



**USDF**

UNITED STATES *Dressage* FEDERATION  
**SECTION TWO – SETTING UP YOUR GMO**

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### **Articles of Incorporation/Organization**

These articles, which explain the nature of your organization and how it operates, need to be as simple and general as possible. They are much harder to change than by-laws and they take precedence over anything you may later write in your by-laws. Articles are filed with the Secretary of State. They must include a purpose statement and dissolution clause. If your GMO will be a corporation, file Articles of Incorporation. Your organization can also be formed as a Limited Liability Company (LLC), or an unincorporated association, in which case the organization files Articles of Organization. Most GMOs are corporations.

### **By-laws**

Virtually every nonprofit group drafts by-laws, and most states require them.

By-laws are desirable because they define the internal structure of an organization and will serve as a guideline for board procedures long after the group's founders have departed. Well-constructed by-laws are a useful tool in not only building the organization but also in attracting new members because they reflect the image of an organization that is professional, well-managed, and aware of its legal responsibilities.

By-laws for nonprofit organizations run the gamut from very general, brief provisions to highly specific documents that are many pages in length. The optimum lies somewhere between.

Because by-laws actually document the relationship between an organization and its members, they should be fairly concise, easy to understand, and readily available to the membership. In fact, many GMOs publish their by-laws on their websites. By-laws should not be so specific as to require frequent amending, which can be confusing, nor so vague as to create uncertainty about any structure or procedure.

The organizing committee should review the by-laws of other nonprofit organizations for content and format. In addition, it would be wise to consult a lawyer or skilled consultant in this area. This is important not only because by-laws are considered a legal document generally enforceable in court, but also due to the fact that the content of association by-laws can affect the association's ability to obtain a determination of tax-exempt status.

All GMOs must have by-laws or written procedures not in conflict with USDF's by-laws which outline your basic structure and purpose. They give general guidelines for running your organization. By-laws include such things as:

- Purpose of the organization
- Information about membership, including membership classifications

- Information about meetings including notification to members and delegates and requirements for meetings
- Structure - including information about chapters, board, officers, directors, election and replacement, accurate job descriptions and duties
- Nomination and election procedures and voting information
- Amendments, including how to change the by-laws
- Dissolution

Each state has different laws regarding by-laws, so it is advisable to check with an attorney before finalizing your by-laws.

### **Policies/Standing Rules/Procedures**

This is where the detail goes regarding rules, fees, committees, etc. A board vote, rather than a full vote of membership, can usually change these. Things to consider that fall under the “policies” heading include:

- Competitions: the GMOs role in organizing and running them
- Membership: fee structure and benefits members receive
- Awards: how to qualify, rules, etc.
- List of standing committees
- Advertising information
- Newsletter information
- Scholarship information

### **Board of Directors**

Each organization differs in the number of directors on their board. This section will outline common director titles and functions. You will need to add and subtract duties based on your particular organization. These are, in effect, job descriptions of each board member. When defining your board, it is very important to have such descriptions for each member.

### **President**

- Presides and maintains order at meetings
- Appoints committee chairs and serves as ex-officio member of all committees
- Acts as liaison between committees to ensure cooperative efforts and prevent duplication
- Represents and promotes the organization
- Sets the agenda, date and location for board meetings
- The president only votes in the case of a tie

### **Vice President**

- Takes over in absence of the president
- Performs any other duties as assigned by the president

## **Secretary**

- Records the minutes of all meetings and distributes the minutes to board members
- Records and maintains records of roll-call votes
- Attends to all correspondence during meetings as requested by the president
- Notifies members of meeting dates, times, and locations

## **Treasurer**

- Handles all funds received and paid out by the organization
- Maintains a complete record of all financial transactions
- Prepares financial reports for the board and the membership
- Prepares the annual budget
- Acknowledges donations in a timely fashion
- Complies with appropriate state and federal regulations and statutes

Other positions that you may want to consider having on your board include:

- USDF Contact Person or Liaison
- Membership Secretary
- Newsletter Editor
- Public Relations Person
- Director at Large
- Historian

## **Fiduciary Duties of Board Members**

The membership places trust in board members to act in the membership's best interest as though they are performing the service for themselves. The relationship is similar to that of a physician or attorney. Each board member is responsible for carrying out the following seven fiduciary duties:

- Confidentiality
- Loyalty
- Obedience
- Disclosure
- Reasonable Care
- Diligence
- Accounting

## **Board Members Wear Three Hats**

### **1. The Volunteer Hat (carries no legal authority)**

- Goes on when leaving a board meeting
- Worn when advising the executive board
- Worn when alone or in a committee meeting

## 2. The Implementer Hat (carries limited legal authority)

- Worn when implementing by-laws and board policies by a board resolution to do so
- Taken off when task is completed.

## 3. The Governance Hat (carries legal authority)

- Worn when in a properly called board meeting with a quorum present
- Worn when decisions are made as a part of the board
- Worn as a committee member while determining recommendations for board action
- Never worn when working alone

### **Employer Identification Number**

Form SS-4 is required to obtain an Employer Identification Number (EIN) from the IRS. It is important that the GMO have its own taxpayer ID number, not work under an individual's social security number. It is free to apply for an EIN and you can even apply by phone or online. Forms and information are available at the IRS website, [www.irs.gov](http://www.irs.gov). Fill out the form before you call so the information is readily at hand, and the IRS will usually be able to give you a number immediately. A person authorized to act on behalf of the GMO should place this call, such as an officer or director. An EIN is needed to open a bank account, file tax returns, and for other official business of the GMO.

*Nonprofit organizations **are** allowed to generate greater revenue than expenses.*

### **Nonprofit Status**

Nonprofit status refers to incorporation status under state law. One common myth about nonprofit organizations is that they may not earn profits (more revenue than expenses). The truth is actually that nonprofit organizations are allowed to generate greater revenue than expenses and still retain their nonprofit status.

Revenue that a nonprofit entity generates cannot be distributed to individuals who control the organization. Equity also cannot be accumulated for private benefit. Nonprofit organizations generally undertake programs that will benefit members and the public. Therefore, by law, their earnings must be used for the purpose for which they were organized.

### **Obtaining Nonprofit Status**

Nonprofit status can be obtained in most states by filing Nonprofit Articles of Incorporation or Organization with the Secretary of State in the state of your GMO.

*Tax exemption does **not** mean the nonprofit organization is exempt from all taxes.*

### **Tax Status**

A common myth about tax-exempt status is that tax-exempt organizations do not have to pay taxes. Most nonprofit organizations do qualify for federal income tax exemption under one of 25 subsections of Section 501(c) of the Internal Revenue Code with 501(c)(3) being the most common and sought after. However, tax exemption does not mean that the organization is exempt from all taxes.

Tax-exempt status actually means that an organization is exempt from paying federal income tax on income generated from activities that are substantially related to the purposes for which the organization was formed. However, the organization does pay corporate federal income tax (at

standard corporate rates) on income that is unrelated to its tax-exempt purposes, or Unrelated Business Income (UBI).

Organizations that meet the requirements for federal tax exemption can sometimes rely on that status to exempt their income from state income tax as well. However, this is not true in all states. You should check with your state's revenue department for rules regarding tax exempt status.

Most tax-exempt organizations remain subject to taxes such as payroll withholding, unemployment tax, real estate tax, personal property tax, sales and use taxes, franchise tax, and taxes on lobbying activities. Exemptions for these vary by state and it is advisable to consult with an accountant to see if your organization is liable or if you can apply for an exemption. Exemptions are not necessarily automatic – you must apply.

*To maintain an exempt status, organizations must comply at all times with strict guidelines.*

To maintain an exempt status, organizations must comply at all times with the strict guidelines for both tax exemption and nonprofit status. Tax-exempt status is determined by the Internal Revenue Service and by some states, and means that you are generally exempt only from income tax. To be considered nonprofit, your income can exceed expenses, however no "profits" or portion of the organization's net earnings inures to the benefit of any individual.

The IRS provides forms to apply for tax-exempt status, and these can be downloaded from the IRS website. Again, you will want to use an attorney or CPA for this process. Generally, most GMOs will seek tax exemption under Section 501(c)(3) as an organization fostering national or international amateur sports competition.

You may also hear about other types of tax exempt organizations, such as the following:

- 501(c)(4): Civic leagues, social welfare organizations and local associations of employees (this is more or less a catch-all category).
- 501(c)(6): Business leagues, chambers of commerce, etc.
- 501(c)(7): Social clubs.

There are other types of 501(c) organizations that would not generally apply to GMOs, which will not be discussed here.

501 (c)(3) organizations have certain benefits other types of tax-exempt organizations do not receive. They may be eligible to send mail at lower nonprofit postal rates, they may be automatically exempt from other state and local taxes, and perhaps most importantly, money given to these organizations can qualify as a charitable contribution and thus be tax-deductible to the donor.

On the other hand, because the (c)(3) organizations are considered charities, they are subject to strict rules regarding lobbying activities (in general it is better to refrain entirely from such activities), and payments made to members of the organization.

## When to file?

In order to be treated as tax-exempt, the group must apply to the IRS. Use Form 1023 to apply as a 501 (c)(3). It is advisable to seek advice and assistance from an attorney or CPA in completing this application. You should file your application within 27 months of the end of the first month you were formed in order for your status to apply from your date of formation. The effective date of anything that you send to the IRS is the date of the postmark. Always send your application with a "return receipt requested" endorsement.

The 1023 is a one-time form. A fee is associated with this form. The fee is \$150 if the group's annual gross receipts are under \$10,000, otherwise the fee is \$500.

Upon approval, the IRS will issue a **Letter of Determination** stating the organization's status and its effective date. This letter should be kept in a safe place.

You will need the following documents and information to attach to the application.

- ✓ Completed Form 1023
- ✓ Articles of Incorporation or Organization
- ✓ Amendments to the articles (may be needed to bring in line with 501 (c)(3) exempt purpose)
- ✓ By-laws
- ✓ Other attachments such as newsletters, narratives, a conflict of interest policy (recommended, and IRS provides a template to use in drafting one), supplemental financial data to support the amounts reported on Part IX of the form, etc.
- ✓ Website, if you have one. (It will be examined thoroughly)

There is much to consider in forming a new GMO. The decisions are important and will have a lasting impact on the operation of the club for years to come. Making wrong decisions can be costly and time consuming to correct. It is therefore best to consult with experienced attorneys and CPAs as you undergo this process.

## Code of Conduct and Email Etiquette

Every organization needs good communication. Email can be a vital tool to an association whose membership is widespread and whose schedules vary.

Email can bring members together or tear them apart. It can bring news, information, query, and humor as well as devastation and destruction. Email etiquette is designed to make communication between the membership effective and efficient without malice or hurt. The guidelines for etiquette are to encourage and enlighten, not tear down or criticize. By following these guidelines, the membership will be ensured the respect entitled to each and everyone. Failure to follow these guidelines may mean sanctions from the board.

1. Always be professional, courteous, and kind while making a point. Be mindful of the tone that your email is bringing.
2. Never write a flaming email (flaming is a virtual term for venting emotion online or sending inflammatory emails. It is to avoid flaming emails because it tends to create more conflict and tension.)

3. Be brief and to the point.
4. Be correct; watch spelling, punctuation, and capitalization in the same way that you would in any other document. (Your writing says more about you than you realize.)
5. Do not send an email you would not want forwarded, especially when referencing the organization. (What you say/send cannot be taken back. Emails are public documents despite the fact that you may send an email to someone privately.)
6. Emails should not be used for disciplinary action, conflicts, or complaints. (This should be done formally or in person.)
7. Consider these things before sending an email: a) Would I say this to the person's face? b) Am I putting the receiver in an awkward position? c) How would I feel if I got this email?
8. Using emoticons and other virtual gestures may be appropriate in some cases, but, not all. It is always essential to consider the type of relationship that you have with the receiver. If your relationship is more casual, using the symbols is fine. If your relationship is more formal, then it is best to refrain from using emoticons. Remember: be professional.

Email communication will be effective, efficient, and informative without animosity or ill feelings if these 8 email etiquette guidelines are used.

**Sample Email Policy (USDF thanks NEDA for providing this sample)**

NEDA recognizes (due to the recent history of email conversations becoming judgmental and contentious with resulting hurt feelings, alienation and communication shut-down) the need for an Email Policy to establish discipline and order in its email communications.

- 1) This Email Policy applies to the use of email for any NEDA business, by any person.
- 2) Email is to be used only to communicate factual information and reports of NEDA activities, as well as presentation, explanation and personal opinions on NEDA issue(s).
- 3) Email shall maintain a civil tone and focus on presentation of facts. A Request for Email Action may be initiated when an email becomes argumentative, expresses anger, sarcasm and frustration that may silence the receiver, delivers an unhelpful or contentious tone, includes any kind of name calling or derogatory references, expands the subject to include past grievances and history, expands the scope of the debate to additional receivers when the matter should remain restricted to persons who are part of the original dialogue.
- 4) After a reasonable presentation of facts and opinions anyone can call for tabling a particular email conversation. Continuation after a reasonable call for tabling may stimulate a Request for Email Action.
- 5) This motion creates an Email Committee of three Email Moderators, to consist of the President, Vice President, and two additional board members, with one serving as an alternate.
  - a. If necessary two Email Moderators may select a temporary Email Moderator to perform until the end of the issue (see below) or until the regular member is again available
  - b. Vote(s) of the NEDA Board shall maintain (filling any vacancy / replacing as it deems necessary) the Email Committee at three persons, plus one alternate to act as necessary;
  - c. At all times at least one Email Moderator must be from the Executive Committee;
  - d. An Email Action shall be taken only by agreement of at least two Email Moderators;
  - e. The Email Committee shall maintain an Email Log of every Request for Email Action, including its date, names of Requester and Originator, email Receiver(s), email date and text, any pertinent details. This mail Log is to be kept current with date and details of each Email Action,

including names and votes of the three acting Email Moderators. The NEDA Board shall have the right to require full or partial disclosure of this Email Log at any time, with understanding of confidentiality.

- 6) Anyone may Request an Email Action by contacting any Email Moderator or the NEDA President:
  - a. This Request shall be in writing, by hard copy or by email, and shall include the name of the Requester, date of the Request and email details including its date, Originator, Receiver(s) and text.
  - b. If the Originator is one of the Email Moderators, that person shall be replaced (see above) for all discussion of this issue, first by the alternate, or secondly by a temporary Email Moderator.
- 7) The Email Committee shall process each Request as follows:
  - a. This Request (and all subsequent relevant communication) shall be communicated immediately to all three Email Moderators (and the NEDA President if not a member of the Email Committee).
  - b. The Email Committee may communicate about the Request as it sees fit;
  - c. The Email Committee shall act depending on the Originator's history in its Email Log;
  - d. Any Email Action becomes automatically inactive twelve months after it is issued;
  - e. The Email Committee shall take one of the following five Email Actions and so notify the NEDA Officers, the Requester and the Originator.
- 8) Email Actions
  - a. No Email Action. The Email Committee decides to not act on this Request. Once the Email Committee decides to act, disciplinary actions shall begin with a Private Email Warning.
  - b. Private Email Warning. If the Originator has no active Private Email Warning, the Originator is so notified by telephone and email. Future Requests that the Email Committee chooses to act upon, shall proceed with NEDA Board action in the following sequence.
  - c. Board Email Warning. If the Originator has an active Private Email Warning, the Email Committee shall immediately so notify the NEDA Officers. At or before its next meeting the NEDA Board shall issue a Board Email Warning to the Originator. The NEDA Board minutes shall indicate this, including the names of the Originator and acting Email Moderators, and the date and description of the email.
  - d. Board Email Sanction. If the Originator has an active Board Email Warning, the Email Committee shall immediately so notify the NEDA Officers. At or before its next meeting the NEDA Board shall issue a Board Email Sanction to the Originator. The minutes of this / next meeting shall so indicate and include the statement that the Originator has committed actions, in the event of a NEDA Board vote for dismissal from the NEDA Board and / or NEDA membership, which qualify as "for cause" for removal from the NEDA Board, per By Laws Article 8, Section 7 and "for just cause" from NEDA per By Laws Article 6, Section 3: Suspension and Expulsion. The NEDA Board minutes shall indicate this, including the names of the Originator and acting Email Moderators, and the date and description of the email.
  - e. Board Email Votes of Dismissal. If the Originator has an active Board Email Sanction, the Email Committee shall immediately so notify the NEDA Officers. At or before its next meeting the NEDA Board shall vote, as applicable, for removal of the Originator from the NEDA Board and for removal of the Originator from NEDA. The status of the Originator shall be determined, depending on the outcome of these two votes. The NEDA Board minutes shall indicate this, including the names of the Originator and acting Email Moderators, and the date and description of the email.



- 9) Any Email Action shall stand as active for at least 30 days after which the Originator may request, and shall be granted, a “hearing” at the next meeting of the NEDA Board at which time a motion and vote may deactivate disputed Email Action(s). The minutes of this meeting shall include clear reference to the minutes at which the original Email Action was taken and that its status is now inactive. The Email Committee shall so update its Email Log.