



Best Practices When Doing Business With a Non-Profit Organization (NPO)

When a municipality incorporates an NPO; entrusts it with an activity or asset; or grants it assistance in the form of money, goods, or services, certain measures are needed to ensure that the business relationship is formed and exercised properly and legally.

Legal framework for business relationships

A municipality may set up NPOs only for purposes expressly permitted by law, such as industrial, commercial, or tourism promotion or the organization and promotion of cultural and recreational activities.

It can provide financial assistance to these organizations and entrust them with assets and activities under its jurisdiction. It can also provide financial assistance in certain other areas named in the *Municipal Powers Act*, such as the operation of a health care institution. However, if the NPO is involved in commercial or industrial activities, financial assistance is only permitted when it is expressly exempted from the *Municipal Aid Prohibition Act*.

The municipality can exercise a certain amount of control over the NPO, both in terms of its board of directors and its financing, which can influence the legal obligations that apply. These obligations are designed to ensure that the NPO is managed consistently with the municipality's management, given the close ties between them.

It has been established that municipalities cannot use NPOs to grant themselves powers they would not have otherwise had, nor to do anything that they cannot legally do directly. Doing so can expose both the municipality and the NPO's directors to serious legal consequences. For example, the Town of Pincourt and a municipal officer who was a director of an NPO were found jointly liable for damages caused by the NPO's mismanagement.¹ Directors are also involved in their personal capacity and must act diligently, honestly, and loyally in the best interests of the NPO.

A mutual commitment to sound management

The decision to set up an NPO should be an informed one, with the goal of adding value for the municipality and its citizens. When a municipality outsources the management of an activity or asset, it is in its best interest to prepare a written mutual agreement on sound management with the NPO. This agreement should explicitly state its objectives and each party's roles and responsibilities, set expectations with measurable results and requirements for the NPO (e.g., adoption of a budget, audit of financial statements), and identify the accountability measures needed to track the achievement of the expectations.

In particular, the oversight mechanisms for the agreement are critical to assessing the NPO's performance and achievements. Responsibility for this oversight should be given to someone in the municipal administration who has enough authority to coordinate it (e.g., by collecting the necessary reports from the NPO). As for the measures involved, it includes assessing the condition of the assets involved, as well as the NPO's finances and results as they relate to the municipality's expectations.

To learn more about this subject, visit the [Commission municipale du Québec](https://www.cmq.qc.ca/) website for its investigation² and audit³ reports (in French).

¹ *Pincourt (Ville de) v Construction Cogex Itée*, 2013 QCCA 1773 and *Construction Cogex Itée v Paquette*, 2009 QCCS 5449.

² [Rapport particulier concernant certains organismes municipaux](#), February 2025; [Rapport d'enquête concernant la Ville de Shawinigan](#), November 2024.

³ [Rapport d'audit de performance, Encadrement lié aux ententes avec des organismes sans but lucratif](#), February 2025.