



SOCIAL THIS, SOCIAL THAT. WHAT DOES IT MEAN? WHY DOES IT MATTER?

Not-for-Profit & Social Enterprises

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The world of not-for-profit organizations is rapidly changing. Many of these changes are a reflection of greater societal, environmental or political awareness, while others are the result of the economic times in which we live. Not-for-profits have always been considered socially-minded, purpose-driven organizations. But faced with the challenges of identifying additional revenue streams, competition for funding sources and rising costs, new and innovative business models are evolving to meet the needs of the 21st century.

Social Venture, Social Enterprise, Social Entrepreneur, and Social Purpose are some of the new concepts entering into our growing lexicon to address these challenges.

To help navigate this ever-growing field, we offer the following definitions to help you navigate the barrage of today's buzzwords.

Social Venture/Enterprise

A Social Venture is described by Columbia University as "a nonprofit or for-profit venture that explicitly aims to achieve two kinds of returns: financial return through earned income or revenue, and social returns by creating a tangible positive impact on society at large" (www.riseproject.org). Whether for-profit or not-for-profit, Social Ventures must be cognizant of cash flow and bottom lines while pursuing their social agendas to make systemic positive changes.

Social Entrepreneur

A Social Entrepreneur is distinguished from a Business Entrepreneur based upon the entrepreneur's goals. Social Entrepreneurs are driven primarily by the quest for social change. Their organizations may use profit generating vehicles to accomplish positive social goals. In contrast, the primary goal of a Business Entrepreneur is to generate profits, a portion of which may, in turn, be contributed to a socially-driven organization or cause (for example, Gap's PRODUCT Red).

Social Purpose

Webster defines the terms social and purpose as:

Social: of or relating to human society, the interaction of the individual and the group, or the welfare of human beings as members of society

Purpose: something set up as an object or end to be attained: intention

A recent study revealed that 86% of global consumers believe that businesses need to place equal weight on societal and business interests. The study refers to a "Fifth P of Marketing", Purpose. (www.edelman.com)

In the context of this article, a Social Purpose Business is established to benefit members of society. Of course, Social Purpose Businesses benefit more than people; many are established to benefit the planet as well (think green).

Socially Responsible Investing (SRI)

SRI considers both the investor's financial needs and the investment's impact on society. Potential investments are typically placed into categories and evaluated for their sensitivity toward ecology, community development, and animal testing. Screening is not necessarily designed to exclude companies from the portfolios, but rather to identify companies that are leaders in social practices.

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The above “social” concepts are finding their way into a number of emerging business models.

Program-Related Investment (PRI)

In general, charities are deemed to be either private foundations or public charities. Private foundations do not receive support from a broad public base, but rather from a limited set of donors. Private foundations are required each year to make qualifying distributions (§ 4942) in an amount based on the value of its assets. Qualifying distributions must be for charitable, educational, religious and other similar purposes. The Internal Revenue Service (IRS) defines a Program-Related Investment as “one that is made primarily to accomplish a charitable purpose of the foundation and no substantial purpose of which is to produce investment income or a capital gain from the sale of the investment.” Examples provided by the IRS include low-interest loans to other charitable organizations or needy students, and high-risk investments in nonprofit low-income housing projects. Earlier this year the IRS proposed nine new examples of PRIs which will provide guidance to foundations seeking different ways to foster social change.

Low-Profit LLCs (L3Cs)

An L3C is a form of a limited liability company (LLC) which, for federal income tax purposes, passes its income through to its members (i.e. owners). Like an LLC, an L3C is also subject to state income taxes; however, unlike an LLC, an L3C can attract PRIs from private foundations. The L3C should not be confused with a nonprofit organization and, in fact, differs from a 501(c)(3) in a significant aspect: while the L3C’s main purpose must be to provide a social benefit rather than to maximize income/profit, it may retain a secondary purpose of generating returns for its members/owners. Presently, nine states, including Illinois and Michigan, have amended their LLC laws to provide for the creation of L3Cs and legislation is pending in another 16 states.

Benefit Corporation and B Corp

The B Corp is a certification offered by a nongovernmental organization, B Lab. There are neither state nor federal requirements but rather social and sustainable criteria, including an Impact Assessment, designed by B Lab. Certified B Corps are rated based on accountability and employee, consumer, community and environment factors. Each B Corp receives a score which must be maintained and is periodically audited.

In many ways, a B Corp and a Benefit Corporation are strikingly similar; however, the Benefit Corporation is a state-defined corporate structure that has social and sustainable benefits defined within its bylaws. In 2010, Maryland became the first state to pass Benefit Corporation legislation, requiring public disclosure of the societal and environmental performance of the organization. In August 2012, Illinois became the 11th state to authorize the creation of Benefit Corporations.

So ask yourself these three questions:

- 1) Is your organization seeking additional revenue streams?
- 2) Is a for-profit subsidiary the most effective structure?
- 3) Do you have the proper accounting systems in place to convey social purpose and monitor and maintain sustainability?

FR&R will continue to update you on trends and new legislation that could impact on the success of your NFP or social-purpose business.

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