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The Growth of Nonprofit Accounting and It's Impact on Human Services

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Abstract

Changes in nonprofit accounting standards and practices have spearheaded a quiet revolution in financial management practice in social agencies and the delivery of human services during the past three decades. These changes have gone hand-in-glove with other changes in the political arena to dramatically transform the ways in which human services are organized and delivered. At the core of this transition has been the movement from fund to enterprise accounting, together with such larger political developments as the expansion of grant-based relations with government into the performance management environment of purchase of service contracting.

Introduction

Anyone who has not followed the growth of the nonprofit human service industry during the past forty years may find it difficult to fathom the extent or degree of changes that have occurred over that time in the organization and financing of nonprofit human services. The term social service was more frequently used in the 1960s and the term human service is more common today, including in the phrase health and human services. Either term lacks a consistent or generally recognized definition, yet both refer to approximately the same domain of supportive, developmental and personal care activities. Over and beyond a simple mathematical increase in the number of organizations and services, the basic nature of the system of financing itself has changed. A key part of this development has been a revolutionary transformation in the system of financial accountability. This paper provides a summary overview of some of key changes, with particular attention to changing funding patterns and changes in accounting and auditing standards. It is, at least in part autobiographical, based on the author's many years of experience in the field and personal knowledge of some of the developments discussed.

Fifty years ago nonprofit human services in the U.S. constituted a miniscule voluntary sector of community service organizations; a speck of financial cosmic dust made up of fewer than 50,000 organizations concentrated disproportionately in the largest urban industrial centers of the northeast. Reliable data for the number of nonprofit organizations in 1968 do

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not exist. P.D. Hall estimates that there were fewer than 13,000 nonprofits in the U.S. in 1930 (Hall, 2006, 32). And, as recently as 1965, there may have been fewer than 50,000 nonprofit organizations in the U.S., compared to more than 1.5 million today. Applying current proportions of just under 25% of these as human service organizations, would suggest that the number of voluntary human service agencies may have been fewer than 4,000 in 1930 and perhaps 10-15,000 in the early 1960s. Further, the community service organizations that did exist prior to passage of the Great Society legislation of 1965 and 1966 were almost exclusively dependent financially on local "public support" in the form of gifts, donations and federated financing (e.g., United Way) solicitations.

Although currently available data do not provide solid evidence of this, it is reasonable to conjecture that nonprofit human service organizations in the late 1950s were subject to the same cap on donations that has characterized donations for the past 40 years – the "financial sufficiency" ceiling limiting total giving to slightly more or less than 2% of total net income. Originating in the wave of social reform movements of the late 19th century, by the mid-point of the 20th century this was a voluntary sector very much under a cloud of doubt and in apparent danger of being totally eclipsed by public sector services. Herman Levin in the 1970 edition of the *Encyclopedia of Social Work*, for example, asked what then seemed an obvious question:

> The spectacular expansion of public welfare activities after 1935, the relative indifference of public welfare to the plight of voluntary agencies, and the seeming inertia of voluntary agencies faced with the necessity of change led inevitably to the question: Are voluntary agencies necessary? (Levin, 1970, 1519)

In the long run, the answer to Levin's question turned out to be a yes-of-a-different-sort. While this small donation-based voluntary social service sector continued largely unchanged, another much larger public-private system of human service delivery grew up alongside it. Even today, voluntary community service agencies are still regularly established by private citizen volunteers, funded through private voluntary contributions, and remain committed strongly to their unique independent nonprofit status.

Such organizations were, and often still are, truly and even militantly not-for-profit. Thus, for example, in the women's shelter movement some have opposed paid employment on grounds that it was not consistent with the larger goals of promoting women's independence through self-determination and self-help (Haley-Lock, 2009; Loseke, 1992) For many people in human services, the idea of profiting from human pain, misery and suffering is not business as usual, and is morally unacceptable. Most voluntary nonprofits were, and still are, small. Until recently, many voluntary nonprofits were also relatively indifferent to issues of incorporation and tax-exemption. That large numbers of people would donate to an organized charity regardless of whether it was incorporated or legally tax-exempt is a good indicator of the trust - social capital - operating in this and other voluntary organization system as well as the strength of this particular "not-for-profit" ideal. (That such trust is sometimes abused also cannot be disputed.) The multiple weaknesses of the voluntary sector approach to accountability became increasingly apparent as new and different donors, and in particular public, institutional grants and contracts became important. Of critical importance also is that prior to the emergence of public funding in the Great Society period most voluntary nonprofit agencies had no explicit public mandate or responsibility for the general welfare (Levin, 1966). These voluntary health and welfare services were not only voluntary, but also private nonprofits in this important sense, even though many of them continue to voluntarily embrace an ethic of "meeting community needs".

Between 1965 and 1968, a large wave of new federal grant programs, including Medicare and Medicaid, the Economic Opportunity Act, the Older Americans Act, the Model Cities act and more were enacted in the U.S., and as a result an entire new system of financial incentives was put in place (Unger, 1995). By 1970, a great many new nonprofit corporations had been created, while many more were yet to be created in a long nonprofit growth cycle that is still continuing today. The largest majority of these new creations were incorporated as tax-exempt nonprofit corporations to comply with federal requirements for grant funding. While some of these new organizations were ordinary membership associations, few fit the mold of the earlier voluntary sector social service. In social services, for example, new nonprofits included not only local community service organizations, but also several important but largely unrecognized new categories included associations for new professionals, like mental health center directors and home health workers, trade associations, like the association of area agency on aging programs, infrastructure organizations, like the National Council on Aging and independent sector, research organizations, conference sponsors and training organizations and accrediting bodies.

Some of these new nonprofit organizations were explicitly created as or quickly evolved into an entirely new type of public-private organization that are known today as "social enterprises". They were funded by public grants and contracts and typically seen as "partners in public service", sharing some measure of responsibility for the general welfare (Levin, 1970, p. 1520; Salamon, 1987; Smith & Lipsky, 1992). Many were also managed and controlled by "grantsmen" an entirely new class of social entrepreneurs who often saw themselves and are seen by others as community leaders in pursuit of public good as they interpreted it.

In this system, rather than more traditional forms of legislated public policy "ordering and forbidding" private actions, Great Society programs offered major instances of government at one level seeking to structure service delivery at other levels and in the private sector; seeking to influence private, nongovernmental behavior strictly through offering or withholding financial incentives.

This new form of public funding ("with strings", as it is often said) was an important component in these newer, more entrepreneurial forms of community service, and also an economic shot in the arm for community social services. At least since the late 1950s, voluntary donations have been constrained by a national ceiling of philanthropic insufficiency in which donations have never exceeded roughly 2% of aggregate personal income. Even the emphatic national emphasis to "let the private (voluntary) sector do it" during the Reagan years failed to overcome this ceiling. An extended national campaign during the 1980s to "Give Five" was intended to get people to increase their giving to five percent of income and volunteer five hours per week. It resulted in an average increase of half an hour of volunteering per week, but had negligible effects on donations (Yörük, 2012). As a result, even as both the total number of nonprofit organizations and governmental contract funds as nonprofit sources of support expanded dramatically, total donations grew only as a fixed proportion of total income growth. Although this meant what appear to be substantial increases in voluntary donations, such increases were small in proportion to the total overall growth of grant and contract support, and as the range of funding options expanded, the proportion of contributions to traditional targets like voluntary agencies actually shrank. The total proportion of all donated funds going to social services also continues to shrink. According to data gathered by Giving USA, contributions to human service organizations in 2004 accounted for only 7.7 percent of total estimated voluntary contributions, in 2004, and declined by an inflation-adjusted 1.1 percent.
(http://nccs.urban.org/statistics/quickfacts.cfm. [retrieved February 10, 2008])

Already by 1968 Levin characterized as "lopsided" the relation between rapidly expanding public support for nonprofit and public agencies and seemingly static voluntary contributions. By 1968, Levin noted, the $708 million raised by United Way campaigns in the U.S. generated only 25.8% of the revenues of United Way member agencies – themselves already only a fraction of the total number of human service agencies and also in many cases thoroughly integrated into the newer public-private system. By the late 1990s, donations accounted for less than 20% of total revenues for human service organizations and the number continues to fall (Urban Institute, 2002, 112). While the traditional voluntary sector still exists, it has dwindled in size and importance both relative to all human services and in proportion to all public charities (tax-exempt, tax-deductible nonprofits).

The QUANGO Revolution

What was already coming into focus by 1968 was an emerging new model of publicly funded, quasi-nongovernmental human service organizations or human service QUANGOs (Coughlin, 1961; Coughlin, 1966; Drucker, 1969; Kramer, 1966; Kramer, 1973; Levin, 1964; Levin, 1966; Pifer, 1967; Stock, 1969; and Task Force on the Organization of Social Services, 1968). The rise of governmental support was hardly a surprise, having long been anticipated in the voluntary sector (MacLean, 1901; Johnson, 1931; Swift, 1934). What had not been anticipated was how complex and challenging this would make the task of accountability in social services. (For one of the most prescient anticipations of this transformation, see Kramer, 1966.) A mix of donations (including in-kind and cash donations) and public funds, relaxation of the traditional legislative mandates on public agency initiative (by contracting program mandates out) and organizational governance by unelected officials were the most essential features of this new nonprofit, quasi-nongovernmental organization model.

Part of the emergence of these new human service QUANGOs resulted from the working through of the "change" mandate of the New Generation which came to power in the Kennedy years (and some would argue, ended in Vietnam). Most authorities in voluntary social services who had foreseen this development also did not anticipate the astonishing increase in the number of nonprofit organizations of all types that accompanied the QUANGO transition. Currently, there are probably between 250,000 and 300,000 nonprofit social service organizations in the U.S. (as much as a 10-fold increase since 1968). Two principal dynamics account for large portions of that growth: First, government grants proved a transient phenomenon and service purchases by government began to increase dramatically in the mid-1970s and to largely replace grants as sources of essential operating funds.

The dynamics of this were complex. Responding to charges of "unfair" competition and other political dynamics, the Nixon Administration redefined a number of federal programs from grants into a contract mode (See Smith & Lipsky, 1992, "The Contracting Regime, 43-71). This put nonprofit providers on a common footing with commercial contractors and was one of several steps hastening the transition from voluntary agency to QUANGO and ultimately to nonprofit social enterprise (Lohmann, . What began as rather narrowly entrepreneurial activity ("grantsmanship") subsequently evolved in the era of service contracting after 1972 into the far more general entrepreneurial stance of large portions of the nonprofit human service sector today (Lohmann & Lohmann, 2002; Lohmann & Lohmann, 2008; Wenocur & Reisch, 1989).

Voluntary Agency to QUANGO to Social Enterprise

The original voluntary sector and, for that matter, grant-funded QUANGOs have not disappeared entirely. However, the number of voluntary social services supported predominantly by donations and non-governmental grants and the number of quasi-governmental agencies entirely dependent upon grant support today both remain small. Whether the number and scale of such organizations is larger or smaller today than it was in the 1960s is an unanswered (and perhaps, unanswerable) question. What is clear is that the vast majority of nonprofit social services today are newly created in the past three decades and conform in varying degrees to the model of nonprofit firm as social enterprise; in which management-driven initiative and creativity define both the agency mission and the particular funding mix. (Bernstein, 1991; Gibelman and Damone, 1998).

The diminished significance of community-level social planning and the rise of enterprise-level strategic planning among nonprofit human services is an important indicator of this transition. Interagency competition and the necessity of securing operating capital almost entirely outside the conventional capital markets have been key factor in the transition of a substantial portion of contract service nonprofit organizations to entrepreneurship. As a result of the capitalization dynamic of human services, the decision today to offer those services through nonprofit or profit-making corporations is typically a strategic business decision made by boards, rather than, as in the past, a marker of community solidarity, ideological fidelity or moral purity. The emergence of this "enterprise" stage in the evolution of contemporary social services has been brought about in the face of both active opposition and passive non-support by the social service community through the interaction of several important and interconnected dynamics: The ceiling on giving - known as philanthropic insufficiency - has already been mentioned. In addition, the intentional creation of quasi-market conditions of scarcity and competition by policy makers bent on making nonprofit human services "more business-like" has been important. It is important to note that, the charged political rhetoric notwithstanding, services purchased by governments do not create a genuine market situation, if only because there is typically only one buyer regardless of the number of sellers and service beneficiaries involved.

Equally important has been the collapse, or failure of traditional "voluntary sector" community planning institutions to counter the creation of "market" competition for nonprofit organizations. What this means in most communities is that, although the traditional rhetoric of jointly and collaboratively meeting community needs is still very much in place, the reality is that most nonprofit social services are in competition with one another for resources at multiple levels. In this same vein, the advocacy by legal and accounting professionals for financial statements and accounting standards reflecting an "enterprise" model of nonprofit services has reinforced and legitimized the enterprise dynamic in human services. Further examination of the important role in this transition of evolving nonprofit accounting standards and the close connection of this to evolving theory of nonprofit organization since the mid 1970s is the principal focus of the remainder of this paper.

Before Accounting Standards

In important respects, the evolution of professional accounting standards and practices in the past half century closely parallels the transitions from voluntary agency to nonprofit organizations supported by grants and contracts to social enterprise. In 1960, there was no recognized nonprofit sector and there were no recognized nonprofit-wide accounting standards; what standards there were tended to be established along programmatic, type of service lines. For example, the United Way member agencies, family service agencies, Child Welfare League member agencies, community action agencies, and community mental health centers all had their own accounting standards prior to 1974 (See United Community Funds and Councils of America, 1956).

In one of the first moves toward sector-wide uniformity, the Office of Management and Budget (OMB) in the federal government published audit standards defining allowable costs and other standards for all federal grants in the early 1970s (Comptroller General, 1974). All of these were until the 1980s largely independent initiatives that occasionally even worked at cross-purposes. The basic legal pattern of state incorporation and the primacy of federal recognition of tax-exempt status were originally in place for the voluntary social service sector along with other nonprofits after the adoption of Section 501 of the Internal Revenue Code in 1935. For the most part however, the system was until the 1970s seen as a largely private one involving contracts between private persons: individual donors were able to demand accountability for the handling of their gifts, and if they didn't, there was little or no systematic public followup at any level: federal, state, local or professional associations. Such private contract accountability, however, was completely overwhelmed in the scale of federal funding, the sheer number of programs, the rapidly increasing number of organizations after 1965. It was almost immediately clear by the time the ink on the first new laws was dry what one of the greatest transitions from the old voluntary sector described by Levin above to the new circumstances would be: Grant- and contract-funded nonprofits receiving public funding now were being given explicit public mandates and some share of responsibility for the general welfare. It would take the better part of two decades, however, to fully work through the implications of that transition.

Public social service contracting by government agencies in the U.S. has a history going back to the colonial period. But such contracts in the case of welfare programs were limited, almost never involved large amounts, and almost exclusively local in nature directed from local governments to households for direct care of “the worthy poor”. They were often gentlemen’s agreements among “the better sort of folk”. The type of governmental performance contracting with commercial and tax-exempt nonprofit organizations that evolved after the 1970s, was generally unknown option in this tradition. Such contracting had long been used to build warships, military uniforms, and supplies, but not to “board out” orphans, the mentally ill and the senile elderly. In particular, contracting was not seen as part of the range of program options of voluntary sector social services (See, for example, the absence of contract options in Hylton & Oleksiuk, 1968)

Accounting Standards

Accounting standards for voluntary sector social services, to the extent that they existed at all prior to 1974, were generally limited to industry-specific standards, such as those among United Way member agencies, Family Services Association members and others (An Accounting Manual, 1971; United Community Chests and Funds, 1956). They were also heavily directed at the situation of “public support” discussed above. Prior to the mid-1970’s, nonprofit accountability generally paralleled financial arrangements. Grants-in-aid were an esoteric, little-studied and less understood domain in intergovernmental relations, of concern only to a handful of career specialists in government law and accounting whose job responsibilities they were. One well-known economist and former president of the American Economic Association proposed “a preface to grant economics”. (Boulding, Kenneth E. *The Economy of Love and Fear: A Preface to Grants Economics*. Belmont CA: Wadsworth, 1973.) Boulding’s approach has been highly, albeit indirectly, important in the emerging conception of the “nonprofit” or “third sector” detailed below. Gifts and donations were, as noted, largely private matters between donors and recipients, aided only in the case of large gifts by their respective attorneys and accountants, schooled in trust law and practice. Legal, economic, and accounting professionals as a while took little notice. There was, in short, relatively little need for broadly applicable accounting standards applied uniformly to all nonprofit organizations. Since then, things have changed a great deal.

Over the past three decades, there have been four principal and interrelated centers of innovation important in the development of nonprofit accounting standards and practices as they contributed to reshaping the model of nonprofit organization (listed here in no particular order): industry infrastructure organizations, the federal government, the accounting profession, and academic researchers and theorists.

Industry-wide Infrastructure Organizations

Uniquely important in this respect has been INDEPENDENT SECTOR, "the leadership forum for charities, foundations, and corporate giving programs" formed in 1980 and currently including more than 600 organizational, corporate and philanthropic members. INDEPENDENT SECTOR was responsible, in particular, for the establishment of the NTEE (National Taxonomy of Exempt Entities), and set a pattern of cooperation between large national nonprofit organizations, networks of smaller organizations, the IRS Exempt Organizations Division, and interested accounting, economic and legal professionals.

Russy Summariwalla, at the time International Vice President of United Way was singularly important in this regard with leadership in the development of the original human service typologies known as UWASIS and UWASIS II (Summariwalla, 1974; Summariwalla,1976; Summariwalla and Lewis, 1989; Summariwalla 2000). Also important were the 1989 foundings of both ARNOVA (the Association for Research on Nonprofit Organizations and Voluntary Action) and ISTR (the International Society for Third Sector Research) and three journals, Nonprofit and Voluntary Sector Quarterly, Nonprofit Management and Leadership and Voluntas. Among other things, this created an interdisciplinary publication system in which accounting professionals interested in nonprofit issues could publish research to a large and growing international audiences (In particular see, Dart, 2004; Duncan and Stocks, 2003; Ebrahim, 2003; Greenlee, 1998; Greenlee and Trussel, 2000; Kaplan, 2001; Richmond and Quarter, 2003; Speckbacker, 2003; Tinkelman, 2007; Trussel, 2003; Tuchman and Chang, 1991; Wooten, Coker and Elmore, 2003).

Federal Involvement

The full story of federal involvement in the promulgation of nonprofit accounting standards and practices has yet to be told. Alongside what has sometimes been a rather imperialistic posture toward community-level services, in which federal agencies attempt to dictate terms and conditions to grantees and contractors, there is also an important federal role as partner and collaborator in the evolution of standards. Particularly noteworthy in that regard has been the working partnerships that have evolved between the IRS and various nonprofit organizations in the definition and interpretation of Section 501(c)3 of the tax code. This public-private partnership was particularly evident in the revisions to the IRS-990 tax form in 2007.

Since 1999, GASB Statement No. 34 laid out a dual system of financial statements corresponding both to ordinary business statements and necessary fund-accounting statements for general, enterprise and other funds (Anthony and Young, 2005, pp. 477-485). This still leaves some of the original quandary of which principles and standards apply to QUANGOs, especially those created or controlled by state and local governments somewhat unresolved.

Professionals Tiptoeing In

The original forays of accounting professionals into the nonprofit arena were somewhat tentative, reluctant and uncertain and, perhaps involved at least a bit of necessary professional triage as well. Following the avalanche of grants and contracts enabled by "Great Society" legislation after 1965, increasing numbers of nonprofit organizations awoke first to the opportunities afforded by "federal funding" (See Unger, 1996). Grant guidelines for a bewildering variety of possible federal grants were widely circulated among grantsmen. It was only after such grants were awarded in large numbers that the awareness spread that all of them contained standard federal requirements and expectations of annual financial audits by Certified Public Accountants (CPAs). And later came the realization that, unlike much behavior in the traditional voluntary sector, federal expectations for the application of generally accepted principles of accounting was more than a nominal expectation. The first challenge, therefore, was quite literally to figure out which principles of accounting were to be generally accepted.

The Birth of Nonprofit GAAPs

In retrospect, it is little wonder that the professional organization representing CPA's – the American Institute of Certified Public Accountants (AICPA) - was initially reluctant to get involved due in large part to the utter complexity of issues involved, but then quickly moved to establish the first generic sets of national nonprofit accounting standards in 1974 (AICPA, 1974). The AICPA approach achieve two important results that have had long-term consequences: defining a universal set of financial statements, and defining three standard cost centers of program, administration and fundraising. Fund rather than enterprise remained the norm in the 1974 AICPA standards.

However, the AICPA was unable to resolve a range of important issues. As a result, until 1980, there were separate accounting standards for four different types of nonprofits: voluntary health and welfare organizations, colleges and universities, health care organizations, and all other nonprofits; there were also many inconsistencies (Anthony and Young, 2005, p. 469). In 1980, the National Accounting Standards Board (NASB) accepted jurisdiction for all "private" (nongovernmental) nonprofit organizations, with nonprofit governmental entities remaining with the Government Accounting Standards Board (GASB). Currently, the most important standards for nonprofits are spelled out in FASB Standards #93 (depreciation), #95 (cash flows), #116 (contributions received and made), #117 (financial statements) and #124 (investments by nonprofit organizations) (Anthony and Young, 2005, p. 469)

Academic Contributions: A Conversation of Sorts

The transition from the small voluntary sector of the 1950s to the much larger human services enterprise sector of today brought greater attention by the accounting profession to nonprofit human service accountability, and the evolution of a distinct nonprofit enterprise accounting model. It also gradually generated a completely new research program for accounting. This may be the clearest and easiest development to document from a distance of several decades, if only because academic norms of publication, citation and documentation prevailed and left a pretty clear record. While digging out four-decades old federal standards and Congress Business Daily citations can be a mind-numbing task, mining the publications record is a good bit easier.

The earliest contributions in this area were made by the unnamed figures who developed the program-specific standards for United Way, Family Services, Travelers Aid and the other national voluntary systems in the 1950s and later. Beginning in the mid-1960's something that appears from the distance of decades to have been an interdisciplinary conversation of isolated solo voices began in at least four disciplines: accounting, economics, public administration, social work and sociology.

By the late 1960s, a number of accounting professionals in national firms and academic accounting programs had began to contribute. Malvern Gross (1965), Robert Anthony and David Young (1984), Robert Elkin (1965; 1969), and others established a nonprofit accounting literature.

Anthony and Young initiated widespread attention among nonprofit scholars with a singularly important definition:

> A non-profit organization is an organization whose goal is something other than earning a profit for its owners. Usually its goals are to provide services.
>
> (Anthony & Young, 1984, 35)

This definition, widely accepted at the time, probably gave also rise to the still-fashionable term "not-for-profit". In retrospect, one can see that the Anthony-Young definition provoked a number of distinctive and interdisciplinary responses: Dennis Young, an economist who was founding director of the Mandel Center for Nonprofit Organizations at Case Western and founding editor of Nonprofit Management and Leadership, asked the obvious question in a book title, "If Not For Profit, For What?" (1983). Young's question in turn provoked a range of responses. Young's own answer - nonprofit entrepreneurship - is, in all likelihood the earliest contribution to in what has become the burgeoning field of social enterprise studies. A quite different answer to Young's question was posed by Robert Payton, founding director of the Indiana University Center on Philanthropy. Payton answered: "private action for the public good." (Payton, 1988; See also http://www.paytonpapers.org/book/index.shtm. [retrieved February 1, 2008]). Payton's response succinctly characterized the position of the new publicly funded nonprofit QUANGOs vis a vis the public interest. At the same time, it excluded several other categories of nonprofit action, including the traditional voluntary sector organizations. (More on this point below.) Peter Dobkin Hall also emphasized the public interest in defining a nonprofit organization as:

> "a body of individuals who associate for any of three purposes: 1) to perform public tasks that have been delegated to them by the state; 2) to perform public tasks for which there is a demand that neither the state nor for-profit organizations are willing to fulfill; or 3) to influence the direction of policy in the state, the for-profit sector, or other nonprofit organizations" (Hall, 1987, 3).

The third clause of Hall's definition points to a major source of controversy in the "war on poverty", as many local and state officials in particular were very distressed at what they perceived as the use of federal public funds to lobby them. Lester Salamon (1999), Helmut Anheier (2005) and others also built upon this conception of nonprofit organization as public-serving enterprise privately producing public goods.

Meanwhile, in the early 1980s an authority on corporation theory, Henry Hansmann, overturned the Anthony-Young profit-earnings approach altogether with the suggestion that it is not the earning of profits, but constraints on their distribution which is the essential feature of nonprofit entities (Hansmann, 1980; 1981; 1987). Henry Hansmann refined and developed the concept of "the nondistribution constraint" as the essential defining characteristic of nonprofit activity; a powerful idea that brought management, organizational, accounting and economic perspectives into line with basic legal understandings of nonprofits. Requirements for such nondistribution constraints (in terms of required disposition of assets clauses) were, and are, standard features of most state nonprofit corporation statutes, and an essential condition of grants of tax exempt status by the IRS. Actually, this idea that limits on profit distribution were centrally important was first introduced by economist Burton Weisbrod (1976) in a work that also introduced micro-economic analysis ("the economics of the firm") into the study of nonprofit organizations. More than two decades later, several members of the European EMES Network (www.emes.net; retrieved on 2-1-08) have sought to overturn what are perceived as the U.S.-based "profit-centered" approach to defining nonprofits - including the Anthony-Young "other than profit" concept and the "non-distribution" approach of Burton Weisbrod, Henry Hansmann and others. They have been advocating a more Eurocentric conception emphasizing civil society, a "third sector" as a social economy (including not only nonprofit organizations and foundations but also mutuals and cooperatives) and social solidarity (Evers & Laville, 2004; but see also Lohmann, in press.). This is largely at the level of social and political theory at this point, and it will be genuinely hard for some readers to see the connections to nonprofit accounting. Those readers are referred to the social accounting perspective of Mook, Quarter, and Richmond (2007)

Despite the long history of attention to the voluntary sector in social service, these were completely new subjects in accounting and economics in the early 1980s. Likewise, nonprofit organizations in a different sense were already an established interest in the field of public administration by the 1970s. Documenting the origins of the public administration approach is currently beyond the limits of this article. The evolution and development of fund accounting in the voluntary and public sectors was one important piece of that approach. The typical public administration approach prior to the advent of multi-disciplinary nonprofit studies was entirely compatible with the Anthony-Young "other than profit" approach; it was to contrast "nonprofit" and "for-profit" settings, and add the further distinction between public nonprofits, such as municipal corporations, government agencies, and public commissions and private nonprofits, a term closely corresponding with what have been previously identified as "voluntary organizations". The outlines of this three part private-public distinction closely parallel what became known after the mid-1980s as the "three sectors" (Anheier, 2005). The two sets of concepts interlace in something like the following way: market (private for-profit), state (public nonprofit) and "third" (private nonprofit) sectors.

In social administration, Lohmann (1976; 1980) modified the Anthony-Young/public administration "other than profit" approach in another way from that of Young and Payton, but in a way which easily connected to the Weisbrod-Hansmann approach. Social administration is used here rather than the longer and essentially identical terms "social work administration," "social welfare administration," "social services administration", "human services administration and "human services management". All refer to fundamentally similar processes of guiding and facilitating the organization and delivery of human services, in public, commercial and nonprofit or voluntary circumstances. Rather than "something other than" profit-seeking, nonprofit human services organizations were said to conform to profit planning models in which profit points were set to zero. Although the accounting/management tool known as Break Even Analysis (1976; 1980) got most of the initial attention, the underlying theoretical point of nonprofit organizations "breaking even" as a special case of profit planning by management is also consistent with the use of micro-economic analysis in decision-making, as more recent nonprofit economists have made clear. (See Powell and Steinberg, 2003).

There is another convergence here to be noted as well: In 1984, Anthony and Young also observed that there were two distinct types of nonprofit organizations: the original, voluntary sector grant-funded agencies - which they denoted as Type A - and a newer, type of revenue-metered nonprofit whose service activity was generated revenues like an ordinary business firm (Type B). This observation became one of the theoretical starting points for the commons theory of associations (Lohmann, 1989; Lohmann, 1992) which distinguished nonprofit "firms" from "commons", characterized by voluntary membership, shared purposes, shared resources, and capable of generating "philia" or social capital, and their own moral orders. A further important distinction here was use of the term "benefactory" as a descriptive label for the class of tax-exempt organizations the IRS designated, along the lines of P.D. Hall's definition as "public benefit" organizations. The latter are characterized initially by voluntary participation, joint purposes, shared resources, and the emergent conditions of social capital formation and indigenous moral order (Lohmann, 2007).

Among other things, nonprofit firms and commons (and the firm-like and commons-like subunits of either type of organization) are rapidly evolving two distinct types of budgets. (Lohmann and Lohmann, 2008) An organization with a grant, membership dues or other common resource pool, for example, may engage in annual budget decisions of a strictly distributive nature to disburse funds from the pool. By contrast, the enterprising nonprofit social service firm (or benefactory) operates much more like the conventional business enterprise, making decisions that will impact both revenue streams and expenditures, albeit along different time frames. Accruals of both anticipated receipts and disbursements are important on an ongoing basis in the latter case, while only ongoing disbursements are typically a vital budget concern in the former.

Importantly, most of the original conceptual work in accounting, economics, law, public and social administration, as well as work in sociology of organizations, politics, and a number of other fields, occurred independently, in many separate disciplinary journals and in direct reaction to conditions "out there" in the field. It was only gradually, and in particular, after the 1989 founding of both ARNOVA and ISTR that these disciplinary perspectives began to converge and form the currently operative nonprofit organization paradigm. (See Anheier, 2005 for the fullest current statement of that paradigm.)

Conclusion

The transition from voluntary agency to QUANGO to social service enterprise is closely paralleled by the development of nonprofit accounting standards on an enterprise model. In this environment, two models of budgeting, termed 'common-pool' and social enterprise budgeting have emerged.

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