries (Bennett & DiLorenzo, 1989, p. 34). Further studies of this sort would be needed in securing conclusive data on the impact of income-generating activities by nonprofit organizations on for-profit businesses.

Of all commercial income-generating activities, commercial fee-for-service activities were utilized most frequently by survey respondents. Fee-for-service income was also listed with most frequency as the largest source of funding for the three types of nonprofit organizations, and again as the funding source that has increased most significantly in the last five years. It would be interesting to compare fee-for-service activities conducted in the nonprofit sector with the fee-for-service activities conducted by

business and examine significant differences and similarities. It would also be interesting to compare fee-for-service activities that are noncommercial with fee-for-service activities that are commercial within the nonprofit sector itself. Thorough studies of this particular activity must be undertaken before viable conclusions can be reached and sound recommendations prescribed.

Another question to study would be how profits from income-generating activities benefit the communities that nonprofit organizations serve. Because nonprofits are mandated to ensure that profits benefit the corporation and not individuals of the corporation, the whole issue can be looked at with a broader perspective. When the results from this kind of study are weighed in the balance some of the issues of unfair competition or threats to business may pale.

In conclusion, more studies are needed in all areas relating to the income-generating activities of nonprofit organizations. Primarily, data are needed to conclusively determine whether or not the income-generating activities of nonprofit organizations do pose a serious threat to small business.

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APPENDIX A

Survey Questionnaire

coding only
not fill in

Survey of Income-Generating Activities of Nonprofit Organizations in Sonoma and Marin Counties

Please complete and mail or FAX the following questionnaire by April 30, 1995. Your participation is valuable to the success of this study. Thank you for your help.

Mail to: Carolyn Stayton
433 Town Center, Suite #510
Corte Madera, CA 94925

FAX: (707) 586-9030

I. ORGANIZATION BACKGROUND INFORMATION

1. Name of organization (optional) _____

2. Type of organization (please check one)

Arts / Education / Research

Human services / Medical

Recreational / Social

Human Rights / Political

Cultural / Historic

Religious

Conservation / Environmental

Other (please specify)

3. Our gross annual income is: _____

4. Following is a list of funding sources. Rank the funding sources that your organization received money from in the last fiscal year. (Rank only those you received money from, leave all others blank)

1 = largest source, 2 = next largest...

Example: 1 Foundation grants, 2 Membership fees

(13) _

Government grants

Individual contributions

(14) _

Government contracts

Fees for service

(15) _

Foundation grants

Earned program-related income

(16) _

Corporate grants/donations

(other than fee-for-service)

(17) _

United Way

Unrelated business income

Membership fees

Special Events

Other (please specify)

(18) _

5. Which one from the above list of funding sources increased most significantly over the last five years.

6. Which one from the above list of funding sources decreased most significantly over the last five years.

II. INCOME-GENERATING ACTIVITIES

7. Income-generating activities are those income activities which are **not** grants or donations/contributions. Income-generating activities are activities that produce program-related or unrelated business income. In the **last five years** has your organization operated any of the income-generating activities listed in the table below?

If "yes" fill in the following table.
[If not go on to question 13.]

examples:	implemented	profitable	currently operating?
a) Fee for service.	<u> x </u>	<u> x </u>	<u> x </u>
b) Workshops, Exhibits, Fairs, etc.	<u> x </u>	<u> </u>	<u> </u>
c) Special events	<u> x </u>	<u> </u>	<u> x </u>
d) Publication/videotape sales, etc	<u> </u>	<u> </u>	<u> </u>

Income-Generating Activities (last 5 years only)

	implemented	profitable	currently operating?
a) Fee for service.	<u> </u>	<u> </u>	<u> </u>
b) Workshops, Exhibits, Fairs, etc.	<u> </u>	<u> </u>	<u> </u>
c) Special events	<u> </u>	<u> </u>	<u> </u>
d) Publication/videotape sales, etc	<u> </u>	<u> </u>	<u> </u>
e) Mailing list/label sales, etc. . .	<u> </u>	<u> </u>	<u> </u>
f) Advertising sales	<u> </u>	<u> </u>	<u> </u>
g) Refreshment sales	<u> </u>	<u> </u>	<u> </u>
h) Other product sales	<u> </u>	<u> </u>	<u> </u>
i) Admission, ticket sales, tuition. .	<u> </u>	<u> </u>	<u> </u>
j) Licensing of name/logo, etc.	<u> </u>	<u> </u>	<u> </u>
k) Royalties	<u> </u>	<u> </u>	<u> </u>
l) Rent, lease facility /property.	<u> </u>	<u> </u>	<u> </u>
m) Investments, stocks, etc.	<u> </u>	<u> </u>	<u> </u>
n) Retail store, etc.	<u> </u>	<u> </u>	<u> </u>
o) For-profit subsidiary	<u> </u>	<u> </u>	<u> </u>
p) Joint business venture with for-profit business	<u> </u>	<u> </u>	<u> </u>
Other income-generating activities:			
q) <u> </u>	<u> </u>	<u> </u>	<u> </u>
r) <u> </u>	<u> </u>	<u> </u>	<u> </u>
s) <u> </u>	<u> </u>	<u> </u>	<u> </u>

8. Approximately what % does the total of the above income-generating activities contribute to your organization's bottomline? _____.

INCOME-GENERATING ACTIVITIES (CON'T)

9. What has been your most profitable income-generating activity?
_____.

10. Does your organization have plans to implement any new income-generating activities in the next three years? ____ yes, ____ no.

If "yes" list at least one:
_____.

11. An income-generating activity is sometimes referred to as a "commercial enterprise" if the same or very similar activity is found in the profit sector. Do you know of any Bay Area profit sector businesses that are conducting the same or similar income-generating activity that your organization is conducting?
____ yes, ____ no.

If "yes" check off from the list below which of your organization's income-generating activities, to your knowledge, are also being conducted by profit sector businesses.

- (46) _
- (48) _
- (50) _
- (52) _
- (54) _
- (56) _
- (60) _
- (62) _
- (63) _

- | | |
|--|---|
| a) ___ Fee for service | k) ___ Royalties |
| b) ___ Workshops, Exhibits, Fairs, etc. | l) ___ Rent, lease facility /property. |
| c) ___ Special events | m) ___ Investments, stocks, etc. |
| d) ___ Publication/videotape sales, etc | n) ___ Retail store, etc. |
| e) ___ Mailing list/label sales, etc. . . | o) ___ For-profit subsidiary |
| f) ___ Advertising sales | p) ___ Joint business venture with
for-profit business |
| g) ___ Refreshment sales | Other income-generating activities: (list) |
| h) ___ Other product sales | q) ___ _____ |
| i) ___ Admission, ticket sales, tuition. . | r) ___ _____ |
| j) ___ Licensing of name/logo, etc. | s) ___ _____ |

12. What % of your organization's total income is generated by the "commercial enterprise" activites listed in #11? _____.

13. Please include any additional comments you have about nonprofits operating income-generating activities :

III. BUSINESS PLANS, KEY INDIVIDUALS, AND OTHER QUESTIONS

If your organization has operated, is currently operating, or is planning to operate an income-generating activity, answer all remaining questions. [If not, go to question 17.]

14. If your organization has ever used a formal business plan which of the following were included in this plan? (check each one you have used)

(66) ___ market analysis & plan ___ organizational and management analysis
(68) ___ financial plan (including forecasting) ___ contingency plan

For which income-generating activities have you used a formal business plan including any of the components listed immediately above?
(list at least 2 income-generating activities)

15. Some nonprofit business consultants state that an entrepreneur is needed for an income-generating activity to succeed and become profitable. An entrepreneur is defined as someone who has the following characteristics: *creative, lots of energy, risk-taking, problem-solving, resourceful*.

In your organization was an entrepreneur responsible for any of your organization's profitable income-generating activities? (**do not include fundraising**)
___ yes, ___ no.

16. If "yes" to #15, please list two profitable income-producing activities that were aided by the entrepreneur.

17. Please include any additional comments you have about this questionnaire or the topics covered in it:

Thank You!

Please return this questionnaire to:

Carolyn Stayton
433 Town Center, Suite #510
Corte Madera, CA 94925

OR FAX: (707) 586-9030

APPENDIX B

Letter to Survey Participants

Carolyn Stayton
433 Town Center, Suite #510, Corte Madera, CA 94925
Tel: (707) 522-9745 Fax: (707) 586-9030

March 29, 1995

Dear

Many nonprofit organizations have faced severe funding cuts and changes in income streams over the last five years. Several have undertaken new income-generating activities to replace lost revenue from traditional funding sources. There is little data on the type of income-generating activities that nonprofits have moved into and less data on how much revenue these activities have generated.

As a University of San Francisco graduate student in the Masters of Nonprofit Administration program I am conducting a study on the income-generating activities of nonprofit organizations. The study is focused on Marin and Sonoma nonprofit organizations with annual revenues of \$100,000 or more. Your organization has been randomly selected along with 200 others and has been sent the enclosed questionnaire. Your response is critical to the success of the study. I hope you will find fifteen minutes to fill out the questionnaire. Your information is important to me and the nonprofit sector. I know that as a director of a nonprofit organization your time is precious, so I sincerely thank you in advance for participating in this study.

Please call me if you wish any clarification of the study of specific questions. All information received will remain confidential.

Thank you!

Sincerely,

Carolyn Stayton

APPENDIX C

Listing of Agencies Included in the Sample

Selection Criteria for Organizations:

Previously selected organizations. 200 Random

Excluding mutual benefit and private foundation or trust and church and public benefit - hospital or associated medical research exemption types.

Including IRS schools, colleges and related activities code 030 - school, college, trade school, etc. - to other instruction and training activities code 149 - other instruction and training.

Including IRS health services and related activities code 152 - nursing or convalescent home - to other activities directed to individuals code 575 - services for the aged.

Including only amounts from Form 990 line 12 - Total revenue \geq \$100,000, substituting summary revenue if no qualifying Form 990, in any year.

¶ mutual benefit, ¶ foundation or trust, § public charity, • other exemption type, ~ charitable purpose, ~ public purpose, ^ religious purpose, * other purpose, * presumed, ? date unknown, \$ revenue & assets as of date, > revenue \geq \$25,000, † Form 990, ‡ Form CT2

Organizations from Various California Counties*
Directory

A Broader Living Experiences~*
350 Merrydale Rd
San Rafael, CA 94903
06/1992\$>†† 06/1993\$>††

Albina Medici Scholarships 55280\$~
C/O Bank of America Nt&Sa
PO Box 3609
Santa Rosa, CA 95402
09/1986\$†† ?\$>

**American International Youth
Student Exchange Program, Inc.\$~**
200 Round Hill Road
Tiburon, CA 94920
12/1989\$>†† 12/1990\$>†† 12/1992\$>††

**American Lung Association of the
Redwood Empire\$~**
1301 Farmers Lane Suite 303
Santa Rosa, CA 95405
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

**Assistance League of Sonoma
County\$~**
5 West Sixth Street
Santa Rosa, CA 95401
05/1989\$>†† 05/1991\$>†† 05/1992\$>††
05/1993\$>†† ?\$>

**Associated Students of Sonoma State
University\$~***
1801 Cotati Avenue
Rohnert Park, CA 94928
06/1989\$>†† 06/1990\$>†† 06/1991\$>††
06/1992\$>††

Audubon Canyon Ranch Inc\$~
4900 Highway 1
Stinson Beach, CA 94970
08/1989\$>†† 08/1990\$>†† 08/1991\$>††
08/1992\$>†† ?\$>

**Bay Area Speech and Learning
Center\$~**
P.O. Box 576
San Anselmo, CA 94960
08/1989\$>†† 08/1991\$>†† 08/1992\$>††
08/1993\$>††

Bay Institute of San Francisco\$~
10 Libertyship Way #120
Sausalito, CA 94965
12/1988\$>†† 12/1989\$>†† 12/1991\$>††
12/1992\$>††

**Becoming Independent: Living Skills
for People Developmental Disabilit\$~**
980 Hopper Avenue
Santa Rosa, CA 95403
06/1989\$>†† 06/1990\$>†† 06/1992\$>†† ?\$>

Belvedere Cove Foundation\$~
P O Box 786
Belvedere, CA 94920
12/1989\$>†† 12/1990\$ 12/1991\$ 12/1992\$>

Bethlehem Towers, Inc.\$~
C/O May Cantwell
801 Tupper Street
Santa Rosa, CA 95404
12/1989\$>†† 12/1990\$>†† 12/1991\$>††
12/1992\$>†

**Bi-Lingual Broadcasting
Foundation\$~**
P.O. Box 7189
Santa Rosa, CA 95401
06/1989\$>†† 06/1991\$>†† 06/1992\$>††

**Big Brothers Big Sisters of Sonoma
County Inc\$~**
P O Box 384
Santa Rosa, CA 95402
06/1989\$>†† 06/1990\$> 06/1992\$> ?\$>

Blue Monday Foundation\$~
C/O Dennis Hale
1537a 4th St.
San Rafael, CA 94901
12/1989\$>†† 12/1990\$>††

**Boys & Girls Club of Southern
Marin\$~**
3030 Bridgeway #208
Sausalito, CA 94965
06/1989\$>†† 06/1990\$>†† 06/1992\$>††

Boys and Girls Club of Cloverdale\$~
PO Box 312
Cloverdale, CA 95425
06/1989\$>†† 06/1990\$>†† 06/1991\$>††
06/1992\$>††

Bucklew Programs\$~
914 Mission Ave.
San Rafael, CA 94901
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

Burbank Orchards Inc\$~
7777 Bodega Avenue
Sebastopol, CA 95472-3554
11/1991\$>†† 11/1992\$>††

California Center for Wildlife\$~
PO Box 150957
San Rafael, CA 94915-0957
06/1989\$>†† 06/1990\$>†† 06/1991\$>††
06/1992\$>†† ?\$>

**California Contemporary Crafts
Association\$~**
P O Box 2060
Sausalito, CA 94966
12/1989\$ 12/1990\$> 12/1991\$>†† 12/1992\$>

**California Health Research
Foundation\$~**
2381 Mar East
Tiburon, CA 94920
06/1989\$>†† 06/1991\$>†† ?\$>

**California Human Development
Corporation\$~**
3315 Airway Dr.
Santa Rosa, CA 95403
06/1989\$>†† 06/1990\$>†† 06/1992\$>††

California Parenting Institute\$~
3650 Standish Ave
Santa Rosa, CA 95407
06/1989\$>†† 06/1990\$> 06/1991\$>††
06/1992\$>†† ?\$>

* Organizations selected by criteria listed on reverse of title page.

Institute for Nonprofit Organization Management
California Nonprofit Database as of April 3, 1995

California Programs for the Autistic Inc§~
432 Benton Street
Santa Rosa, CA 95401
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

Carpenters Housing Corporation§~
2600 North Coast Street
Santa Rosa, CA 95401
02/1989\$>†† 02/1991\$>†† 02/1992\$>††
02/1993\$>†† ?\$>

Center for Individualized Learning§~
C/O Christine Gray
P.O. Box 1627
Santa Rosa, CA 95402
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$?\$>

Childrens Garden of California§~
7 Mt. Lassen Dr. # B-256
San Rafael, CA 94903
06/1989\$>†† 06/1992\$>†† 06/1993\$>†† ?\$>

Clearwater Ranch Childrens House§~
PO Box 1478
Healdsburg, CA 95448
06/1989\$>†† 06/1990\$>†† 06/1991\$>†† ?\$>

Community Child Care Council of Sonoma County§~
2227 Capricorn Way Ste 105
Santa Rosa, CA 95407
06/1989\$>†† 06/1990\$>†† 06/1992\$>††

Community Opportunities for Retarded Individuals§~*
8555 Gravenstein Hwy #5
Cotati, CA 94931-5171
08/1990\$> 08/1992\$>††

Council on Aging Services for Seniors§~
730 Bennett Valley Rd
Santa Rosa, CA 95404
06/1989\$>†† 06/1990\$>†† 06/1991\$>††
06/1992\$>†† ?\$>

Canine Companions for Independence§~
PO Box 446
Santa Rosa, CA 95402
12/1988\$>†† 12/1990\$>†† 12/1991\$>††
12/1992\$>†† ?\$>

Casa Grande High School Music Assn§~
P.O. Box 4721
Petaluma, CA 94953
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

Center for the Family in Transition§~
5725 Paradise Drive Suite 100
Corte Madera, CA 94925
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

Childrens Workshop of Petaluma§~
PO Box 314
Petaluma, CA 94953-0314
?\$>

Cloverdale Senior Housing, Inc. §~
100 Kings Circle
Cloverdale, CA 95425
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>††

Community Health Center of Marin§~*
PO Box 760
Larkspur, CA 94977
06/1989\$>†† 06/1991\$>†† 06/1992\$>††

Community Resources for Independence§~
2999 Cleveland Ave
Suite D
Santa Rosa, CA 95403
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

Cultural Arts Council of Sonoma County§~
P.O. Box 7400
Santa Rosa, CA 95407
06/1989\$>†† 06/1990\$>†† 06/1991\$>††
06/1992\$>†† ?\$>

Caring Child Center DBA the Little School§~
285 Miller Avenue
Mill Valley, CA 94941
12/1989\$>†† 12/1990\$>†† 12/1991\$>††
12/1992\$>††

Cedars Development Foundation of Marin§~
P O Box 947
Ross, CA 94957
09/1989\$>†† 09/1990\$>†† 09/1992\$>††

Children and Family Circle of Sonoma County§~
627 Bobelaine Drive
Santa Rosa, CA 95404
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

Circuit Rider Productions, Inc. §~
9619 Old Redwood Highway
Windsor, CA 95492
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

Commonwoman's Health Project§~
2200 County Center Drive ,Suite H
Santa Rosa, CA 95403
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$>††

Community Hospital of Sonoma County Auxiliary§~
3325 Chanate Road
Santa Rosa, CA 95404-1707
?\$>

Cornerstone Media Inc§~
P.O. Box 6236
Santa Rosa, CA 95406
09/1989\$>†† 09/1990\$>†† 06/1992\$>
06/1993\$> ?\$>

Dance Association Belvedere School§~
Box 692
Belvedere, CA 94920
08/1989\$>†† 08/1990\$>†† 08/1991\$>††
08/1992\$>††

¶ mutual benefit, ¶ foundation or trust, § public charity, * other exemption type, ~ charitable purpose, ~ public purpose, ^ religious purpose, ^ other purpose, * presumed, ? date unknown, \$ revenue & assets as of date, > revenue >= \$25,000, † Form 990, ‡ Form CT2

Organizations from Various California Counties*
Directory

Dance Palace\$~

Box 217
Point Reyes Station, CA 94956
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>††

Dancers Workshop Company of California\$~

PO Box 794
Kentfield, CA 94914
09/1989\$>†† 06/1990\$>†† 09/1992\$>††
09/1993\$>††

Drug Abuse Alternatives Center\$~

2403 Professional Dr
Santa Rosa, CA 95403
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

Easter Seal Society for Crippled Children & Adults of Sonoma County\$~

70 Skyview Terrace
San Rafael, CA 94903-1809
? \$>

Easter Seal Society for the Redwood Coast Inc\$~

70 Skyview Terrace, #6
San Rafael, CA 94903
08/1989\$>†† 08/1990\$>†† 08/1992\$>††
08/1993\$>††

Exodus Inc\$~

1 Sage Court
Novato, CA 94945
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

Extended Child Care Coalition of Sonoma County\$~

335 College Avenue
Santa Rosa, CA 95401
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

Face to Face/The Sonoma County Aids Network\$~

115 Talbot Street
Santa Rosa, CA 95404
06/1989\$>†† 06/1990\$>†† 06/1991\$>††
06/1992\$>††

Fairfax Nonprofit Housing Development Corporation\$~

2169 E Francisco Blvd, Ste B
San Rafael, CA 94901
06/1989\$>†† 06/1990\$>†† 06/1992\$>††

Family Education Center\$*

629 East D St.
Petaluma, CA 94952-3547
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

Farallones Institute\$~

10 Liberty Ship Way, Ste 185
Sausalito, CA 94965
12/1987\$>†† 12/1990\$>†† 12/1992\$†† ?\$>

Film Institute of Northern California\$~*

38 Miller Avenue, Ste 6
Mill Valley, CA 94941
12/1989\$>†† 12/1990\$>†† 12/1991\$>††
12/1992\$>††

Foundation for Comprehensive Health Services\$~

192 Gravenstein Highway So
Sebastopol, CA 95472
? \$>

Foundation for Critical Thinking\$~*

C/O Richard Paul
4655 Sonoma Mountain Rd.
Santa Rosa, CA 95404
06/1991\$>†† 06/1992\$>†† 06/1993\$>††

Friends Outside in San Francisco\$~*

32 Eucalyptus Knoll
Mill Valley, CA 94941
06/1986\$>††

Full Circle Programs Inc\$~

4 Joseph Ct
San Rafael, CA 94903-2609
? \$>

Gaia Institute\$~

P.O. Box 218
Fairfax, CA 94930
06/1989\$>†† 06/1990\$>††

Gallery Route One\$~

P.O. Box 937
Point Reyes, CA 94956
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
03/1993\$>†† 06/1993\$>†† ?\$>

George Lucas Educational Foundation\$~*

P.O. Box 3494
San Rafael, CA 94912
12/1991\$>†† 12/1992\$>††

Geyserville Community Childrens Center Incorporated\$~

P.O. Box 43
Geyserville, CA 95441
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

Girl Scouts of America Konociti Council\$~

4825 Old Redwood Hwy
Santa Rosa, CA 95403
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

Global Family\$~

112 Jordan Ave
San Anselmo, CA 94960
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

Good Beginnings Nursery School and Day Care Inc.\$~

1043 Felta Road
Healdsburg, CA 95448
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$>††

Goodwill Industries of the Redwood Empire\$~

11 West Barham Avenue
Santa Rosa, CA 95407
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>††

Goodwill Series Inc\$~*

C/O Robert C Williams
5455 Bennet Valley Rd
Santa Rosa, CA 95404
12/1991\$>†† 12/1992\$>††

Gualala Arts\$~

P. O. Box 244
Gualala, CA 95445
12/1989\$>†† 12/1990\$>†† 12/1991\$>††
12/1992\$>†† ?\$>

Guide Dogs for the Blind Inc\$~

P. O. Box 1200
San Rafael, CA 94915
06/1989\$>†† 06/1991\$>†† 06/1992\$>†† ?\$>

* Organizations selected by criteria listed on reverse of title page.

Institute for Nonprofit Organization Management
California Nonprofit Database as of April 3, 1995

<p>Harvest Fair Assn of Sonoma Co 1350 Bennett Ave\$~ PO Box 1536 Santa Rosa, CA 95402-1536 ?></p>	<p>Healdsburg Boys and Girls Club\$~ P O Box 89 Healdsburg, CA 95448 06/1989\$>†† 06/1991\$>†† 06/1992\$>†† 06/1993\$>†† ?></p>	<p>Home Hospice of Sonoma County\$~ 131 Stony Circle Ste 1500 Santa Rosa, CA 95401 06/1989\$>†† 06/1990\$>†† 06/1991\$>†† 06/1992\$>†† 06/1993\$>† ?></p>
<p>Hospital Chaplaincy Services\$~* 569 Summerfield Rd Santa Rosa, CA 95405 12/1988\$>†† 12/1990\$> 12/1991\$> 12/1992\$>††</p>	<p>Human Rights Resource Center, Inc.\$~* 615 B Street San Rafael, CA 94901 06/1992\$>†† 06/1993\$>††</p>	<p>In Defense of Animals\$~ 816 W. Francisco Blvd. San Rafael, CA 94901 12/1989\$>†† 12/1990\$>†† 12/1991\$>†† 12/1992\$>††</p>
<p>Individuals Now\$~ 1303 College Avenue Santa Rosa, CA 95404 06/1989\$>†† 06/1991\$>†† 06/1992\$>†† 06/1993\$>††</p>	<p>Institute for Bird Populations\$~* C/O David F Desante 40 B Third Street Point Reyes Station, CA 94956 12/1990\$ 12/1991\$> 12/1992\$>††</p>	<p>International Bioethics Institute\$~* 1721 Mar West Tiburon, CA 94920 12/1990\$> 12/1991\$> 12/1992\$>††</p>
<p>June Watanabe Dance Company\$~ 87 Mt Rainier Drive San Rafael, CA 94903 06/1989\$>†† 06/1991\$> 06/1992\$> 06/1993\$>†† ?></p>	<p>Junior Achievement of the Redwood Empire\$~ P O Box N Santa Rosa, CA 95402 06/1989\$>†† 06/1991\$>†† 06/1992\$>†† ?></p>	<p>Life Management Institute\$~ 827 Third St Santa Rosa, CA 95404 04/1989\$>†† 04/1990\$>†† 04/1992\$>†† 08/1992\$>††</p>
<p>Living History Centre\$~* P.O. Box B Novato, CA 94948 12/1988\$>†† 12/1989\$>†† 12/1991\$>†† 12/1992\$>††</p>	<p>Luther Burbank Memorial Foundation\$~* 50 Mark West Springs Road Santa Rosa, CA 95401 03/1989\$>†† 03/1990\$>†† 03/1992\$>††</p>	<p>Marconi Conference Center Operating Corporation\$~ PO Box 789 Marshall, CA 94940 06/1991\$>†† 06/1992\$>† 06/1993\$>†</p>
<p>Marin Aids Project\$~* 1660 Second Street San Rafael, CA 94901 06/1989\$>†† 06/1990\$>†† 06/1991\$>†† 06/1993\$>††</p>	<p>Marin Art and Garden Center, A Living Memorial\$~ P.O. Box 437 Ross, CA 94957 09/1989\$>†† 12/1990\$>†† 12/1991\$>†† 12/1992\$>†† ?></p>	<p>Marin Center for Independent Living\$~ 710 Fourth Street San Rafael, CA 94901 06/1989\$>†† 06/1990\$>†† 06/1992\$>†† 06/1993\$>††</p>
<p>Marin Community Food Bank Inc\$~* C/O Anne Rogers 75 Digital Way Novato, CA 94949-5743 12/1988\$>†† 12/1990\$>†† 12/1991\$>†† 12/1992\$>††</p>	<p>Marin Conservation Corps\$~* P.O. Box 89 San Rafael, CA 94915 06/1989\$>†† 06/1990\$>†† 06/1992\$>††</p>	<p>Marin Council Boy Scouts of America\$~ 225 West End Ave San Rafael, CA 94901 12/1988\$>†† 12/1990\$>†† 12/1991\$>†† 12/1992\$>†† ?></p>
<p>Marin Education Fund\$~* 1010 B Street, Suite 300 San Rafael, CA 94901 06/1989\$>†† 06/1990\$>†† 06/1991\$>†† 06/1992\$>††</p>	<p>Marin Homes for Independent Living\$~* 260 Camino Alto Ct. Apt. 1 Mill Valley, CA 94941 05/1989\$>†† 05/1991\$>†† 05/1992\$>†† 05/1993\$>††</p>	<p>Marin Housing Corporation\$~* 2169 E. Francisco Blvd, Ste B San Rafael, CA 94901 11/1989\$>†† 11/1990\$>†† 11/1991\$>†† 11/1992\$>†† 11/1993\$>††</p>
<p>Marin Institute for the Prevention Alcohol & Other Drug Problems\$~* 24 Belvedere Street San Rafael, CA 94901 06/1989\$>†† 06/1990\$>†† 06/1992\$>††</p>	<p>Marin Mountain School\$~* 117 E. Strawberry Dr. Mill Valley, CA 94941 12/1992\$>†</p>	<p>Marin Museum Society, Inc.\$~* P.O. Box 864 Novato, CA 94947 06/1989\$>†† 06/1990\$> 06/1992\$> 06/1993\$></p>

§ mutual benefit, ¶ foundation or trust, § public charity, * other exemption type, ~ charitable purpose, - public purpose, ^ religious purpose, ^ other purpose, * presumed, ? date unknown, \$ revenue & assets as of date, > revenue >= \$25,000, † Form 990, ‡ Form CT2

Organizations from Various California Counties* Directory

Marin Opera Company§~*

355 Doherty Drive
Larkspur, CA 94939
06/1989\$>†† 06/1991\$>†† 06/1992\$>††

Marin Solar Village Corporation§~

P O Box 553
Mill Valley, CA 94942-0553
07/1981\$>†

Matrix, A Parent Network and Resource Center§~*

P O Box 6541
San Rafael, CA 94903-6541
06/1989\$>†† 06/1991\$>†† 06/1992\$>††

Miracles Media Project§~*

20 Sunnyside Ave, Suite A-112
Mill Valley, CA 94941
12/1988\$†† 06/1991\$>†

National Law Enforcement Institutes~

P.O. Box 1435
Santa Rosa, CA 95402
12/1989\$>†† 12/1990\$>†† 12/1991\$>††
12/1992\$>†† ?\$>

North Bay Childrens Center§~*

405 Norman Drive
Novato, CA 94949
03/1990\$>†† 03/1991\$> 03/1992\$>††
06/1993\$>††

North Marin Senior Housing Corp.§~*

C/O Eah
2169 E Francisco Blvd Ste B
San Rafael, CA 94901
09/1990\$> 09/1991\$>†† 09/1992\$>††

Novato Little League, Inc.§~*

P.O. Box 614
Novato, CA 94948
09/1989\$>†† 09/1990\$> 09/1992\$>††

P S I World§~*

2980 Kerner Boulevard
San Rafael, CA 94901-5578
12/1988\$>†† 12/1990\$>†† 12/1991\$>††
? \$>

Marin Rod and Gun Club§~*

P.O. Box 150900
San Rafael, CA 94915-0900
11/1989\$>†† 11/1990\$>†† 11/1991\$>††
11/1992\$>††

Marin Treatment Center§~*

1466 Lincoln Avenue
San Rafael, CA 94901
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>††

Melanoma Research Institute§~*

C/O Lynn E. Spittler, M.D.
1895 Mountain View Drive
Tiburon, CA 94910
12/1992\$>†

National Council on Alcoholism Sonoma County§~*

P.O. Box 2661
Santa Rosa, CA 95405
06/1989\$>†† 06/1991\$> 06/1992\$>

National Women's History Project§~

7738 Bell Road
Windsor, CA 95492
06/1989\$>†† 06/1991\$> 06/1992\$>††
06/1993\$>†† ?\$>

North Bay Rehabilitation Services§~*

1113 Second St.
San Rafael, CA 94901
06/1989\$>†† 06/1991\$>†† 06/1992\$>††

Novato Enrichment Care§~

749 Sutro Avenue
Novato, CA 94947-1937
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

Novato Youth Center§~*

680 Wilson Avenue
Novato, CA 94947
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>††

Parents United of Marin County Inc§~*

1055 Las Ovejas
San Rafael, CA 94903-3556
06/1989\$>†† 06/1990\$> 06/1991\$> 06/1992\$>
06/1993\$

Marin Services for Women, Inc.§~*

444 Magnolia Ave, Ste 101
Larkspur, CA 94939
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$>††

Match-Two Inc§~

P.O. Box 447
San Quentin, CA 94964
06/1989\$>†† 06/1990\$>†† 06/1991\$>††
06/1992\$>†† 06/1993\$>†† ?\$>

Middle Way§~

350 Morris Street, #A
Sebastopol, CA 95472
12/1989\$>†† 12/1990\$>†† 12/1991\$>††
12/1992\$>†† ?\$>

National Indian Justice Center Inc§~*

C/O Joseph A Myers
7 Fourth Street, #46
Petaluma, CA 94952-3043
12/1989\$>†† 12/1990\$>†† 12/1991\$>††

New Directions Adolescent Services§~*

P O Box 11563
Santa Rosa, CA 95406-1563
06/1989\$>†† 06/1991\$> 06/1992\$>††
06/1993\$>††

North Coast Area Health Education Center§~

2690 Mendocino Ave Suite B
Santa Rosa, CA 95403-2822
?\$>

Novato Human Needs Center§~*

P O Drawer R
Novato, CA 94947
06/1989\$>†† 06/1990\$>†† 06/1992\$>††

Novato Youth Soccer Association§~

PO Box 1046
Novato, CA 94948
12/1989\$>†† 12/1990\$> 12/1991\$> 12/1992\$>
?\$>

Partners for Adoption§~*

PO Box 2791
Santa Rosa, CA 95404
06/1989\$>†† 06/1990\$> 06/1992\$>††
06/1993\$>††

* Organizations selected by criteria listed on reverse of title page.

Institute for Nonprofit Organization Management
California Nonprofit Database as of April 3, 1995

Peoplelink§~*

625 Second Street #205
Petaluma, CA 94952
09/1992\$>† 09/1993\$>††

Phillipis-Morrison Institute of California§~

P.O. Box 844
Tiburon, CA 94920-0844
12/1988\$†† 12/1989\$> 12/1991\$>††
12/1992\$>††

Prevention Resources Inc§~

375 Doherty Dr
Larkspur, CA 94939-1536
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

Psy-Optikos Inc§~*

C/O Diane Emery
18529 Happy Lane
Sonoma, CA 95476
08/1991\$>†† 08/1992\$>††

Redwood Empire Food Bank§~

1111 Petaluma Hill Rd
Santa Rosa, CA 95404
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

Resources for Creativity and Consciousness§~*

PO Box 6518
Santa Rosa, CA 95406
12/1989\$>†† 12/1990\$>†† 12/1991\$>
12/1992\$>††

Rotary Housing Corporation§~*

1001 Bridgeway Ste. A-3
Sausalito, CA 94965
06/1991\$>†† 06/1992\$>†† 06/1993\$>††

San Francisco Sailing Foundation§~*

21 Azalea Drive
Mill Valley, CA 94941
12/1989\$>†† 12/1990\$> 12/1991\$>††
12/1992\$>

Santa Rosa Players§~*

709 Davis Street
Santa Rosa, CA 95401
06/1989\$>†† 06/1990\$>†† 06/1992\$>††

Petaluma Boys and Girls Club§~*

PO Box 751539
Petaluma, CA 94975-1539
06/1989\$>†† 06/1990\$>†† 06/1991\$>††
06/1992\$>††

Point Reyes Bird Observatory§~*

4990 Shoreline Highway
Stinson Beach, CA 94970
12/1989\$>†† 12/1990\$>†† 12/1991\$>††
12/1992\$>††

Preventive Medicine Research Institute§~

900 Bridgeway #2
Sausalito, CA 94965-2100
06/1988\$>†† 06/1990\$>†† 06/1991\$>††
06/1992\$>†† ?\$>

Public Art Works§~*

1408 Mission Street
San Rafael, CA 94901
06/1989\$†† 06/1991\$>†† 06/1992\$>††
06/1993\$>††

Redwood Police Activities League§~*

P.O. Box 1711
Rohnert Park, CA 94927-9943
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$>††

River Child Care, Inc. §~*

P.O. Box 1060
Guerneville, CA 95446
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>††

Rural California Broadcasting Corp§~*

5450 Labath Ave
Rohnert Park, CA 94928-2041
09/1989\$>†† 09/1990\$> 09/1991\$>††

Santa Rosa Creek Commons Inc~*

887 Sonoma Avenue #0
Santa Rosa, CA 95404-6501
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>††

Santa Rosa Symphony Association§~

50 Mark West Spring Rd
Santa Rosa, CA 95403
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$>††

Petaluma Ecumenical Projects§~

C/O 1157 Lombardi Avenue
Petaluma, CA 94954-4332
12/1978\$† 12/1990\$>†† 12/1991\$>††
12/1992\$>†† ?\$>

Preparation for Parenthood, Inc. §~*

70 Skyview Terrace-Room 201
San Rafael, CA 94903
12/1988\$>†† 12/1990\$>†† 12/1991\$>††

Project Graduation Sonoma County§~*

C/O J. Byrne
1221 Farmers Lane, Ste A
Santa Rosa, CA 95405
07/1990\$ 07/1992\$>†† 07/1993\$>††

Redwood Empire Ballet Association§~*

709 Davis Street
Santa Rosa, CA 95401
03/1989\$>†† 03/1990\$>†† 06/1992\$>††
06/1993\$>††

Redwood Region Conservation Council§~*

589 Mendocino Ave #6
Santa Rosa, CA 95401
12/1988\$>†† 12/1990\$> 12/1991\$> 12/1992\$>

Ross Valley Nursery School§~*

689 Sir Francis Drake Blvd
Kentfield, CA 94904
08/1989\$> 08/1991\$>†† 08/1992\$>††
08/1993\$>††

Russian River Jazz Festival Inc§~*

P.O. Box 1913
Guerneville, CA 95446
12/1988\$>†† 12/1989\$>†† 12/1991\$>††

Santa Rosa Institute§~

2455 Bennett Valley Road, Ste 208 B
Santa Rosa, CA 95404-5653
09/1988\$>†† 09/1990\$> 09/1992\$>†† ?\$>

Santa Rosa Symphony League§~

P O Box 1081
Santa Rosa, CA 95402
06/1989\$>†† 06/1991\$> 06/1992\$> 06/1993\$>
?\$>

¶ mutual benefit, ¶ foundation or trust, § public charity, * other exemption type, ~ charitable purpose, ~ public purpose, ^ religious purpose, ^ other purpose, * presumed, ? date unknown, \$ revenue & assets as of date, > revenue >= \$25,000, † Form 990, ‡ Form CT2

Organizations from Various California Counties* Directory

Sebastopol Community Center Inc§~
P.O. Box 2028
Sebastopol, CA 95472
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$>†† ?\$>

**Seventh Generation Fund for Indian
Development Inc§~***
P.O.Box 10
Forestville, CA 95436
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$>††

Sight and Insight, Inc§~*
616 Throckmorton
Mill Valley, CA 94941
12/1988\$>†† 12/1990\$>†† 12/1991\$>†† 12/1992\$>††

Slide Ranch§~
2025 Shoreline Hwy
Muir Beach, CA 94965
12/1989\$>†† 12/1990\$>†† 12/1991\$>††
12/1992\$>††

Society for Gyuto Sacred Arts§~*
C/O William W. Sterling
PO.Box 1073
San Rafael, CA 94915
12/1991\$>†† 12/1992\$>††

**Society of St. Vincent De Paul
District Council of Sonoma County,§~***
5671 Redwood Dr
Rohnert Park, CA 94928
09/1989\$>†† 09/1990\$>†† 09/1992\$>††
09/1993\$>††

Sonoma Country Day School§~
3550 Roundbarn Blvd Ste 100
Santa Rosa, CA 95403-0920
?\$>

**Sonoma County Affordable Homes,
Inc§~***
C/O Mary Murtagh
2169 East Francisco Blvd, Ste B
San Rafael, CA 94901
12/1991\$>†† 12/1992\$>††

Sonoma County Aids Foundation§~**
P.O. Box 14122
Santa Rosa, CA 95402
12/1989\$>†† 12/1990\$>†† 12/1991\$>††

**Sonoma County Family Young Mens
Christian Association§~***
1111 College Avenue
Santa Rosa, CA 95404
06/1989\$>†† 06/1990\$>†† 06/1992\$>††
06/1993\$>††

**Sonoma County Independent Living
Skills, Inc. §~***
PO Box 7027
Cotati, CA 94928
06/1989\$>†† 06/1990\$>†† 06/1991\$>††
06/1992\$>††

Sonoma County Museum Foundation§~
425 Seventh Street
Santa Rosa, CA 95401
12/1988\$>†† 12/1990\$>†† 12/1991\$>††
12/1992\$>†† ?\$>

**Sonoma County People for Economic
Opportunity§~***
555 Sebastopol Rd, Ste "A"
Santa Rosa, CA 95407
02/1989\$>†† 02/1991\$>†† 02/1992\$>††
02/1993\$>††

Sonoma County Wineries Fdn.§~*
C/O Linda R. Johnson
5000 Roberts Lake Road
Rohnert Park, CA 94928
12/1990\$>†† 12/1991\$>†† 12/1992\$>††

Sonoma County Youth Sports§~*
3635 Standish Avenue
Santa Rosa, CA 95407
08/1989\$>†† 08/1990\$>†† 08/1991\$>†† 08/1992\$>††

**Sonoma Creek Senior Housing Corp No
One the Plaza§~**
Sonoma, CA 95476
06/1989\$>†† 06/1990\$>†† 06/1992\$>†† ?\$>

**Sonoma Indian Health Project,
Inc. §~***
P O Box 7308
Santa Rosa, CA 95407-0308
06/1989\$>†† 06/1990\$>†† 06/1991\$>††
06/1992\$>††

Sonoma Land Trust§~*
980 College Avenue
Santa Rosa, CA 95404
12/1990\$>†† 12/1991\$>†† 12/1992\$>††

**State Assistance Fund for Enterpri
Business & Industrial Develop Corp§~***
145 Wikitup Drive
Santa Rosa, CA 95403
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>††

**Suicide Prevention and Community
Counseling Services of Marin§~***
P O Box 2749
San Anselmo, CA 94979
06/1989\$>†† 06/1991\$>†† 06/1992\$>††
06/1993\$>††

Summer Search§~*
C/O Linda Mornell
One Park Avenue
Mill Valley, CA 94941
12/1990\$>†† 12/1991\$>†† 12/1992\$>††

**Summerfield Waldorf School of Santa
Rosa§~**
155 Willowside
Santa Rosa, CA 95401-5575
?\$>

Sunrise Center, Inc.§~
45 San Clemente
Corte Madera, CA 94925
12/1990\$>†† 12/1991\$>†† 12/1992\$>†† ?\$>

Tamalpais Nursery School Inc§~
PO Box 1012
Mill Valley, CA 94942-1012
?\$>

* Organizations selected by criteria listed on reverse of title page.

Institute for Nonprofit Organization Management
California Nonprofit Database as of April 3, 1995

Tenderloin Community Endeavor§~
C/O Anne Mulvaney Cooper
8 Oak Way
San Anselmo, CA 94960
06/1989\$>†† 06/1990\$>†† 06/1992\$?\$>

Theater Artists of Marin§~
PO Box 150473
San Rafael, CA 94915
09/1981\$† 09/1991\$>†† 09/1992\$> ?\$>

Tiburon Peninsula Foundations§~
C/O John S Hoffmire
68 Redhill Circle
Tiburon, CA 94920
12/1986\$† 12/1990\$>†† 12/1991\$>†† 12/1992\$?\$>

True to Life Counseling§~*
C/O James E. Galsterer
PO Box 2079
Sebastopol, CA 95472
12/1989\$>†† 12/1990\$>†† 12/1991\$>†† 12/1992\$>††

Valley of the Moon Boys' Club§~*
744 First Street West
Sonoma, CA 95476
06/1989\$>†† 06/1990\$>†† 06/1991\$>†† 06/1993\$>††

Vintage House Senior Multi- Purpose Center of Sonoma Valley§~
264 First St E
Sonoma, CA 95476-5703
? \$>

Visiting Nursing Service for Sonoma County§~*
3250 Dutton Avenue Suite 100
Santa Rosa, CA 95407
09/1989\$>†† 09/1990\$>†† 09/1992\$> 09/1993\$>

Volunteer Center of Sonoma County§~*
1041 Fourth Street
Santa Rosa, CA 95404-4329
06/1989\$>†† 06/1990\$>†† 06/1992\$>††

Welfare League§~*
126 Fourth Street
Santa Rosa, CA 95401
12/1989\$>†† 12/1990\$>†† 12/1991\$> 12/1992\$>††

West Marin Association for Affordable Housing§~*
P O Box 246 C/O Daniel V Foster Jr
Point Reyes Station, CA 94956
06/1989\$†† 06/1990\$>†† 06/1992\$†† 06/1993\$††

West Marin Health Project§~*
P.O. Box 862
Point Reyes Station, CA 94956
12/1988\$>†† 12/1990\$>†† 12/1991\$>†† 12/1992\$>††

West Marin Senior Services§~*
P O Box 791
Point Reyes Station, CA 94956
06/1989\$>†† 06/1990\$>†† 06/1992\$>†† 06/1993\$>††

West Santa Rosa Local Action Council Agency Incorporated§~
PO Box 7346
Santa Rosa, CA 95407-0346
? \$>

Western Sonoma County Swimmers§~
P.O. Box 122
Sebastopol, CA 95472
12/1989\$> 12/1990\$> 12/1991\$>†† 12/1992\$>†† ? \$>

Ya-Ka-Ama Indian Education and Development Inc§~*
6215 Eastside Road
Forestville, CA 95436
09/1986\$>†† 09/1990\$>†† 09/1991\$>†† 09/1992\$>††

Young Imaginations§~
54 Terra Linda Drive
San Rafael, CA 94903-3731
08/1989\$> 08/1991\$>†† 08/1992\$>†† 08/1993\$>†† ? \$>

Young Women's Christian Association of Sonoma County, California§~*
P.O. Box 3506
Santa Rosa, CA 95402
06/1989\$>†† 06/1990\$>†† 06/1992\$>†† 06/1993\$>††

Youth in Arts, Inc.§~*
PO Box 3551
San Rafael, CA 94912-3551
06/1989\$>†† 06/1991\$>†† 06/1992\$>†† 06/1993\$>††

† mutual benefit, ‡ foundation or trust, § public charity, * other exemption type, ~ charitable purpose, - public purpose, ^ religious purpose, ^ other purpose, * presumed, ? date unknown, \$ revenue & assets as of date, > revenue >= \$25,000, † Form 990, ‡ Form CT2

APPENDIX D

Summary of Legislation and Judicial Decisions Regarding the Income-Generating Activities of Nonprofit Organizations

Summary of Legislation and Judicial Decisions regarding Income-Generating Activities of Nonprofit Organizations

Successful income-generating activities of nonprofit organizations have precipitated a series of arguments between nonprofit supporters and small business advocates about whether or not nonprofit organizations that undertake income-generating activities compete unfairly in the marketplace. This underlying controversy has affected the laws governing the income-generating activities of nonprofit organizations throughout the century. Government, the Internal Revenue Service (IRS), the income-generating activities of nonprofits, and complaints from small business about unfair competition from nonprofits have interacted in an uneasy relationship which has ultimately formed the tax laws that we know today. Complaints from business, the IRS, and politicians about nonprofits engaging in unfair competition were debated in Congress and the courts. The laws and regulations which resulted, while tightening up some loopholes, generally created a favorable climate for income-generating activities by nonprofit organizations. It was not until the beginning of the 1990s that more stringent tax laws were seriously considered. For the first time, laws were proposed that were unfavorable to the pursuit of income-generating activities which many nonprofit organizations had come to practice. Proposed changes were a result, in all probability, of intensified and well-organized lobbying by small business to make their grievances known. To understand the platform of sentiment

from which these changes in the law may spring, it is important to note the significant tax laws of this century and the effect of these laws on the nonprofit organizations engaged in or planning to engage in income-generating activities.

Corporate Income Tax Exemption

Examined in Wellford and Gallagher's book (1988), Unfair Competition? The Challenge to Charitable Tax Exemption, charitable organizations, were as early as 1863 exempted from the corporate tax that was enacted to help finance the Civil War. The Income Tax Act of 1894 further expanded the exemption of charitable organizations to include:

. . . corporations, companies, or associations organized and conducted solely for charitable, religious or educational purposes [and] the stocks, shares, funds, or securities held by any fiduciary or trustee for charitable, religious, or educational purposes (Wellford & Gallagher, 1988, p. 78).

Due to these rulings, the Metropolitan Museum of Art in New York City was able to make photographic prints of its collection and sell them to the public in 1874 without penalty of tax. The museum also opened its first formal sales shop in 1908 without contest setting the foundation for similar income-generating activities of this century (Bennett & DiLorenzo, 1989, p. 2).

Concerns about unfair competition were voiced in 1909, however, in debates preceding the enactment of the Corporation Excise Tax. An important precedent was set when a provision was sponsored to protect charitable, religious, and educational

organizations from the tax. It was argued that these organizations had the right to organize for profit and should be exempted from the profits tax if the profits they earned were used for charitable purposes (Wellford & Gallagher, 1988, p. 78). Opponents disagreed then as they do today, stating that any corporation engaged in ordinary business should not be tax exempt. In the end, the provision was accepted and charitable, religious, and educational organizations were exempted.

Unrelated Business Income Tax

Although the decision of 1909 went in favor of nonprofit exemption, the rumble in Congress over unfair competition continued. According to Wellford and Gallagher (1988) in 1918 the government not only decided that nonprofit organizations would lose their exempt status if they engaged in unrelated business activities at all, but determined that even if the income were from investment or related activities, a nonprofit would lose its exempt status if the income produced was greater than that required to fulfill its needs. This unpopular decision was short-lived, however, and in 1924 was overturned by the Supreme Court in a landmark decision, Trinidad v. Sagrada Orden de Predicadores. This important law has influenced the manner in which nonprofit organizations have been perceived and have conducted themselves since that time. The court found that the destination of income was more important than the source of that income. In subsequent cases, however, other courts had difficulty upholding the Supreme Court decision and detected abuses and a

disturbing loophole for tax evasion. To clarify the matter, Congress, in 1943 required nonprofit organizations to file information returns. Analysis of these returns did not resolve the issue of unfair competition, but pointed to the need for further investigation and resolution. These returns have evolved into the tax Form 990.

It was not until 1947 that the House Ways and Means Committee began hearings to determine the exact nature of nonprofit commercial activities. Hearings on this issue continued into 1950 when they culminated in the unrelated business income tax. This provision taxed the income derived from a business that was "regularly carried on" and was not "substantially related" to the nonprofit organization's exempt purpose. Initially, the provision did not limit the amount of unrelated business activity an organization could engage in. Subsequent tests were implemented to determine the relatedness of a trade or business to the nonprofit's exempt purpose and to ensure that the primary use of time, energy and assets of the nonprofit organization were for its exempt purpose and not disproportionately for the income activity (Troyer, 1992, p. 1077).

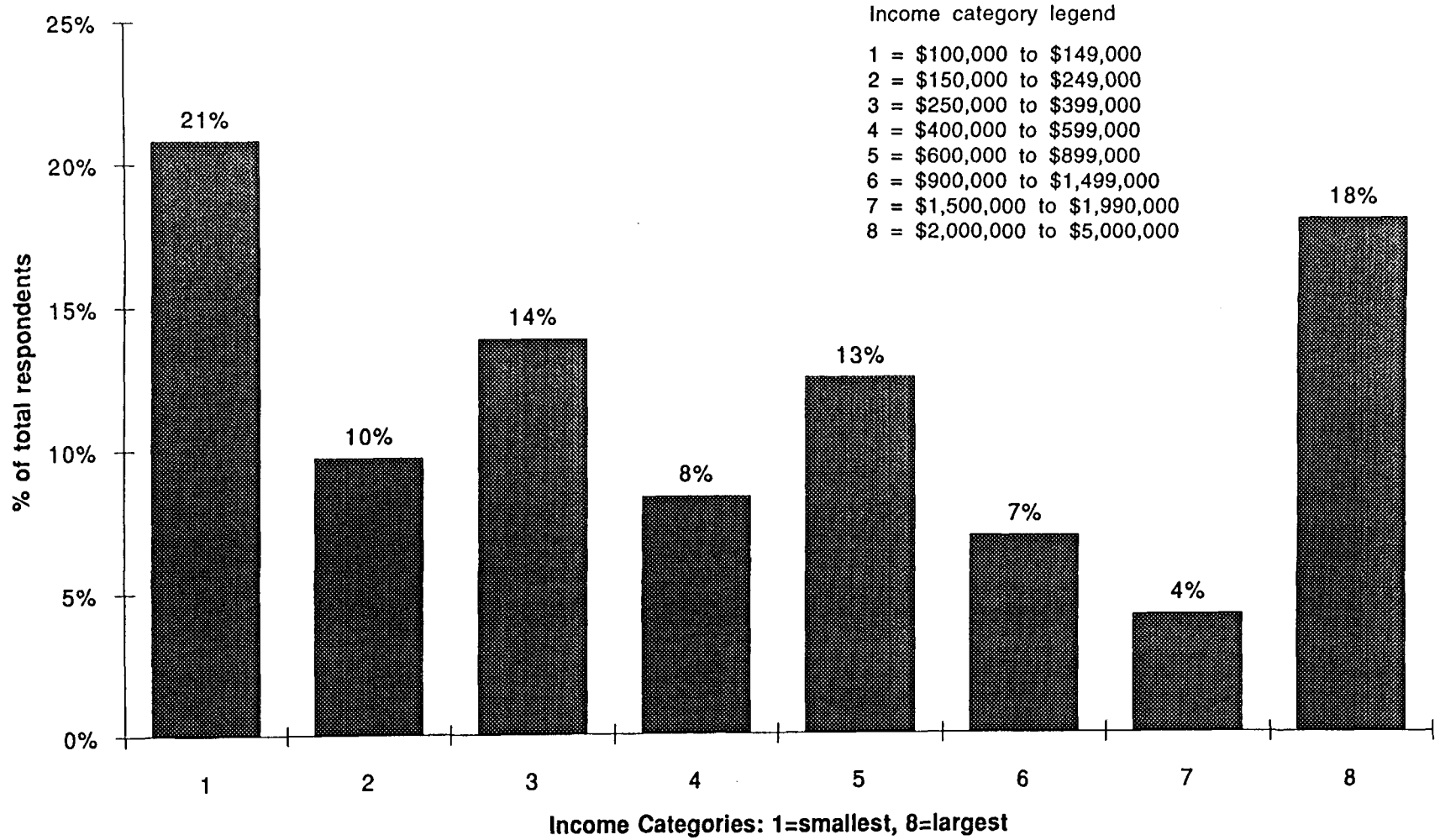
Opponents to income-generating activities by nonprofit organizations found support in Congress from Congressman J. J. Pickle of Texas, who tried on several occasions to fashion changes in the unrelated business income tax. His attempts have been countered by sporadic lobbying by the nonprofit community. Bruce Hopkins, a well-known attorney of nonprofit tax laws, suggested in 1990 that "the nonprofit world would be far better off if it

supported a modest package of revisions now rather than wait for a more extensive package, probably replete with more taxes, later" (Olcott, 1990, p. 6). In a later article written by Streckfus (1992), Hopkins is quoted as pointing out that the IRS is currently assembling a potent team of lawyers and accountants who have been very active in promulgating new, more restrictive rules. Many of these rules are new concepts and are "not put out for comment, they are just enunciated" (Streckfus, 1993, p. 927). Hopkins also remarks that the new IRS activism may be dangerous to nonprofits and suggests nonprofits "hang on, because it is going to be one heck of a ride" (p. 927).

APPENDIX E

Charts of Survey Results

Income categories of respondents



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Chart 4.1

Types of nonprofit organizations

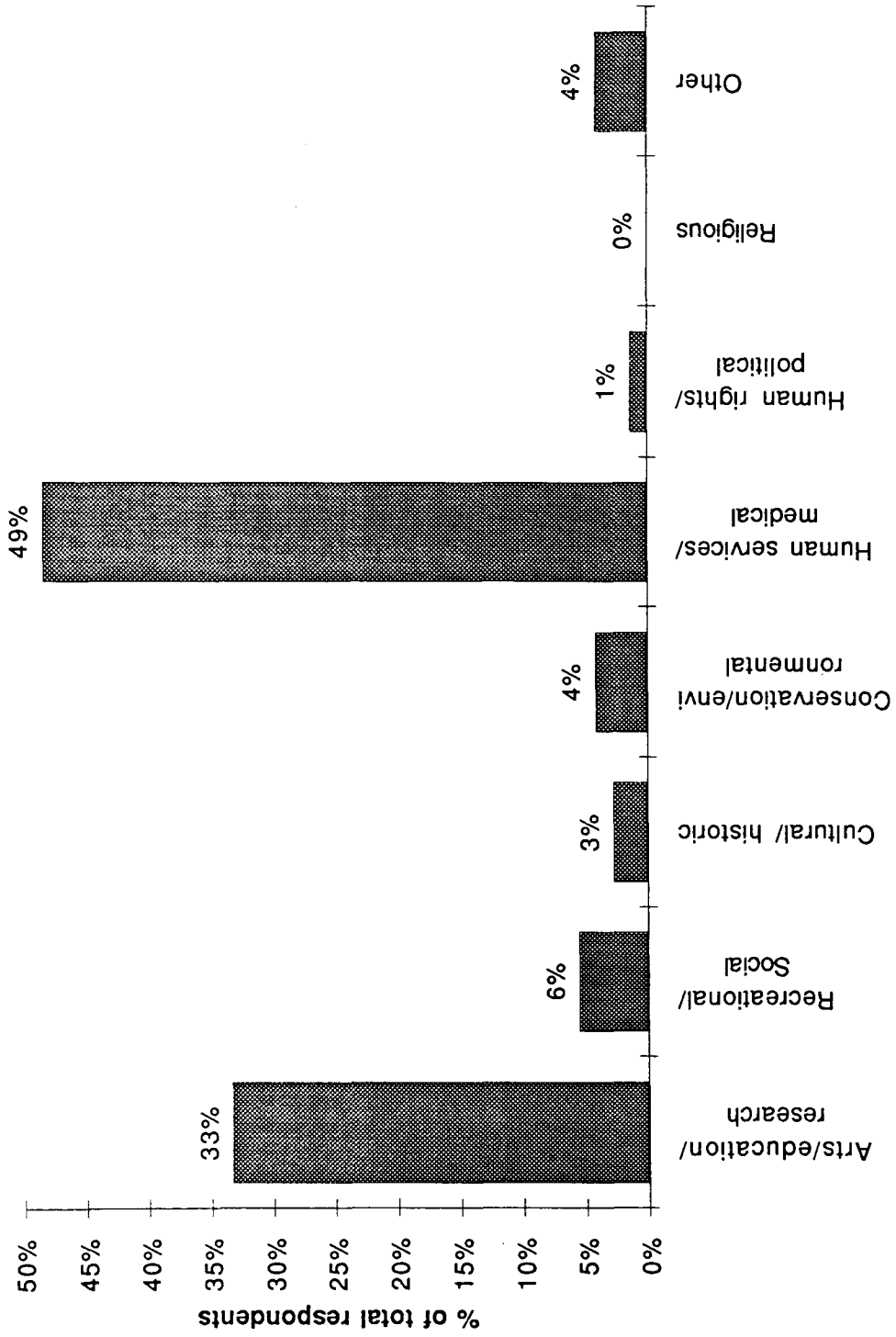


Chart 4.2

Increases in funding sources

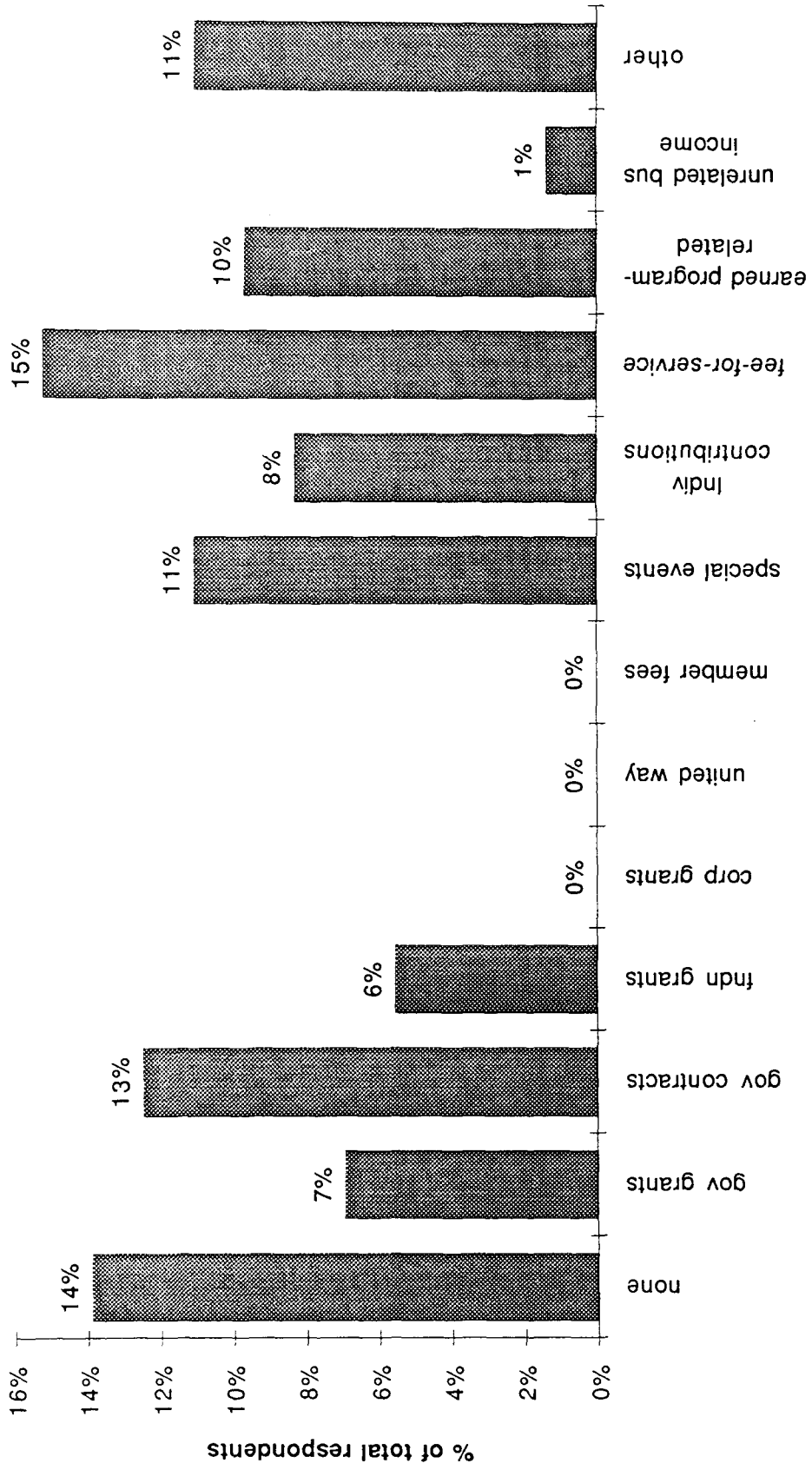


Chart 4.3

Decreases in Funding Sources

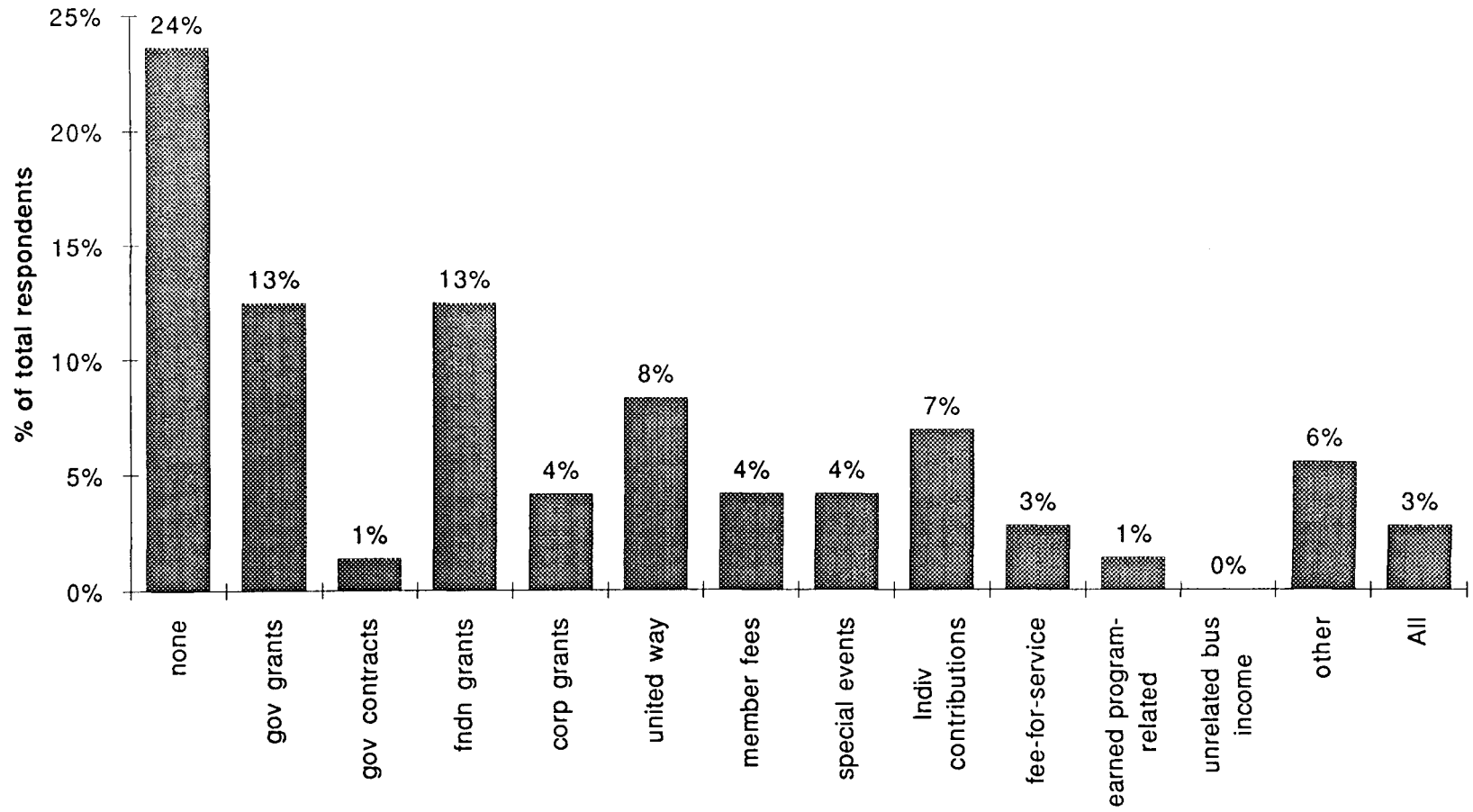


Chart 4.4

Income-generating activities

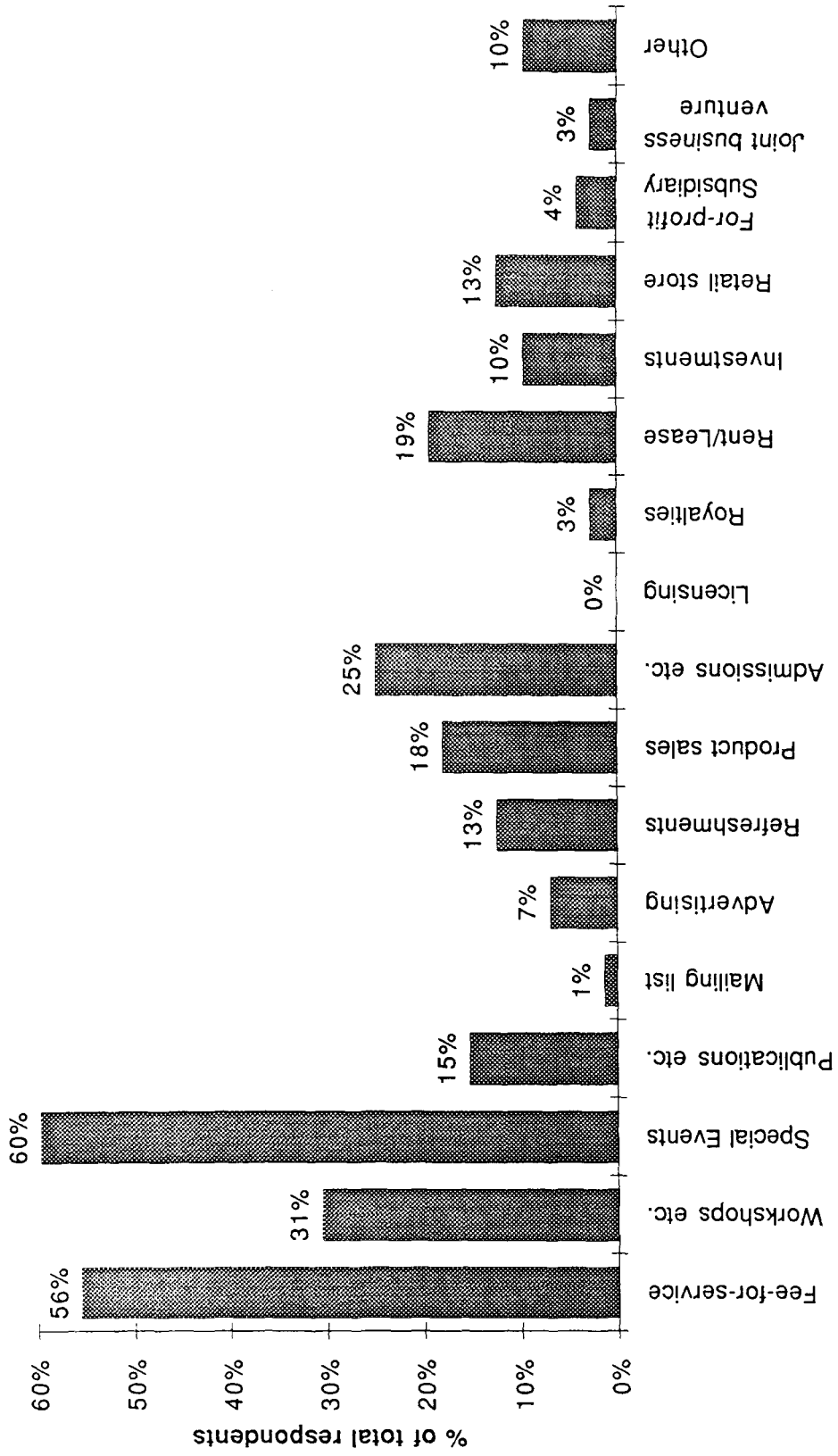


Chart 4.5

Most profitable income-generating activities

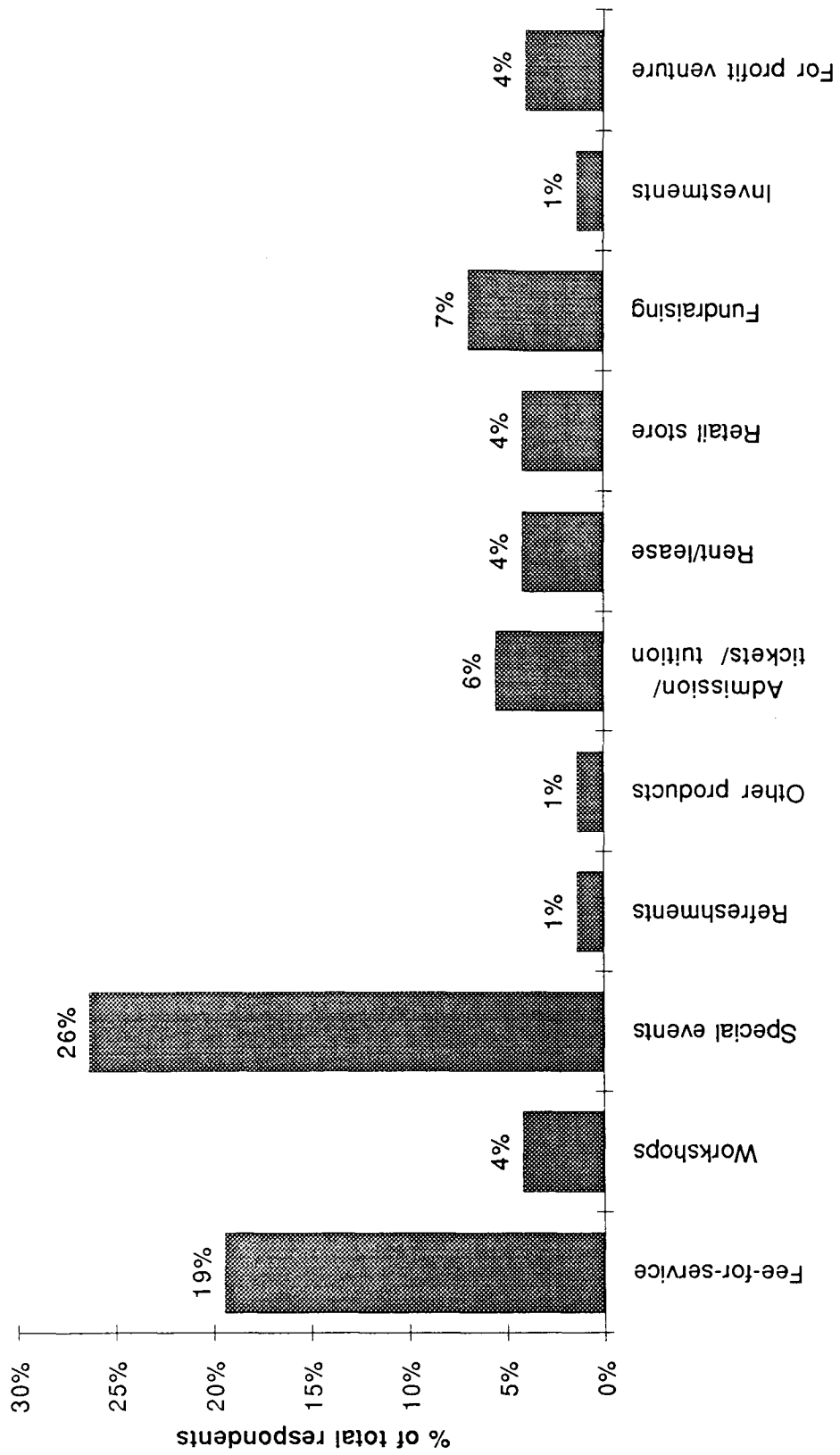


Chart 4.6

Respondents planning income-generating activity

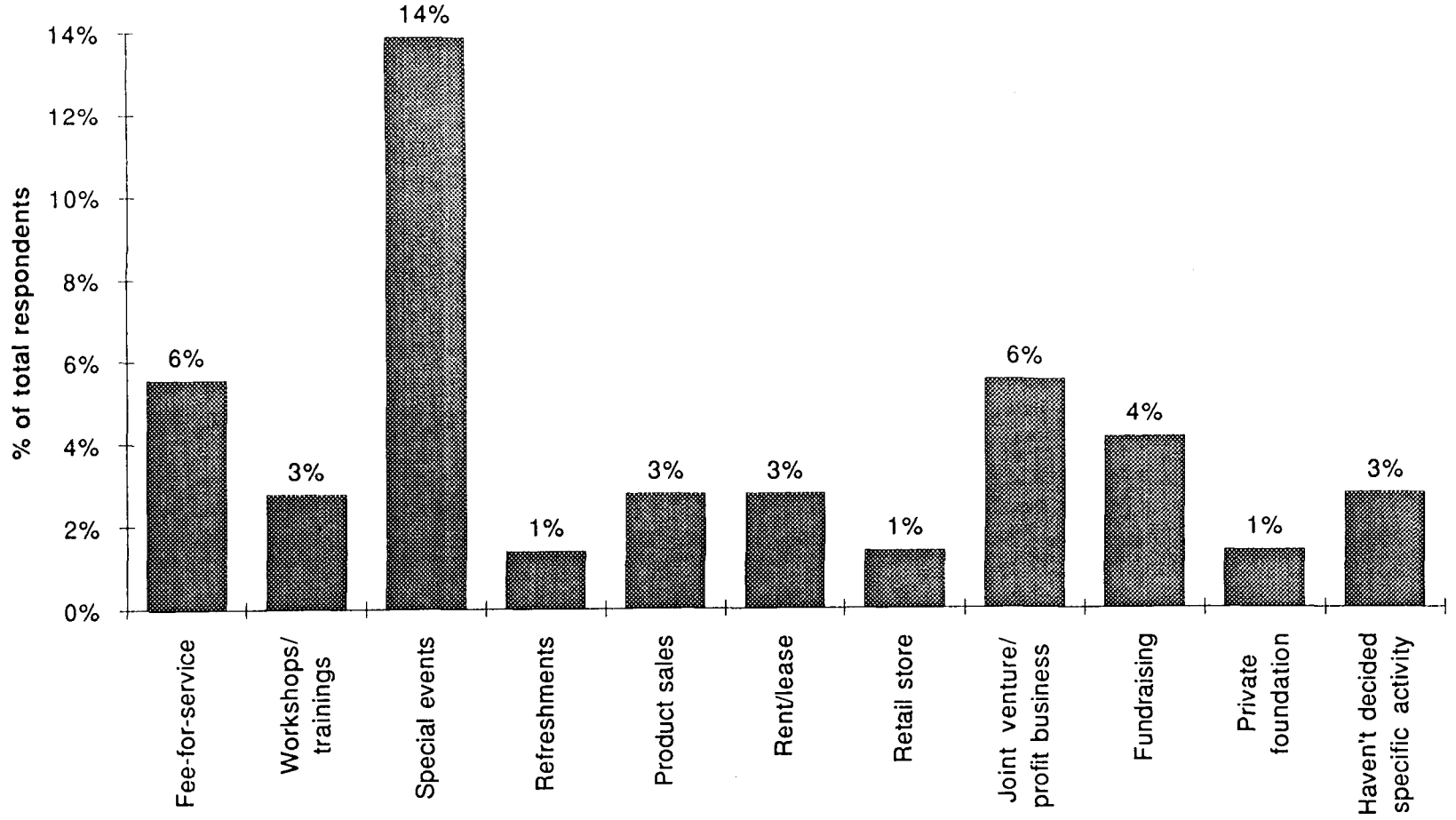


Chart 4.7

Commercial income-generating activities

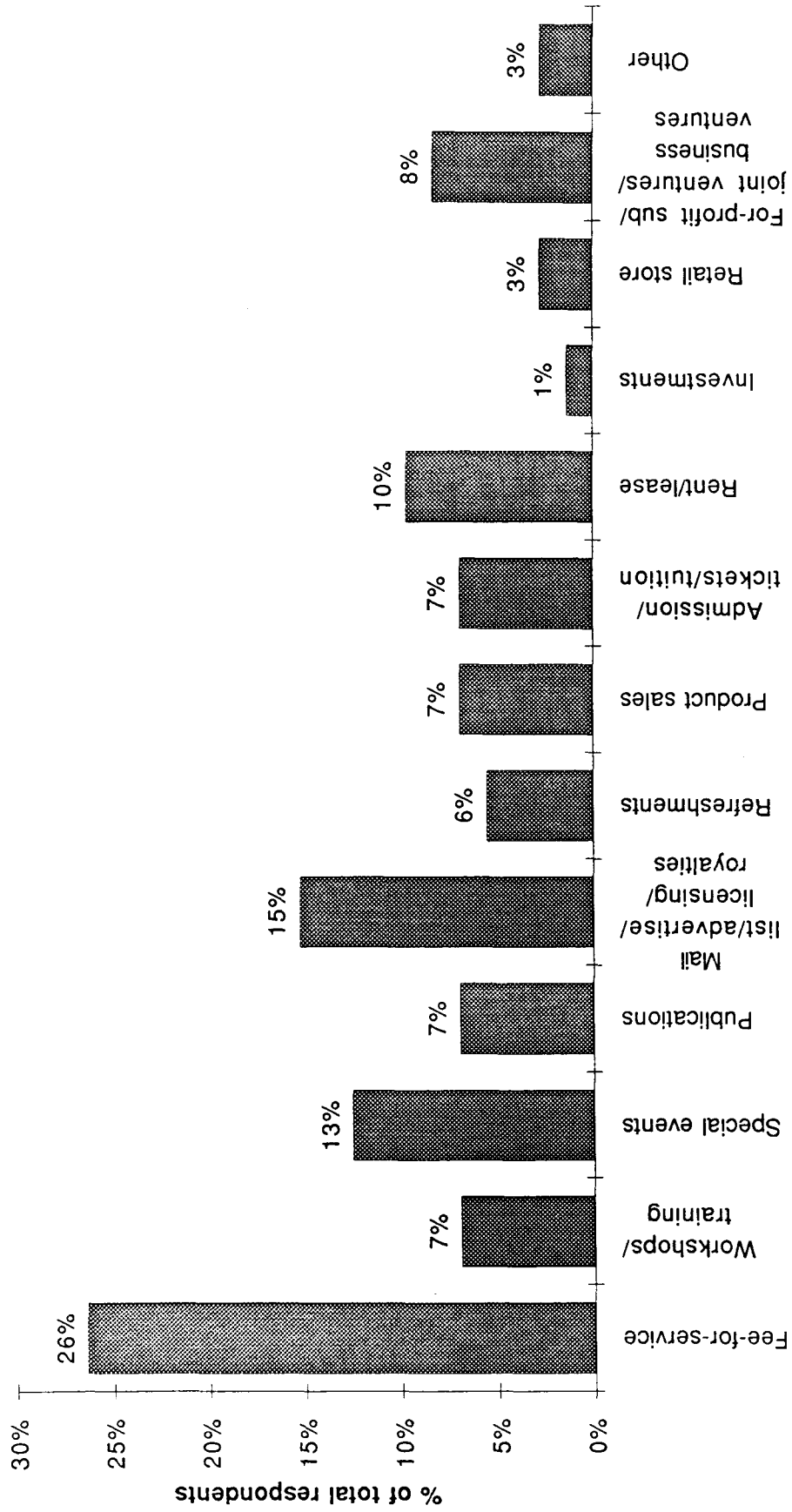
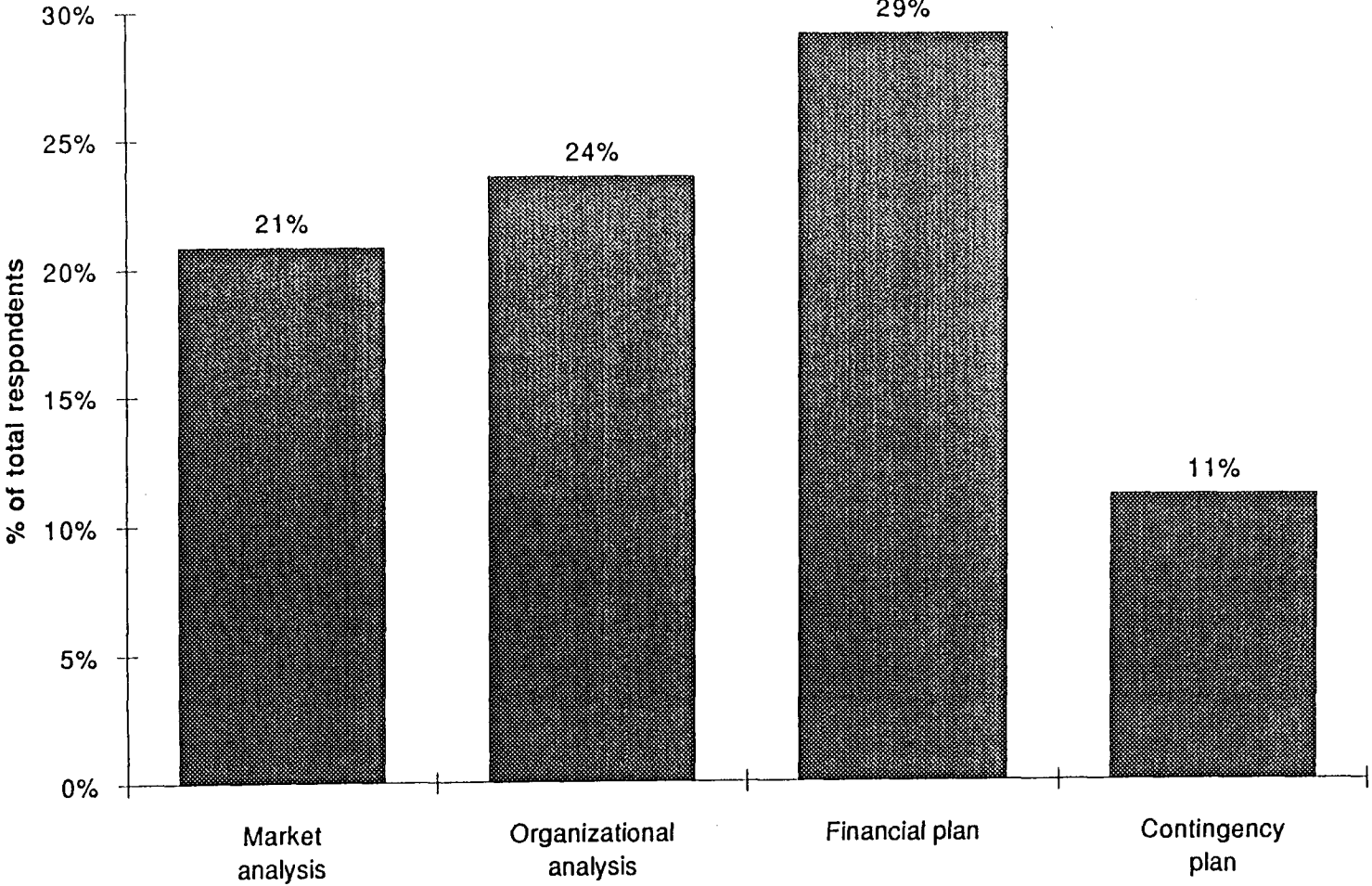


Chart 4.8

Business plan components



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Chart 4.9

Entrepreneur facilitated these activities

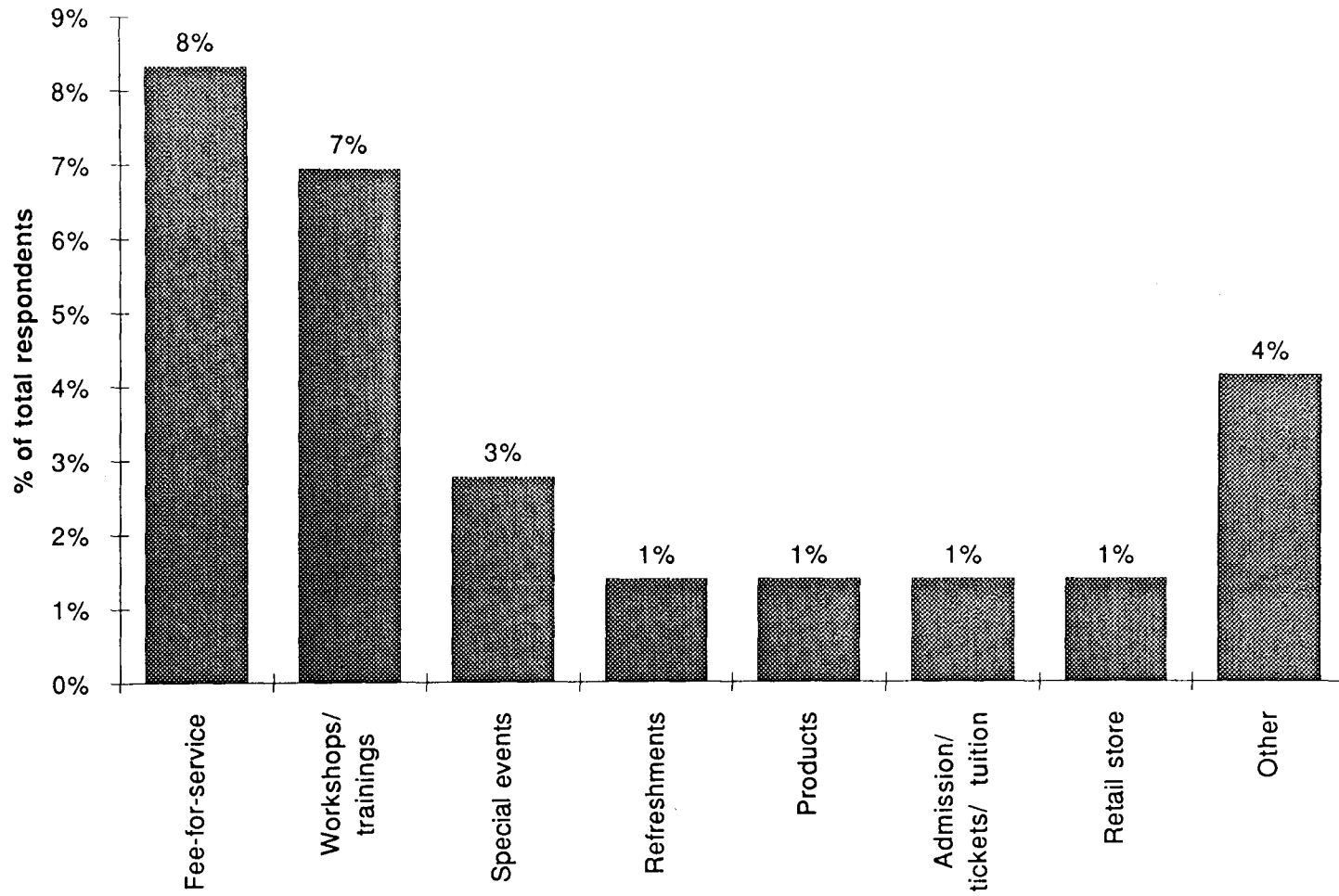


Chart 4.10

Special events

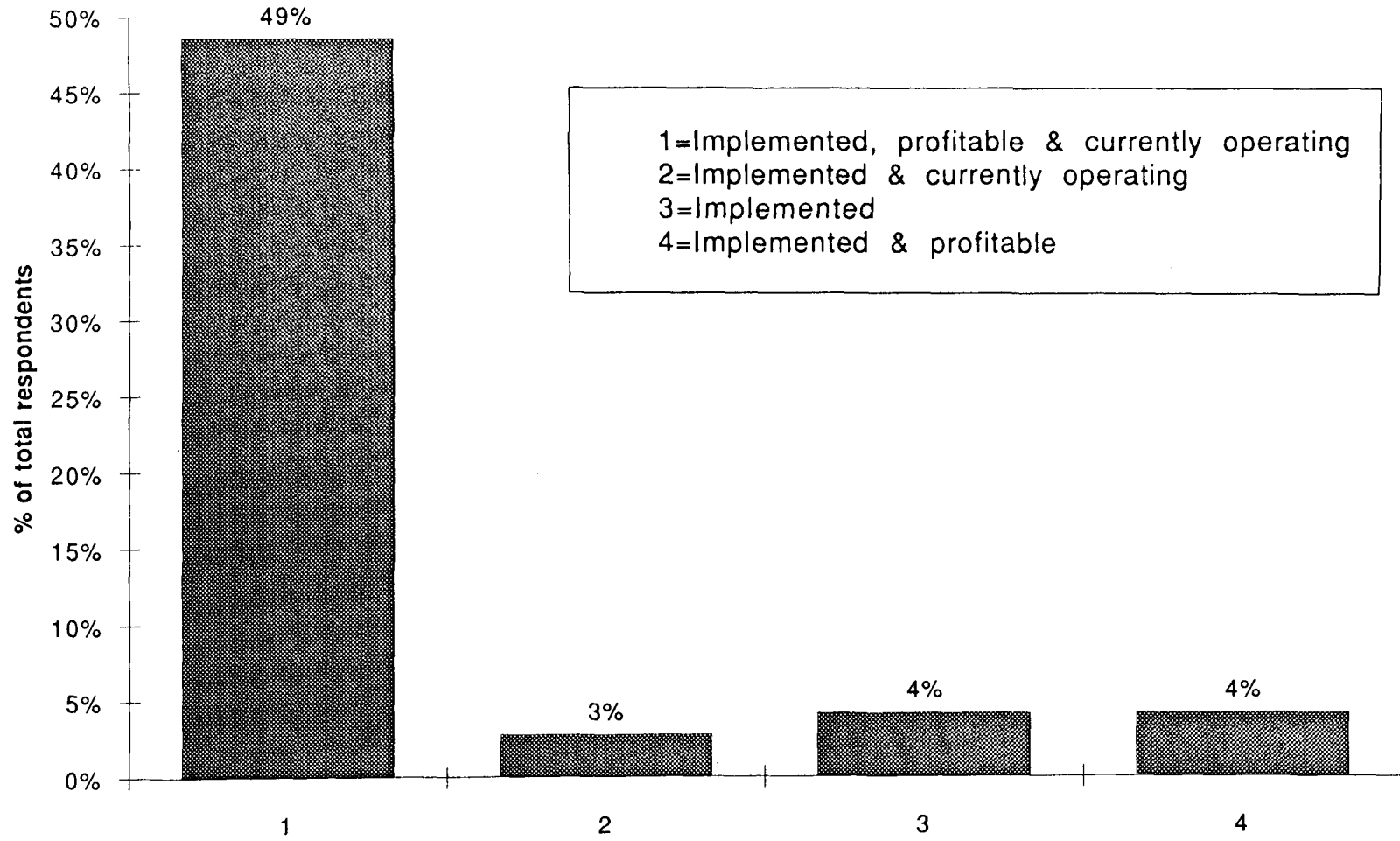
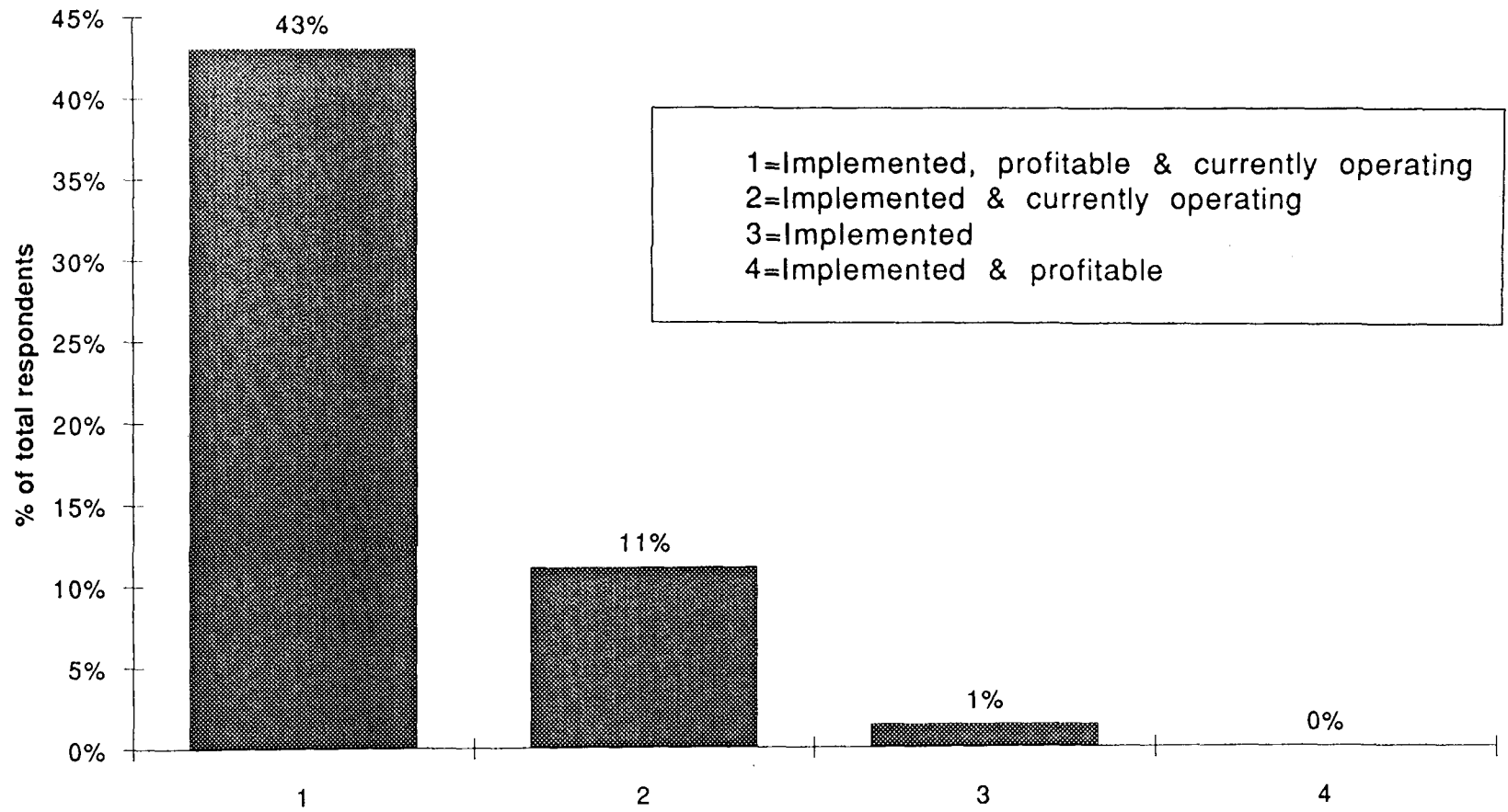


Chart 4.11

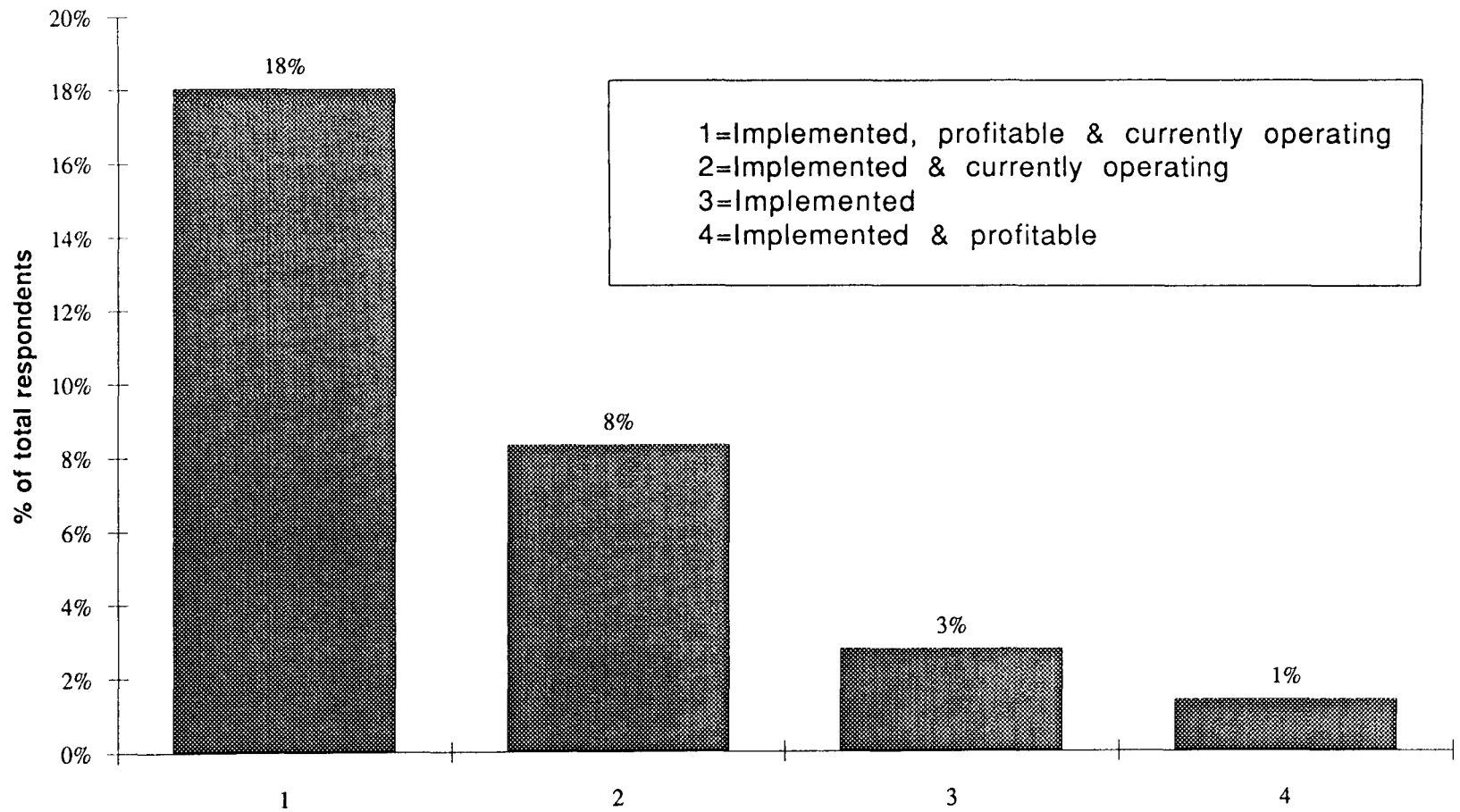
Fee-for-service



134

Chart 4.12

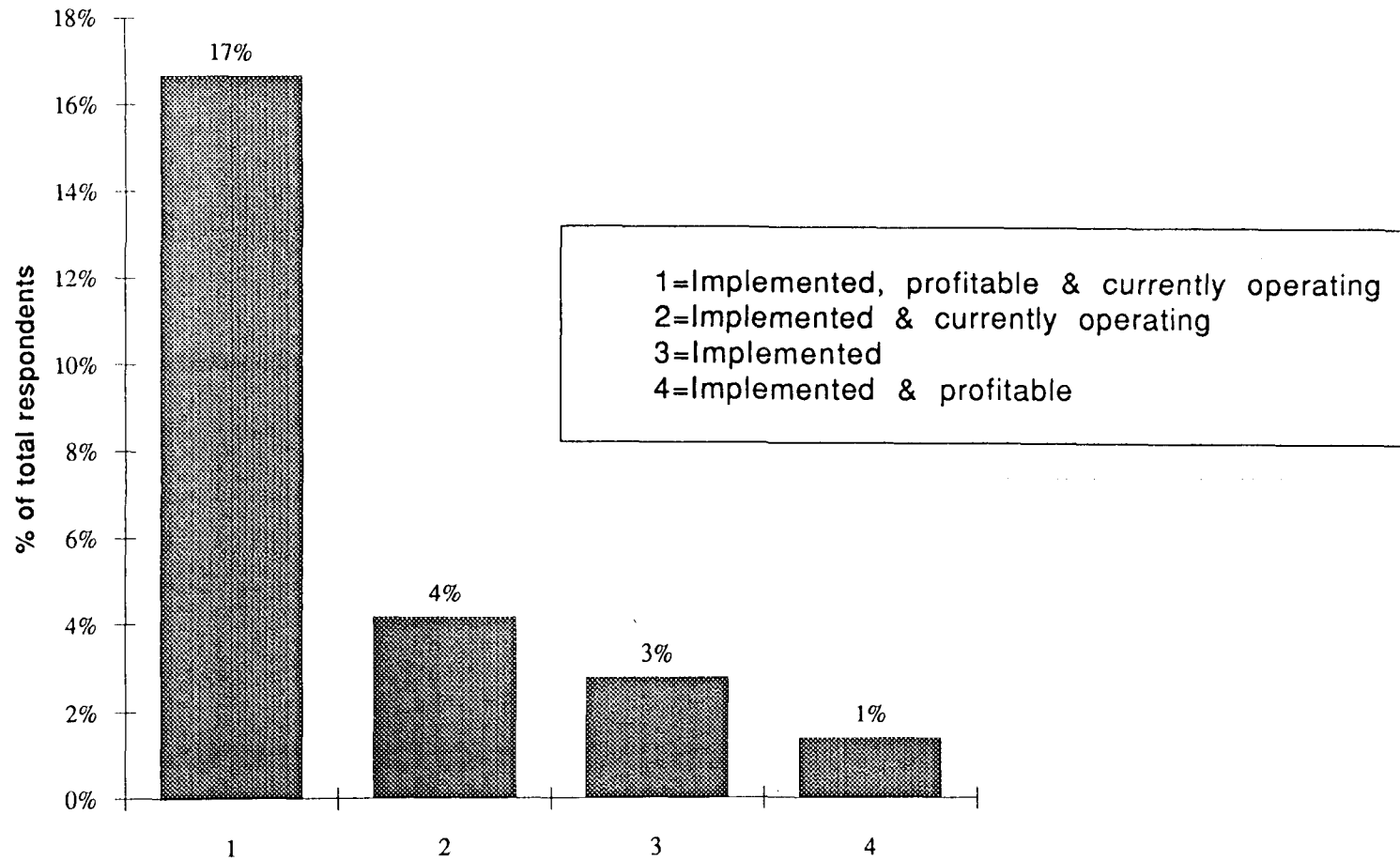
Workshops, exhibits, fairs, etc.



135

Chart 4.13

Admission/tickets/tuition



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Chart 4.14

Rent/lease of facility or property

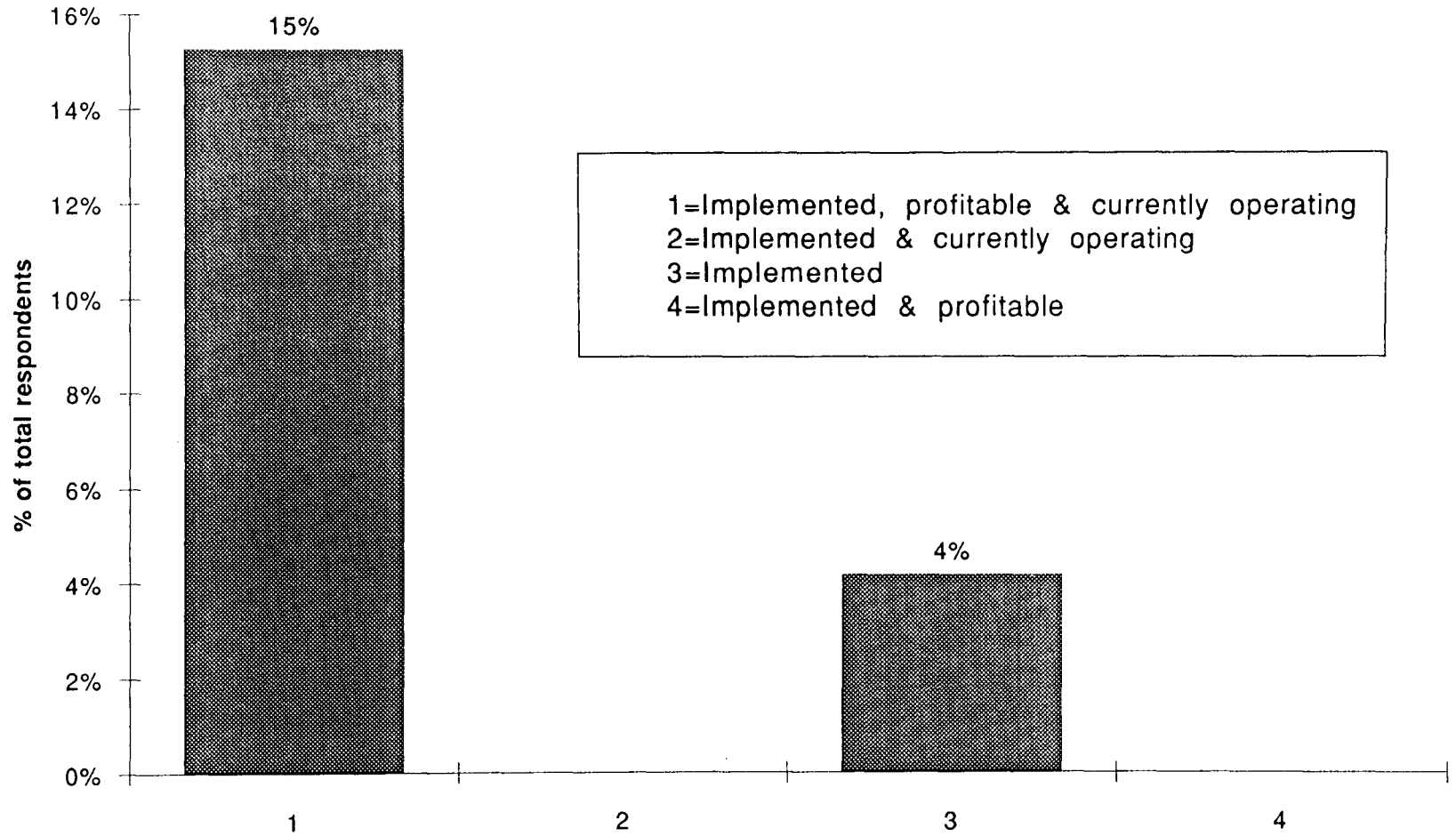


Chart 4.15

Retail store

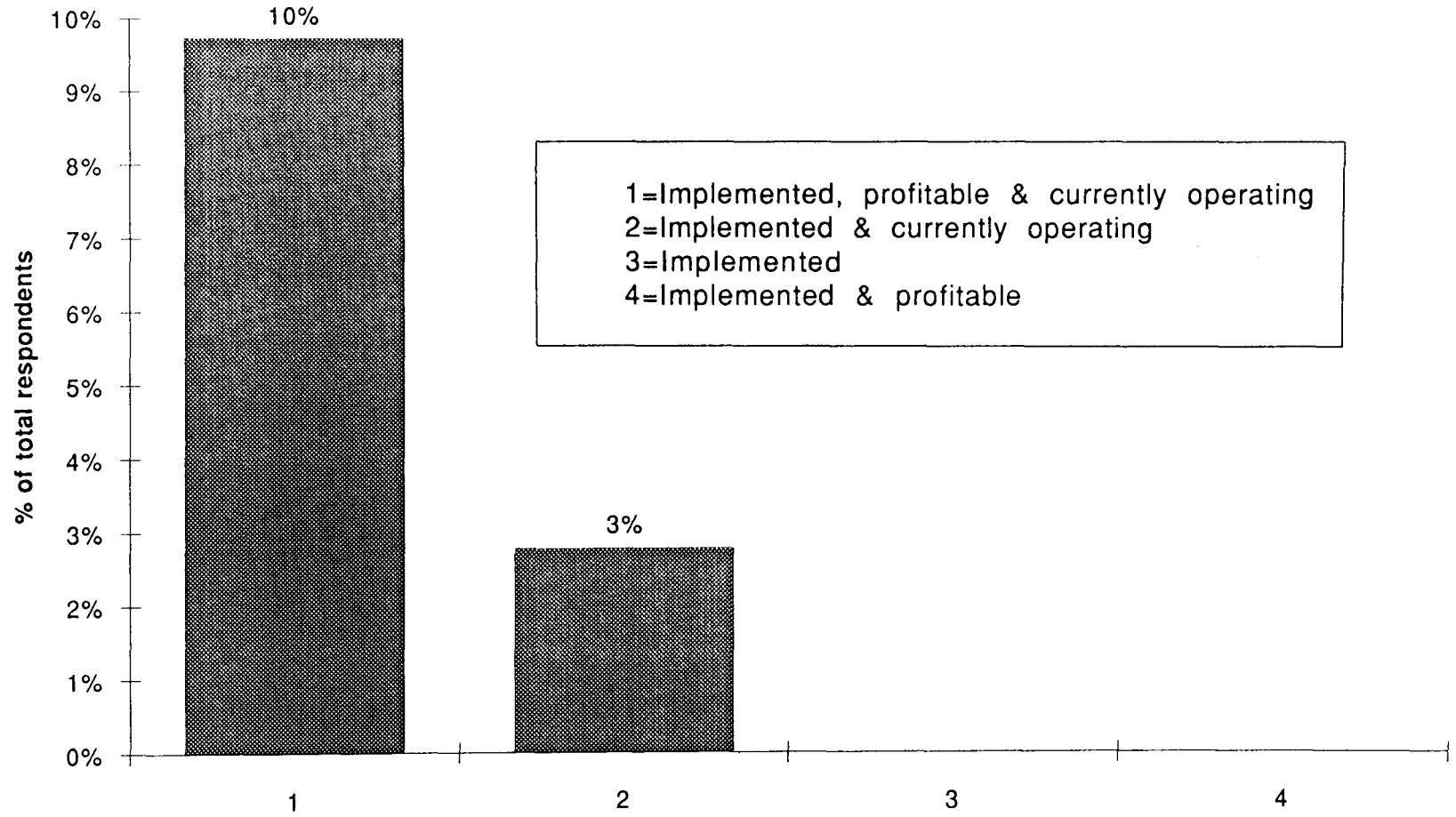
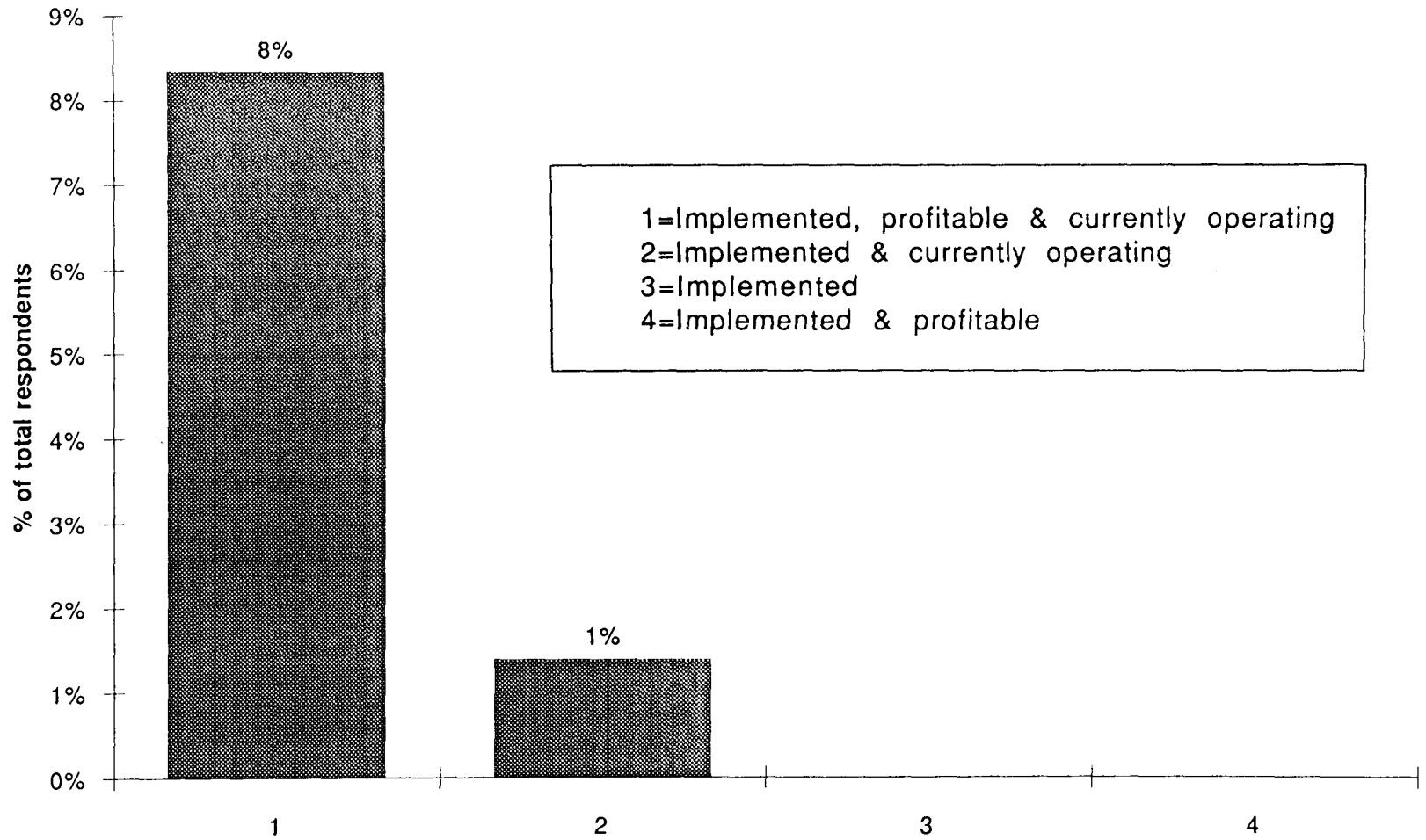


Chart 4.16

Investments, stocks, etc.



139

Chart 4.17

Publication/videotape sales

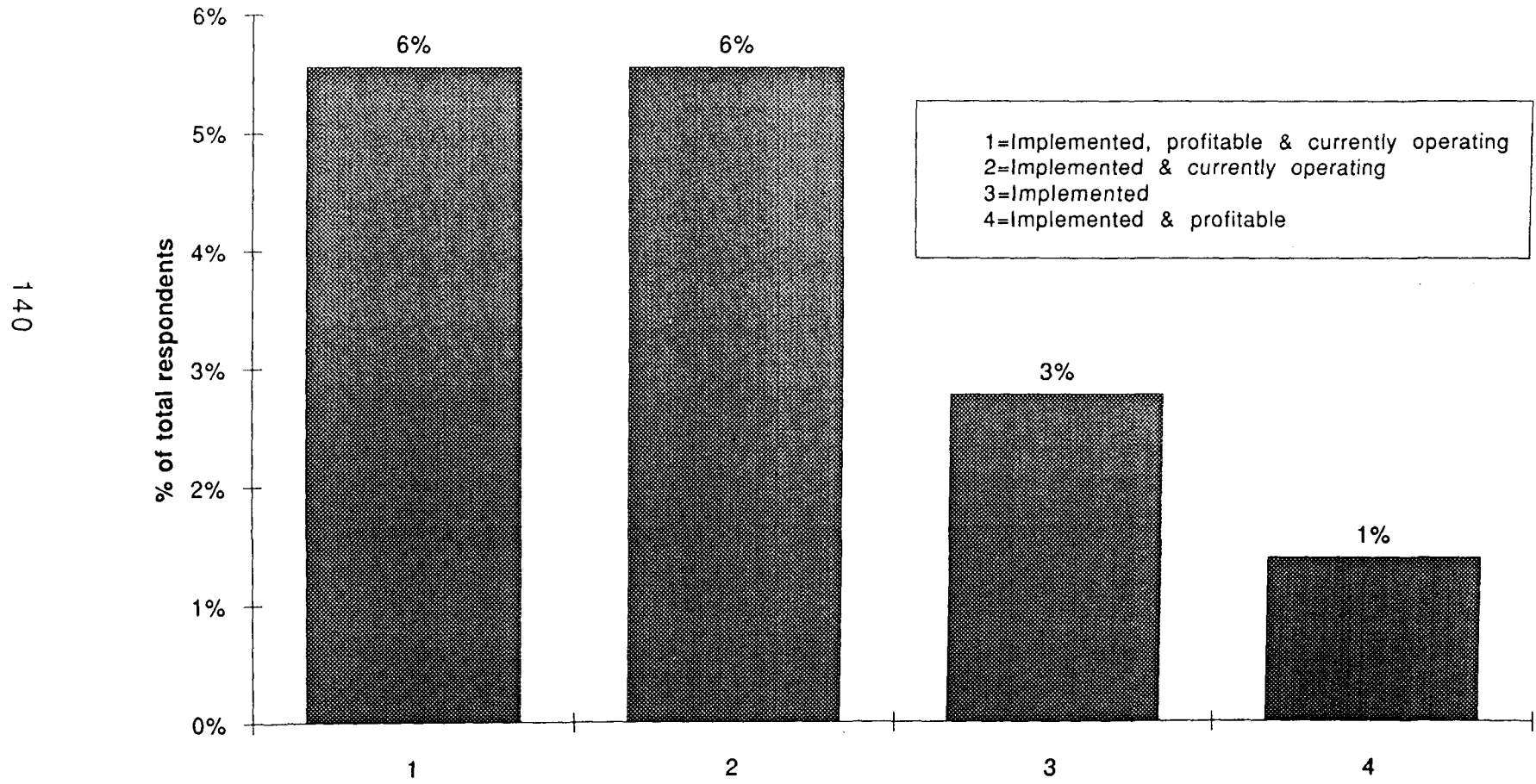


Chart 4.18