

Non-profit organizations in the conditions of Slovakia

Filip Rebetak^{1*}, and *Viera Bartosova*²

¹University of Zilina, Faculty of Operation and Economics of Transport and Communications, Department of Economics, Univerzitna 1, 010 26 Zilina, Slovakia

²University of Zilina, Faculty of Operation and Economics of Transport and Communications, Department of Economics, Univerzitna 1, 010 26 Zilina, Slovakia

Abstract. Non-profit organisations play an important role in the life of a society by providing generally beneficial services. The purpose of these organizations is to provide services in domains where they are not provided by the government, nor by the market. Their goal is to make the society a better place for everyone. In other words, non-profit organizations play a relevant role in society by attempting to satisfy human needs in different way or as a complement to lucrative firms and governmental activity. A non-profit organization may be defined as an entity that is concerned with its activities about the realization of social value adding mission. Globalisation is also playing a part in the growing importance of non-profits around the world as the non-profit sector spreads to the less developed economies and also grows in the international dimension via international non-profits and non-profit alliances. This article aims to establish a basic overview of Slovak non-profit organisations after dealing with the theoretical background for non-profit organizations in general. It deals with the definitions for non-profit organisations in Slovakia, the possibilities of financing of non-profits in Slovakia and basic rules and conditions for the accounting of non-profit organisations based in the Slovak republic.

1 Introduction

Non-profit organizations are an important pillar of society in many countries around the world. They constitute the third sector, voluntary or non-profit sector. [1] The purpose of these organizations is to provide services in domains where they are not provided by the government, neither by the market. Their goal is to make the society a better place. In other words, non-profit organizations play a relevant role in society by attempting to satisfy human needs in different way or as a complement to lucrative firms and governmental activity. [2]

A non-profit organization may be defined as an entity that is concerned with its activities about the realization of social value adding mission. Such a mission is realized thanks to sources collected through donations from donors. A donor is an individual (person, firm,

* Corresponding author: filip.rebetak@fpedas.uniza.sk

other entity) who appreciates social value generated by the realization of the missions by the non-profit organization. Such appreciation results in supporting non-profit organizations by means of donor donations. A donation is supporting non-profit organization activities by an amount of money, other assets or volunteer work that the donor delivers to the supported non-profit organization. [3]

In this article, we will deal with the theoretical background for non-profit organizations and then we will characterize the conditions of non-profit organizations in Slovakia. We strive to describe the environment and conditions of Slovak non-profits for future research.

In the first chapter we will provide a brief review of literature.

In the second chapter we will define non-profit organisations in Slovakia

In the third chapter we will describe possible means of financing for non-profits in Slovakia.

In the fourth chapter we will describe conditions of accounting for non-profits.

2 Literature review

One of the most used definitions of non-profit sector is the one by Salamon and Anheier [4] in which they formulated 5 criteria that characterize as organizations possessing formal structure, having private (non-state) character, having non-profit goal, being independent and self-governed and being voluntary. Usually this 5 criteria are joined by another two which are being non-religious and non-political.

There are many authors focused on the domain of non-profit organisations, their status, finances, management and other areas of functioning.

One of the recent developments has been a focus on achieving financial stability and sustainability which can be found in works by Valentinov and Vacekova [5], Valentinov et al. [6] or Emerling and Wojcik-Jurkiewicz [7]. They understand the need for a non-profit organisation to create a sustainable financial model for its operation to deliver on the social added value. , Kliestik et al. [8] studied Logit and Probit models used for prediction of financial health. Mihai et al. [9] researched the factors behind cash holdings.

Kral and Janoskova [10] looked into the project risk in management and the issue of diversification.

Vagner and Zadnanova [11] focused on possibilities for measuring efficiency of non-profit organisations using DEA (data envelopment analysis) and the framework for non-profit organisations in Slovakia.

Others doing research are Sponte [12] and Olah et al. [13]

3 Non-profit organisations in conditions of Slovakia

3.1 Definition of a non-profit organisation and types of non-profit organisations

In Slovakia, non-profit organisations developed mainly after the fall of communism in 1989 and played an increasing role in society ever since.

We can have two definitions of what a non-profit organisation is in Slovakia.

The first definition is the narrow one. It is defined in law concerning non-profit organizations providing generally beneficial services. It thus defines non-profit organisation as a law person founded according to that law that provides generally beneficial services for predetermined and for all users the same conditions and whose profit may not be used for the benefit of the founders, members of the organs or their employees but must be used in full to provide services of general interest. [14] The law also defines generally beneficial

services mainly as providing healthcare, providing social and humanitarian assistance, actions involving spiritual and cultural values, protection of human rights and freedoms, education, research and development, protection of environment and health of the populace, services supporting regional development and employment and providing and managing housing. The organisation incorporated according to this law has an abbreviation “n.o.” or words “neziskova organizacia” (non-profit organisation) in its name.

The second one, the broad one is from the Slovak tax law [15] which describe who is a taxable person that is not founded or incorporated for doing business. This definition includes many different types of legal persons, such as civic associations, foundations, noninvestment funds, non-profit organisations providing generally beneficial services (mentioned previously) and many others including churches, state television and radio, universities and much more. This is a very broad definition, and as such should be contrasted with the definition by Salamon and Anheier [4] used globally. This would leave us with only civic associations, foundations, noninvestment funds, non-profit organisations providing generally beneficial services as non-profit organisations in Slovakia. These types of organisations are also what is perceived by Slovak public to be a non-profit organisation or the third sector.

However, this difference in definitions and the scope of the types of organisations included in non-profit organisations poses a problem while assembling data or ascertaining the situation in the non-profit organisations because many institutions and databases include different types of organisation in their statistics.

Nevertheless, civic associations, foundations, noninvestment funds, non-profit organisations providing generally beneficial services are what constitutes the third sector in Slovakia.

We already described what a non-profit organisation providing generally beneficial services is and now we will briefly describe other organisations.

Civic associations are associations of at least 3 legal persons having together a common generally beneficial goal.

Foundation is a purposeful association of assets that serves the purpose of supporting the public good. [16]

Noninvestment fund is a non-profit legal entity that brings together funds intended to support the fulfilment of a generally beneficial purpose or individually designed humanitarian assistance to an individual or group of people who have been threatened with life or who need urgent assistance in dealing with a natural disaster. [17]

3.2 Financing of non-profit organisations

Non-profit organisation in Slovakia has many different possibilities for financing. For a better understanding some of them are listed in the following table.

Table 1. Means of financing for non-profits

Internal	Self-financing	<ul style="list-style-type: none"> •Equity introduced by the founders •Membership charges •Sales of products or services •Advertising, sale or renting of property
External	Public direct financing	<ul style="list-style-type: none"> •Grants and subsidies from government, local governments, cities, foreign countries or EU funds •Payments for services provided by non-profits
	Public indirect	<ul style="list-style-type: none"> •Assignment of the percentage share of taxes of legal entities •Customs and tax exemptions
	Private	<ul style="list-style-type: none"> •Individual donations and sponsorships •Gifts •Grants from foundations

Non-profits can receive monetary and also non-monetary donations. Their donations can be also from either domestic or foreign donors.

Non-profit entities do not have the right to issue stock whereas the equity of non-profit entities is issued by donors and persons who have no right to express control over the non-profit organisation. [18] Providers of equity type capital to non-profits cannot withdraw their money or participate on its profits. [3]

Some non-profit organisations can carry out business. In Slovakia, only organisations incorporated as non-profit organisations providing generally beneficial services can have a part of them running a business. Moreover, it is allowed to carry out business only under condition of it being a more effective use of its assets and the quality, scope and availability of services for which it was founded. Revenues from these activities are taxable and have to be used to fund primary goal of the non-profit.

3.3 Accounting of non-profit organisations in Slovakia

Non-profit organisations in Slovakia have to use double-entry accounting. There is an exception for civic associations, non-profit organisations providing generally beneficial services and non-investment funds if their revenues for the previous accounting period were less than 200 000 € and they weren't part of the public sector. In that case, they can use simple accounting. [19]

Additionally, non-profit organisations providing generally beneficial services, foundations and non-investment funds are required to have a financial statement and an annual report certified by a statutory auditor in two cases. First one is if their revenues from the public financing and the assignment of taxes for the accounting period for which financial statement and annual report are drawn up are in excess of 200 000 €. The second one is if all the all the revenues of the organisation exceed 500 000 € in said accounting period.

Non-profit organisation providing generally beneficial services has to keep in it account separately the revenues and costs associated with generally profitable services and the revenues and costs associated with business activities.

4 Results and Discussions

Non-profit organisations are a valuable part of Slovak society and play an important role in providing generally beneficial services that neither market nor state provides. Currently, there are 49 103 non-profit organisations by our broad definition as of 2017 according to the date from the Statistical Bureau of the Slovak Republic. [20] In this article, we successfully described conditions of Slovak non-profit organisations and opened many possibilities for research. We accept limitations of this article. Because of the small scope of the article, we didn't go deep into different aspects of Slovak non-profits, rather we decided to provide just an overview. A deeper look into these areas might be a topic for future articles.

This paper is an outcome of project VEGA: 1/0544/19 Formation of the methodological platform to measure and assess the effectiveness and financial status of non-profit organizations in the Slovak Republic.

References

1. J. Kendall, HK. Anheier, The third sector and the European Union policy process: an initial evaluation. *Journal of European public policy* **6**, 283-307 (1999)
2. D.R. Soriano, M.A. Galindo, An overview of entrepreneurial activity in non-profit organizations in the international context. *Small Business Economics* **38**, 265-269 (2010)
3. G. Michalski, G. Blendinger, Z. Rozsa, A. Cierniak-Emerych, M. Svidronova, J. Buleca, H. Bulsara, Can we determine debt to equity levels in non-profit organisations? Answer based on Polish case. *Inzinerine Ekonomika-Engineering Economics* **29**, 526-535 (2018)
4. LM. Salamon, HK. Anheier, In search of the non-profit sector. I: The question of definitions. *Voluntas: International Journal of Voluntary and Nonprofit Organizations* **3**, 125-151 (1992)
5. V. Valentinov, G. Vacekova, Sustainability of rural nonprofit organizations: Czech Republic and beyond. *Sustainability* **7**, 9890-9906 (2015)
6. V. Valentinov, S. Heischler, I. Pies, Nonprofit organizations, institutional economics, and systems thinking. *Economics Systems* **39**, 491-501 (2015)
7. I. Emerling, M. Wojcik-Jurkiewicz, The risk associated with the replacement of traditional budget with performance budgeting in the public finance sector management. *Ekonomicko-manazerske spektrum* **12**, 55-63 (2018)
8. T. Kliestik, K. Kocisova, M. Misankova, Logit and Probit model used for prediction of financial health of company. *Procedia Economics and Finance* **23**, 850-855 (2015)
9. I.O. Mihai, R.I. Radu, G.B. Drăgan, Determining the factors of cash holdings – the case of Romanian non-financial companies. *Forum Scientiae Oeconomia* **6**, 53-65 (2018)
10. P. Kral, K. Janoskova, Condition of acceptability of project risk in management of the project portfolio. *15th International Scientific Conference on Globalization and its Socio-Economic Consequences, Rajecke Teplice*, 345-352 (2015)
11. L. Vagner, S. Zadnanova, Non-profit organizations and their possibilities of measuring efficiency. *8th International Scientific Symposium Economy of Eastern Croatia - Vision and Growth. Osijek, Croatia*, 1159-1165 (2019)

12. M. Sponte (Pišťalu), Knowledge work and labor market performance: an empirical analysis. *Journal of Self-Governance and Management Economics* **6**, 113–118 (2018)
13. J. Olah, G. Karmazin, D. Mate, J.K. Grabara, J. Popp, The effect of acquisition moves on income, pre-tax profits and future strategy of logistics firms. *Journal of International Studies* **10**, 233-245 (2017)
14. Act. 213/1997 Coll. on non-profit organisations providing public benefit services as valid on 20/01/2019
15. Income Tax Act. 595/2003 Coll. as valid on 20/01/2019
16. Act 34/2002 Coll. on Foundations as valid on 20/01/2019
17. Act 147/1997 Coll. on Noninvestment funds as valid on 20/01/2019
18. A. Rahman, J. Belas, T. Kliestik, L. Tyll, Collateral requirements for SME loans: empirical evidence from the Visegrad countries. *Journal of business economics and management* **18**, 650-675 (2017)
19. Act 431/2002 Coll. on Accounting as valid on 20/01/2019
20. Number of non-profit organisations, Available on: http://datacube.statistics.sk/#/view/sk/VBD_SLOVSTAT/ns2003rs/Po%C4%8Det%20nez%C3%A1robkov%C3%BDch%20organiz%C3%A1ci%C3%AD%20%5Bns2003rs%5D