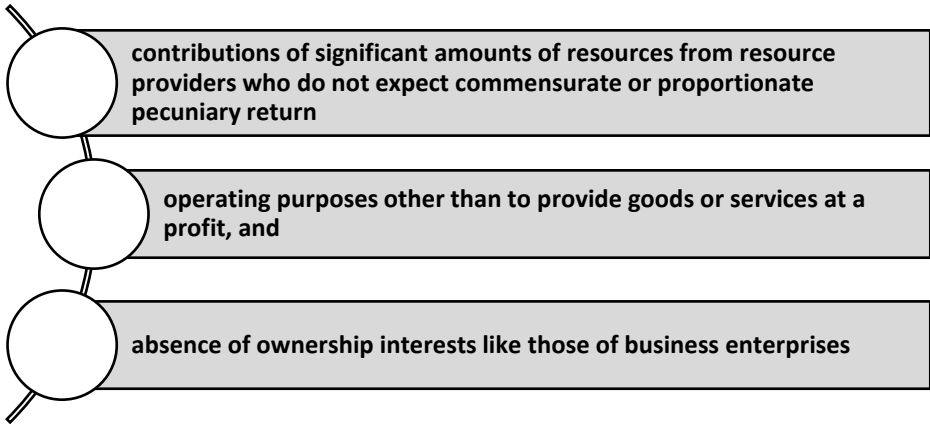


Non-profit Organizations

WHAT IS A NON-PROFIT ORGANIZATION?

How do we define a not-for-profit organization. When an entity possesses the following characteristics that distinguish it from a business enterprise it is identified as a not for organization:



This is how it has been defined by SFAS No. 116, *Accounting for Contributions Received and Contributions Made (Appendix D)*, and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*.

Hence we need to remember three specific features:

Resource providers or funders provide resources without really expecting commensurate returns,

The organization uses these resources in operations other than providing goods and services for profit,

There is absence of ownership typically like those of business enterprises, in the form of issue of share capital or by guarantee through voting rights.

Organizations that clearly fall outside this definition include all investor-owned enterprises and entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance organizations, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Examples of Non-profit Organizations

Some examples of non-governmental, non-profit organizations are:

- Cemetery organizations

- Civic and community organizations
- Colleges and universities
- Elementary and secondary schools
- Federated fund-raising organizations
- Fraternal organizations
- Labor unions
- Libraries
- Museums
- Other cultural organizations
- Performing arts organizations
- Political parties
- Political action committees
- Private and community foundations
- Professional associations
- Public broadcasting stations
- Religious organizations
- Research and scientific organizations
- Social and country clubs
- Trade associations
- Voluntary health and welfare organizations
- Zoological and botanical societies

1.1 VOLUNTARY HEALTH AND WELFARE ORGANIZATIONS

Voluntary health and welfare organizations generally provide guidance, training, goods and services to the general public according to their specific mission. Examples of voluntary health and welfare organizations include the following:

- Salvation Army
- Red Cross
- CARE
- Goodwill Industries
- United Way
- Boy Scouts
- Girl Scouts
- Boys Clubs

- Girls Inc.

Non-profit organizations whose purpose is to find a cure for or help people who have diseases such as cancer, diabetes, heart disease, or muscular dystrophy.

1.2 INTERNAL REVENUE SERVICE DEFINITION OF TAX-EXEMPT NON-PROFIT ORGANIZATIONS

The Internal Revenue Service (IRS) defines a tax-exempt organization as an organization exempt from income taxes, primarily under Section 501 of the Internal Revenue Code (IRC). Section 501 includes specified types of exempt organizations, such as charitable, religious, and educational institutions; civic leagues; social clubs; etc.

Most non-profit organizations must apply for and receive recognition of tax-exempt status from the IRS. Churches may, but are not required to, apply for tax-exempt status although they automatically qualify under IRC section 501(c)(3).

To maintain their tax exempt status if they have not applied for exemption, churches must operate and meet the same requirements as if they had filed. Most churches apply for tax-exempt status, however, to prevent IRS inquiries when donors are audited by the IRS.

All tax exempt organizations, including churches, are prohibited from supporting political candidates and from using their assets and revenues for the private benefit of any individual or organization (private inurement). They must also comply with all governance requirements included in the Internal Revenue Code, Regulations and Form 990 Information Returns, even if not required to file Form 990.

1.3 IRS CLASSIFICATIONS FOR TYPES OF NON-PROFIT ORGANIZATIONS

Some of the major IRC section 501(c) classifications include the following:

501(c)(3)—Organizations that are religious, educational, charitable, scientific, or literary, or that test for public safety or foster national or international amateur sports competitions, or organizations for the prevention of cruelty to children or animals.

501(c)(4)—Civic leagues, social welfare organizations, and local associations of employees, whose activities include promotion of community welfare along charitable, educational, or recreational lines.

501(c)(5)—Labor, agriculture, and horticultural organizations, whose activities are educational or instructive, with the purpose of improving conditions of work or improving products and efficiency.

501(c)(6)—Business leagues, chambers of commerce, real estate boards, etc., whose activities are intended to improve business conditions of one or more lines of business.

501(c)(7)—Social and recreation clubs, the purpose of whose activities are pleasure, recreation, and social.

1.4 PUBLIC CHARITY AND PRIVATE FOUNDATION

Every organization recognized under Section 501(c)(3) of the Internal Revenue Code (the “Code”) is classified as either a public charity or a private foundation. The classification is generally based upon the nature and diversity of the organization’s financial support.

Private foundations receive support from relatively few sources –

- Individual,
- Family or
- Company

A public charity usually receives support from multiple public sources. Private foundations are subject to a number of restrictions not applied to public charities out of concern that the foundations may be more susceptible to control and abuse by contributors.

1.5 CHARITABLE ORGANIZATIONS

Organizations that meet the requirements of IRS Revenue code of 501(c)(3), are exempt from federal income tax as *charitable organizations*. In addition, contributions made to charitable organizations by individuals and corporations are deductible under Code section 170.

Every exempt charitable organization is classified as either a *public charity* or a *private foundation*.

Generally, organizations that are classified as *public charities* are those that

- are churches, hospitals, qualified medical research organizations affiliated with hospitals, schools, colleges and universities,
- have an active program of fundraising and receive contributions from many sources, including the general public, governmental agencies, corporations, private foundations or other public charities,
- receive income from the conduct of activities in furtherance of the organization’s exempt purposes, or
- actively function in a supporting relationship to one or more existing public charities.

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Private foundations, in contrast, typically have a single major source of funding (usually gifts from one family or corporation rather than funding from many sources) and most have as their primary activity the making of grants to other charitable organizations and to individuals, rather than the direct operation of charitable programs.