

# **Board Training Kits: Association & Non-Profit Organization Basics**

**#1**



**Southern Early Childhood Association**

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## What is the nonprofit sector?

The nonprofit sector is the collective name used to describe institutions and organizations in American society that are neither government nor business. Other names often used include the not-for-profit sector, the third sector, the independent sector, the philanthropic sector, the voluntary sector, or the social sector.

These other names emphasize the characteristics that distinguish nonprofits — voluntary sector to acknowledge the importance of volunteers and voluntary action, independent sector to distinguish nonprofits from business and government, and social sector to underscore how the activities of nonprofits enhance the social fabric of our country.

Instead, these groups are dedicated to a specific mission. The nonprofit sector in the United States is vast and diverse and touches all our lives. It includes more than a million organizations that spend more than \$500 billion each year — more than the gross domestic product of Brazil, Russia, or Australia. About 6 percent of all organizations in the U.S. are nonprofits, and one in 15 Americans works for a nonprofit. Within this disparate group are many types of organizations. Section 501(c) of the tax code, which outlines the types of organizations eligible for tax exemption, lists more than 25 classifications of nonprofits.

Major subcategories of nonprofit organizations include:

Charities. Nonprofits that are exempt under Section 501(c)(3) are often called charities, but these organizations do far more than provide free care and services to the needy. Hospitals, museums and orchestras, private schools, public television and radio stations, and many other organizations are 501(c)(3) nonprofits. The majority of nonprofits operating in the United States are classified as public charities. To be considered a public charity, the organization must be able to show broad public support, rather than funding from an individual source.

Foundations. Many individuals, families, businesses, and communities establish foundations as a way to support causes and programs that benefit society. Foundations, which are also 501(c)(3) nonprofits, are one of the most complex components of the nonprofit sector. As a result of federal legislation passed in 1969, private foundations are subject to more stringent regulation and reporting requirements than other types of nonprofits. They are required to make grants equal to at least 5 percent of their investment assets each year, and generally pay a 2 percent excise tax on net investment earnings. There are nearly 40,000 foundations in the United States, such as The Ford Foundation, the American Express Foundation, the Getty Trust, and the New York Community Trust.

Social welfare organizations. Nonprofits such as the National Association for the Advancement of Colored People (NAACP), the National Rifle Association (NRA), and the National Organization for Women (NOW) are exempt under Section 501(c)(4) of the tax code. These nonprofits are often called social welfare or advocacy organizations and have greater latitude to participate in legislative advocacy, lobbying, and political campaign activities.

Professional and trade associations. Chambers of commerce, business leagues, and other organizations that promote the business or professional interests of a community, an industry, or a profession generally qualify for tax-exemption under Section 501(c)(6) of the tax code.

Source: [www.BoardSource.org](http://www.BoardSource.org)

## Definition of an Association

Business, professional, and community leaders recognize that many of their common goals can be achieved more quickly and economically through joint action than through individual action. Associations are these “joint-action organizations.”

Source: *Jerald Jacobs. Association Law Handbook. Washington, DC: American Society of Association Executives, 1996.*

## Role/Importance of Associations

Associations provide members with tools to more effectively conduct their businesses or practice their professions. The idea of the nonprofit sector may be abstract and poorly understood, but the sector's role in our society is tangible and easily recognized. Freed from the profit motive that dominates business and from the constraints of government, the nonprofit sector serves as a forum for the creation and dissemination of new ideas, an efficient vehicle for delivering social services, and a guardian of our environment, values, and heritage.

## Characteristics of Nonprofit Organizations

Nonprofit organizations operate in order to serve others or advance a policy agenda, not to make a profit. By virtue of this public interest mission, they attract a different kind of staff than corporations, use different systems of management, and value somewhat different qualities in their employees.

Mission Driven. Nonprofit organizations are organized around a mission whose significance is central to their work.

Limited Resources. Most nonprofits operate with limited financial resources, work within tough financial and time constraints, and many take on short-term projects according to political or foundation grant cycles. A continual focus on keeping afloat combined with a very "external" mission - e.g., to serve as many pre-K children as possible - often leaves nonprofit directors with little time to focus on management and professional development issues.

Inter-Organizational Relationships. People who work in nonprofit organizations are often tightly networked with others in their particular field. They may be connected through collaborative projects, mutual funding sources, or a similar clientele. While there are frequently "political" divisions which divide groups that should otherwise be allied, in general these organizations are closely linked and are regularly in touch with colleagues doing similar work in other organizations.

Multiple Stakeholders. Nonprofit organizations are unique in that they consist of, and operate for, many different constituencies. This makes them interesting places to work, but also makes for competing priorities and "politics" Foremost are the external constituencies: the public and/or members or clients, for whom the organization exists. Additional external constituencies are often private funders and/or government agencies, without whose support the organization could not operate. Internal constituencies include board members, whose decisions direct the staff, and volunteers, whose commitment is frequently at the core of a nonprofit's work.

Source: Bay Area Non-Profit Job Search Organization (BANJO)

## Duties of Associations

Source: Jerald Jacobs. *Association Law Handbook*. Washington, DC: American Society of Association Executives, 1996.

Association Activity	Examples
<b>Accounting</b>	Collect, compile, and disseminate financial data that enable members to measure their own levels of activity against the levels of activity recorded for their entire industry or profession.
<b>Advertising and Marketing</b>	Directly or indirectly promote products and services offered by association members  Assist members through market research and development of advertising aids for members' use
<b>Education</b>	Most extensive association activities  Many members consider the availability of educational opportunities to be the most rewarding aspect of their membership.  Conduct conventions, seminars, and other meetings to help members acquire greater knowledge and understanding of their profession  Prepare and distribute educational publications including newsletters, magazines, journals, books, manuals, etc.
<b>Government Relations</b>	Influence the legislative, administrative and judicial functions of government  Communicate information about government initiatives and requirements to members and others  Help government take informed and equitable action on behalf of members and citizens
<b>Public Relations</b>	Actively acquaint users of members' products and services with the profession they represent  Provide media and the public with information about the industry or profession  Work both proactively and reactively to ensure the public's impressions of the constituency are the appropriate ones
<b>Research Projects</b>	Promote, administer, finance and/or conduct research projects, encompassing any research that might lead to new or better ways to develop or use members' products and services
<b>Standardization Activities</b>	Establish criteria across a profession for evaluating and assessing member programs and performance

## Can a Nonprofit Make a Profit?

Many people believe that nonprofits receive most of their funds from private contributions. In reality, many nonprofits (hospitals and universities are good examples) generate revenue by charging fees for the services they provide, earning interest on investments, or producing and selling goods. Many organizations also receive funding from government, either in the form of outright subsidies or for providing services on a contract basis.

It may sound like an oxymoron, but it is acceptable — even desirable — for a nonprofit to make a profit (although nonprofits usually use the terms surplus or net revenue). Not everyone understands or agrees with this, and some people believe that nonprofits should spend every penny they generate immediately in pursuit of their charitable mission. Many nonprofits do just that, and many others actually spend more than they take in and operate at a deficit. In a recent NCNB survey of more than a thousand nonprofits, nearly 20 percent reported an operating deficit in their most recent fiscal year.

What distinguishes nonprofits is not whether they can make a profit, but what happens to profits. A for-profit company that generates net revenue can choose to distribute those profits to owners and shareholders, executives, and employees. Nonprofit organizations, in contrast, are non-profit-distributing; they don't exist to earn money for owners and shareholders (there are none) or employees. This distinction, not the ability to generate a profit, is a major difference between nonprofits and businesses. Nonprofits, unlike businesses, do not exist to make money for owners or investors.

Source: [www.BoardSource.org](http://www.BoardSource.org)



## Questions for Discussion

1. How do the four main characteristics of non-profit organizations (Mission Driven, Limited Resources, Inter-Organizational Relationships, and Multiple Stakeholders) apply to your association?
2. What special role in society does your association play? Who does it serve or represent in a way that no other organization does? What is your association's mission?
3. Based on the activities listed in the "Duties of Associations" section of this module, what activities does your association perform, and who is responsible for ensuring that each is completed adequately and in a timely manner?
4. Are there any of the "Duties of Associations" which you feel your organization needs to improve upon? If so, how could these improvements be made?
5. What is your association's plan for managing profits? Is the money being allocated in the manner envisioned by the association's leadership?

## Sources

Bay Area Non-Profit Job Search Organization (BANJO)

[www.BoardSource.org](http://www.BoardSource.org)

Jerald A. Jacobs. Association Law Handbook. Third Edition.

Washington, DC: American Society of Association Executives, 1996.

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