

## WHY CORPORATE STRUCTURE MATTERS TO YOUR RANGE AND HOW TO AVOID TROUBLE FOR YOUR BOARD

Ranges have various corporate structures that make a difference in how they can operate and what actions they can legally undertake. Gone are the days of a bunch of gun owners just getting together to enjoy the sport they love on land they own. Now ranges and clubs have Board of Directors with specific legal duties, members with legal rights, and state and federal regulatory entities watching your every move. The California Rifle & Pistol Association (CRPA) Range Coalition and our legal team of Michel & Associates want to provide you with the tools to keep you in compliance, because let's face it, it can all be very overwhelming for a volunteer board.

First, as a club, your Board of Directors need to be certain of your legal status. Are you a for-profit club or a non-profit club? Do you have statutory members, members in name only, or shareholders? Can you open the range to outside groups or is it reserved for just your members? How long has it been since you had a review of your corporate documents and insurance coverage? All of these are key considerations for ranges and clubs and not taking them seriously could result in big and costly problems for your club.

Because this can get confusing very quickly, let's start with a nonprofit status designation of 501(c)7 from the IRS. This tax designation is also called a "social club" designation meaning that all of the assets and revenue from the club must be used for the benefit of the members. These types of nonprofits do not accept tax-deductible donations and there is a big difference in 501(c)7 clubs and other types of nonprofits- so don't think that they all operate the same way.

One of the distinctions is that there are certain restrictions on 501(c)7 clubs, dictating what they are allowed to collect in revenue. Because these types of clubs are for the "benefit of the members" they can have no more than 15% of their total gross revenue (from all sources) derive from non-member revenue. What does this mean in real operational terms? It means that 501(c)7 clubs must account for non-member revenue from use of the range, items purchased in their pro shop, participation in events, leases, etc. (this is determined on a case-by-case basis regarding the activity and a CPA or an attorney should be consulted). This also means more accounting and tracking of separate revenue streams.

If your range regularly brings in more than 15% of total revenue from non-members you could lose your nonprofit status and have an unpleasant visit from the IRS. This has happened to other ranges and clubs, so be warned and seek guidance before it happens to your club.

Another distinction in 501(c)7 organizations from other types of nonprofits is what you can do politically when it comes to supporting or opposing ballot initiatives and candidates. First, ranges and clubs can absolutely share updates and information on legislations and litigation with their members as educational member communications. Passing on information without adding any commentary to the information is not lobbying—it is educating the members on

issues related to the club's mission. Your range can also hold voter registration drives and share voter guides with the members from organizations that have a shared purpose like CRPA. 501(c)7 clubs can even raise funds for a candidate or initiative, although campaign finance rules must be strictly followed. This means that 501(c)7 clubs can contribute to Political Action Committees (PACs) or endorse federal and state candidates where other types of nonprofits cannot venture. This could give your club more influence in your local areas. If you are unaware of campaign finance laws, please seek legal advice to make sure you are doing this risk free.

Many clubs make the mistake of having corporate documents, but never reviewing them or diligently following them. Remember, this is a corporation that you are running, and certain corporate formalities must be followed. Nonprofits in California are governed by the California Corporations Code and there are specific sections for the type of nonprofit designation that your club carries. It is extremely important to review your bylaws annually as a board and make sure that you are actually conducting business the way it is noted in your bylaws. If you find that you are not following the bylaws, they can be revised, but even changes have rules in how those are implemented and who votes on those changes. Additionally, the California Corporations Code changes frequently so if you have not had a legal review of your bylaws in several years, your club is more than likely not in compliance state law.

You want a range and club that is sustainable for members and future generations to come. Board members of a 501(C)7 club and other types of nonprofit or for-profit ranges have a big responsibility to protect the club and keep it in compliance. If your board needs help with bylaws, corporate structure, how to handle situations, or even what type of entity your club is, CRPA can put you in touch with experts that can help your range.

Remember, not everyone understands nonprofit governance issues, which is why CRPA works with a team of corporate governance, insurance, and regulatory compliance experts who do. In the current political environment ranges and clubs are an easy target. CRPA Range Coalition is here to make sure that you have an informed board and the necessary structure in place to withstand this environment and keep your range open and operating for years to come.

*\*If you do not operate a 501(c)7 range or club, we will have more information coming out on additional types of corporate structures.*