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## Understanding the Org Structure

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"I'm new on the board. At every meeting I hear about more parts to our organization. Shouldn't I understand the purpose and relations of each?"

It was an honest question from a volunteer. "What are all these entities and why do we have them?"

Many organizations have a structure beyond their single entity association. For this new director she was hearing about a political action committee, for-profit subsidiary, and a charitable foundation.

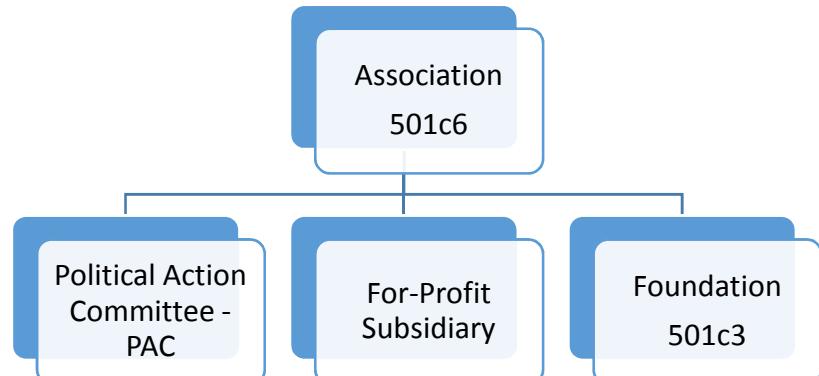
### Single Entity

Organizations form to represent a specific sector of business, profession or a cause. In their early years the single entity model is sufficient.

Through time new programs and initiatives develop. The mission expands. While the association administers the broadening activities, it might be better to form related entities. The combination of entities should enhance association efforts.

For instance, an association may expand its charitable efforts. It could be more effective to create an affiliated foundation to seek funds from new sources beyond the association's existing supporters.

Thus a foundation is born. The IRS designates it as a 501(c)(3) entity. It is unique from the association's 501(c)(6) status as a business league, association or chamber of commerce.



The separate organizations have prescribed protocols. For example, the association is likely to conduct advocacy while a foundation will not. The foundation may focus efforts on seeking grants, an activity improbable for an association.

In a governance report by the American Society of Association Executives it identifies the percentage of associations having related entities:

Foundation – 45 percent  
For-Profit Subsidiary – 16 percent.  
Components or chapters – 41 percent

## **Distinct Purposes**

Each entity has a distinct purpose. The relationships may be symbiotic yet separate as required by law and policy.

**Foundation** – Primary focus is on charity, research, education and fund raising. Contributions may be deducted as a charitable deduction. Likely to qualify for grants. Unlikely to participate in lobbying or political affairs.

**Political Action Committee** – Used to influence an issue, cause or candidate. PACs are regulated by state or federal ethics laws.

**For-Profit** – There may be an activity or income that is best administered through a for-profit entity. There is less public visibility. An example would be an association that owns an insurance company.

**Components** – The association may serve as the “parent” to chapters, sections or components. It may or may not be responsible for reporting component activities to the IRS. Chapters are close to the membership.

## **Organizational Chart**

Use an organizational chart to depict the association structure and to identify related entities. It clarifies lines of authority and relationships.

The connections between entities could be depicted by a solid line, dotted line or simply by being on the same chart but with a separate legal relationship.

The creation of subsidiaries has many considerations. There will be tax consequences, filings, reports and oversight. Rely on legal and accounting counsel when contemplating formation.

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Note: Bob Harris, CAE, provides free governance tips and templates at  
[www.nonprofitcenter.com](http://www.nonprofitcenter.com)