

What does the term 'not-for-profit' mean?

The term 'not for profit' is applied to many voluntary organisations. However, misleadingly, the use of this term does not mean that these organisations cannot make a profit or surplus.

Any organisation, voluntary or otherwise, which continually ends its financial year in debt it likely to go bankrupt. This, of course, is to be avoided.

In fact the term 'not-for-profit' should more correctly be replaced by the term 'non-profit-distributing'.

In order to be accepted as a not-for-profit organisation, the organisation's governing document (Constitution/Memorandum and Articles of Association/Trust Deed) must contain a clause which clearly states that it cannot distribute any of its income, either as money or in some other means, to the Committee/Board or any of its members.

This is often extended further to state that no one serving on the Committee/Board may be employed by the organisation. This allows the organisation to show that those involved in running the organisation are acting out of reasons other than their own profit.

Profit making or private business behalf in a contrary way, with the directors or the members of the company expecting to receive a percentage of the income of the organisation in the form of dividends etc.

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