

Nonprofit Organizations

By: Patricia A. O'Malley

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I've worked with and for nonprofit agencies for more than 25 years as volunteer, staff, management, and board member. Now I have a consulting practice for progressive nonprofits engaged in social services and public policy advocacy. People are often confused about nonprofits and their legal and social roles in our culture. I hope this clarifies some of those issues.

"Nonprofit" doesn't just mean that you're not making money. There are hundreds of state and federal regulations controlling the business of nonprofit corporations. These are just the basics. First, the organizers must incorporate the organization in its home state. A nonprofit must have by-laws stating its structure, purpose, and rules of operation and it must have a board of directors. There are also rules governing the ways in which they can raise and spend their money.

Second, the new corporation applies for tax-exempt status from the US Internal Revenue Service (IRS). That means that the organization does not pay taxes on the money it raises. Once the IRS grants tax exemption, the organization is a full-fledged nonprofit corporation. Nonprofits that violate IRS regulations may lose their tax-exempt status, which can just about put them out of business. The IRS requires every nonprofit to file a report with them each year listing their income and expenses. The records are open to the public and anyone can see the information.

There are 59 types of organizations in 33 categories. Section 501(c)(3) of the IRS Code describes the most common nonprofits such as charitable, religious, educational, scientific, and youth sports organizations. Most donations to these agencies are tax-deductible. Nonprofits under this section face strict limits on the types and amounts of lobbying they may do, and they absolutely may not endorse any candidates for any public offices. The other code sections include labor unions, credit unions, business and trade associations, volunteer fire companies, social and fraternal associations, veterans and political organizations, and others. Donations to these organizations are not deductible, but they may do more lobbying and they may endorse candidates. That's why labor unions can endorse candidates and churches can't.

The United Way is a nonprofit corporation but it doesn't actually provide services to consumers. It does provide services to other nonprofits and it has existed under various names since 1887. Nonprofits can be members of the United Way but are not required to belong. It is a network of nonprofit agencies working together to plan and coordinate services to local communities. To be accepted, agencies must follow strict rules on their operation and management.

There are good and bad agencies, just as in any business. While the "cause" may be good – like helping animals, or feeding the hungry – the *agency* may or may not be run by good people. In my experience, most of the people who manage and work for nonprofits are honest, hard working, and dedicated to their causes. Unfortunately, there are always some bad apples. There are several places with information on whether an organization is a valid nonprofit, and whether they meet good standards of operation. The IRS, the PA Department of State, and the Better Business Bureau Web sites have entire sections on charities and nonprofits. They have information on charities in general or on particular organizations. You can also file complaints if necessary.

There are various points of view on the role of nonprofits in society. One holds that the government should perform all of the social services offered by nonprofits. Another maintains that nonprofits should do all of that work and the government should stay out of the social service business. Really, we need both. American nonprofits could not possibly handle all of the social services that the nation needs. The system is overwhelmed now. Government agencies truly can operate more efficiently on a large scale. They can follow a uniform set of rules and procedures, maintaining fairness to all. However, because of its size, government moves slowly and it can take years to make major changes in those rules. When unusual things happen – such as natural disasters (Hurricane Katrina) or industries collapsing (the steel industry) – smaller nonprofits are more flexible. They can adjust their rules and procedures more quickly and effectively to help those in need.

So please support the nonprofit agencies working on the issues that are important to you.

For more information:

US Internal Revenue Service *www.irs.gov/charities*
1000 Liberty Avenue, Pittsburgh, PA 15222
(412) 395-5667, 1-800-829-1040

PA Department of State, *www.dos.state.pa.us/char*
Bureau of Charitable Organizations
207 North Office Building, Harrisburg, PA 17120
1-800-732-0999 (within PA)

US Council of Better Business Bureaus, *www.us.bbb.org*
4200 Wilson Blvd, Suite 800, Arlington, VA 22203-1838
Phone: 1 (703) 276.0100, Fax: 1 (703) 525.8277

UPDATE ON SUPERDELEGATES

I recently wrote about the role of superdelegates in the Democratic presidential nomination process. Last weekend, the Democratic Party's Rules and By-Laws Committee decided what to do about the Michigan and Florida delegates. Those two states broke party rules by holding their presidential primaries too early in the season, and the party had threatened to eliminate their delegates at the August convention. As a compromise, the committee decided to give the delegates from those states one-half vote each. So now, there are 4237 total delegates and a candidate needs 2118 for the nomination. Watch the news for further developments.

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Please send comments, questions, and topic suggestions to
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