

## **Viewpoint – Board of Directors (Club Management)**

### **The Nonprofit “Business” of Curling**

Sandra McMakin

This article outlines the process of starting a curling club and examines considerations for operation of a club. Included in this article is pertinent information regarding the two usual IRS nonprofit tax categories currently in use by U.S. curling clubs – 501(c)(7) and 501(c)(3). This information is relevant for both arena and dedicated curling clubs.

Within the United States, membership for new curling clubs in USA Curling is primarily granted through USA Curling member regions and states. A club formed outside the boundaries of regional or state associations may obtain membership directly with the national association as an “at-large” club. The path to membership may vary slightly between the different regions and states. More information on this process of membership may be obtained from the main office of USA Curling or the specific state or regional curling association.

The typical first step in starting a club is to form an organization comprised of a core group of people enthusiastic about creating a curling club as a new venture. Again, each state or region has its own membership process for new clubs. Most regions require a set of bylaws. Some regions in USA Curling will accept new clubs as members with a set of bylaws, an organized board of directors, a letter of request and a small fee. Other states or regions may require all of the above plus legal incorporation, in the appropriate state, as a nonprofit business before membership is granted. To properly create your organization and incorporate it, you should get legal counsel and assistance from a lawyer familiar with nonprofit businesses. To get you started with bylaws, there are recent examples of bylaws available for curling clubs that have been prepared by an attorney. You can contact me for more information.

At the point of incorporation, the club becomes its own legal entity - separate from those who organize and manage it. This offers some legal protection from personal liability for the officers, directors and members of the organization. It also means that the entity now takes on a life of its own – an “immortal life”. The task for each successive board of directors from that time forward shall be to guide and manage the organization to survive and thrive long after they are gone.

From a tax perspective, the nonprofit corporation must file appropriate corporate income tax returns. Most newly formed clubs will not owe any taxes due to the lack of initial revenue. That said, special tax status is an important consideration for the newly formed club. It is often desirable for these organizations to choose and apply for a special tax status available for nonprofits such that the club is not subject to paying income tax on earnings gained from their primary purpose (or mission).

There are currently two primary nonprofit tax classifications for U.S. curling clubs – 501(c)(7) and 501(c)(3). Eric Davis, an attorney specializing in nonprofit corporations,

has written a companion article to this one where he provides more information on these two classifications. He also gave an excellent presentation on this topic at the 2007 USA Curling Members' Services Conference. This presentation is now available on DVD, through USA Curling's head office and I encourage you to obtain a copy of it.

Nonprofit corporations enjoy special tax exemptions because each of them provides a particular service, or benefit, to society thereby improving the quality of life in our communities. For example, curling clubs provide information, activities, and opportunities in the Olympic sport of curling.

In order to provide their services and programs, nonprofit corporations are like any other businesses in that they must operate in a responsible and financially viable way. In other words, "nonprofit" does not mean "no profit". As with any other corporation, it would not be good business to operate a curling organization at a deficit, or without sufficient "surplus" to meet both current and future needs. These corporations need to generate funds to grow and flourish - otherwise why would the IRS even need to give them a special tax status at all?

Unlike for-profit businesses, however, the "profits" of nonprofit corporations are not redistributed to individuals or shareholders. This is why many people prefer to use the terminology "not-for-profit" rather than "nonprofit".

#### Mission - 501(c)(7)

A 501(c)(7) organization is a "social or recreational" group. The group exists primarily for the benefit of its members and therefore the bulk of its income will be derived from its members in various forms including membership fees etc. A mission statement for a 501(c)(7) curling club might look something like this:

"A social organization created to provide curling play for local citizens."

Notice that the mission includes the word "social" and limits the purpose, and benefit, mainly to "local" participants. Therefore, the main organizational and operational tests of a 501(c)(7) nonprofit is whether the social or recreational aspects of the group's activities are the primary focus of the club. In curling terms, the warm room side of the glass takes precedence over the ice area side, and the primary benefit of the club is for the members who pay dues to that particular club.

#### Mission – 501(c)(3)

By contrast, many curling clubs have obtained the 501(c)(3) status as amateur sporting organizations with an education dimension aimed at developing the sport in their communities. In this instance, the group exists to "do good" in their communities by keeping their facilities and programs open to the public. In fact, the typical bylaws of a 501(c)(3) nonprofit will contain a statement to this effect. A mission statement for a 501(c)(3) curling club might look something like this:

“A sports education organization committed to teach, develop, promote and encourage the Olympic sport of Curling; to develop youth and adult programs that lead to local, national and international competition.”

Notice that the mission leans more toward development of the sport and broadens the purpose of the club’s existence to fostering competition to grow the sport - including at higher levels. Therefore, the organizational and operational tests of a 501(c)(3) club would be how the activities, programs and events support the development of the sport of curling within the community. In curling terms, the ice side of the glass takes precedence over the warm room side and the primary benefit of the club is for the public to be able to participate in the sport of curling at your facility.

In the case of 501(c)(3) curling clubs, activities such as bonspiels, leagues, open houses, Learn to Curls, Teambuilding sessions etc. would be considered typical operating activities where people have access to training, development opportunities and competition in the sport of curling. We would expect that the bulk of the club’s income would come from these activities. As you can see, most curling clubs are already operating in a manner conducive to the 501(c)(3) tax status.

Of course, what is not mentioned in the mission for a typical 501(c)(3) curling club is the social and recreational aspects of the sport of curling which we know to be an important part of the tradition and fun of the sport. Does this mean we should eliminate this dimension of our sport when planning our activities and events? Absolutely not!

Somehow, curling organizations with 501(c)(3) status, must reconcile the two very different aspects of curling – social versus sport - while fulfilling their mission to serve their communities. For operational and tax purposes, one way to do this is to differentiate between curling versus non-curling income – or income obtained from noncharitable sources such as beverage sales. For more information on this, please refer to the accompanying article by Eric Davis.

It’s a fact that a large percentage of people participating in curling do not enter competitive play down events. However, how many curlers in your club are participating in bonspiels where teams from across the U.S. – and likely Canada – are part of the playing field? This is an example of how curling clubs foster national and international competition. There are a variety of levels of competition within curling – all of which can be shown to teach, train, or develop the participants with regard to some aspect of the sport. Your club, right now, could be teaching a future Olympian how to curl and providing them with opportunities for them to develop their skills. There are many ways that curling organizations can “do good” in their communities by providing curling programs to a variety of groups.

Importantly, you might have noticed that I have not differentiated between arena versus dedicated curling clubs at any time during this article. That’s because there is no difference between them except their stage of development. Many arena clubs usually do

not have large percentages of income from outside of curling because they do not have their own facilities. Many dedicated clubs might actually have significant operating revenues coming from noncharitable purposes, such as beverage or food sales. Rather than change how we operate, there are ways to structure our organizations so that we are able meet operational tests.

The Winter Olympics has been the catalyst for thousands of people to investigate, try and join our sport over the past few years. Much of the growth of curling in the U.S. is the result of activities more aligned with the 501(c)(3) mission. In many cases, however, keeping those curlers is the result of both the sport combined with the recreational and social opportunities available to our participants. In other words - it is possible, and desirable, to include both growth and tradition in club operations.

But this is something your board must discuss as part of your vision for your particular organization. The 501(c)(3) mission encourages and supports the development of many programs and activities as ways for your club to serve your community, including the greater curling community. We'll talk more about what the vision for a 501(c)(3) curling club might include in the next article of the Curling News.

This article was reviewed for accuracy by Eric Davis and Chris Sjue. Feel free to send comments or questions to Sandra at [s.mcmakin@comcast.net](mailto:s.mcmakin@comcast.net). For more information visit [www.usacurl.org/goodcurling](http://www.usacurl.org/goodcurling) and click on the Arena Curling link. Also visit USCA Arena Curling Forum at [http://sports.groups.yahoo.com/group/arena\\_curling](http://sports.groups.yahoo.com/group/arena_curling).