

Component Relations Policy Checklist

(1) Relationship between Central Organization and Individual Members

- ___ No individual members; only components are members; individuals may be members of components (typically this is called a “federation”); central organization may or may not prescribe qualifications of individual members or sub-components.
- ___ Individual members can only be members of the central organization if they are members of components; typically components have a significant role in central organization governance, with delegates and/or directors chosen by or on the basis of component membership.
- ___ Many or most individual members of the central organization are members of components and relate to the central organization primarily through the intermediary of their components; members-at-large who are not members of components have some representational rights; typically components have a significant role in central organization governance, with delegates and/or directors chosen by or on the basis of component membership.
- ___ Individual members must belong to the central organization before they can join a component; not all individual members required to choose to belong to components; components have representational rights in the governance of the central organization.
- ___ Individual members must belong to the central organization before they can join a component; not all individual members choose to belong to components; components are for the convenience of the members only and have no representational rights in the governance of the central organization.
- ___ Each level of the association has its own autonomous membership. Individuals can choose to join at any level or at all levels. In some such associations, in order to remain in good standing, components must maintain a certain minimum percentage of their membership as members in the central organization. Components may or may not have a significant governance role in the central organization.

(2) Initiation of Relationship between Central Organization and Components

(a) Governance

- ___ Does the central organization issue internal component charters or articles of association? Or does the central organization have a simple contractual relationship with the component, which may be written, oral, or even based on custom and longstanding course of dealing between the central organization and the component?
- ___ Does the central organization periodically review and update internal charters/articles of association/contractual agreements with components or otherwise regularly renew component status?
- ___ Does the internal charter/contract of association provide that the component will take no action and adopt no rule that conflicts with the mission of the associated multilevel group or with the rules of the central organization?
- ___ Does the internal charter/contract of association clearly state the unifying mission of the association? To the extent that the central organization has adopted other statements of purpose that are typically updated periodically, such as a mission statement, a vision statement, goals and objectives, etc., does the central organization require that the components update their parallel provisions?
- ___ Do the central organization's model component bylaws and model purpose language for component articles of incorporation reiterate the unifying mission of the association in their purpose or objectives clauses?
- ___ Does the central organization require that subordinate units organize and act so as to qualify under a specific paragraph of 26 U.S.C. § 501 (c)? Does it require election of a specific paragraph of 26 U.S.C. § 501 (c) in the subordinate unit's governing documents?
- ___ Does the central organization provide basic governance parameters for components, such as required officers, board service requirements, board and officer terms, election procedures, membership qualifications, minimum membership requirements, meeting frequency and quorum requirements, committee requirements? If members of the components are not required to be members of the central organization, are board members and/or officers?
- ___ Is it clear whether components are (i) independent legal entities associated with the central organization and subject to its general supervision and control, or (ii) internal divisions of a unified association?
- ___ Is the component explicitly required by the central organization to hold itself out as a separate legal entity, with separate finances and accounts, and with no power as an entity or through its officers or board members to act as an agent for the central organization?

- ___ Does the central organization require components to obtain certain type of entity status, such as nonprofit corporation status or unincorporated nonprofit association status (a separate entity with certain corporate protections in states that have adopted the Uniform Unincorporated Nonprofit Association Act)?
- ___ Is the central organization empowered to appoint or approve directors or officers of the component?
- ___ If the association includes several levels, is the highest level responsible for chartering all components, regardless of level, or are intermediate level components responsible for chartering lower level components subject to their general control or supervision?
- ___ If the components are empowered to discipline individual members, do the members have an internal rights of appeal to higher levels within the association?
- ___ If one entity within an association is empowered to impose discipline on individual members, what is the effect of imposition of discipline on membership rights in other entities within the association?

(b) Intellectual Property

- ___ If components include in their names part of the name of the central organization, does the central organization include a required change of name upon disassociation in components' internal charter, articles of incorporation, and bylaws?
- ___ Does the central organization reserve the right in the component's internal charter, articles of incorporation, and bylaws to prohibit further use of logos, derived logos, trademarks, other identifying elements, membership lists, and other intellectual property of the central organization upon disassociation?

(c) Programming

- ___ Does the central organization allow components to put on programs without central organization approval? Does it require the component to report on its programming for review for mission fidelity?

(d) Finances

- ___ How are dues and other fees paid and allocated?
- ___ Does any level within the multilevel association provide financial assistance to individual members with dues or programming?
- ___ What is the effect of an individual member's nonpayment of dues on other levels of membership?

(3) Responsibilities of Components

- Typically include compliance with requirements, if any, imposed by central organization, and with all applicable laws and regulations, including applicable filing requirements with federal, state, and local governments
- ___ Periodic filing with the central organization of component's office, officers, directors, and professional staff contact information
- ___ Periodic filing with the central organization of treasurer's reports/financial statements
- ___ Filing with the central organization of internal audits, external audits, and/or financial reviews
- ___ Filing with the central organization of component tax filings, if not included in a group return
- ___ Filing with the central organization of board and/or member meeting minutes
- ___ Filing with the central organization of membership contact information
- ___ Filing with the central organization of reports on programming and activities
- Verify that central organization is in compliance with obligations undertaken on behalf of component, such as filing a group return covering the unit

(4) Responsibilities of Central Organization (may check more than one)

- Types of support provided:
 - ___ Component support liaison on the central organization's staff
 - ___ Officers & directors insurance
 - ___ Other forms of insurance
 - ___ Assistance with hiring/training component staff
 - ___ Assistance with recruiting component volunteer leadership
 - ___ Training/leadership workshops for component volunteer leaders and/or staff
 - ___ Assistance with administrative/fiscal requirements
 - ___ Group filing of annual federal tax returns
- Supervision of component compliance with association mission fidelity and federal, state, and local governmental requirements

(5) Ongoing Relationship between Central Organization and Components

- *Visitation/Policing* (may check more than one—fewer checks indicates loose or passive visitation of subordinates by central organization; more checks indicates strong or active visitation)
- Communications from subordinate organization to central organization concerning personnel issues (identity of local officers, directors, delegates, and/or professional staff)
- Central organization receives copies of bylaw amendments, possibly other governance documents, and notice of fundamental transactions (amendment to governing documents and significant changes in entity structure, such as mergers and consolidations)
- Central organization has the reserved right to approve of bylaw amendments and fundamental transactions;¹ often through formal officer, board, or staff approval, or through automatic approval after the expiration of a notice period without negative action by the central organization
- Central organization periodically receives subordinate unit bylaws and reviews for compliance with central organization’s mission
- Central organization has reserved the right to mandate changes in subordinate units’ governing documents. Typically in this circumstance the central organization requires the membership of the subordinate unit to amend its own governing documents on pain of discipline or financial withholding (if the central organization provides significant funds to the subordinate organization). Occasionally, the central organization reserves the right to amend subordinate unit governing documents by its own action.
- Central organization receives subordinate unit membership and/or board minutes; literature and programming materials produced by subordinate units; regular or periodic activity reports

¹ It is important for a central organization interested in a strong supervisory role over subordinate units to reserve the right to approve fundamental transactions as well as bylaw amendments. Depending on the law of the incorporating state, it may be possible for a central organization to require an incorporated subordinate unit to incorporate its internal charter (as from time to time amended) by reference into its articles of incorporation/corporate charter. Central organizations often omit a reservation of rights over all fundamental transactions (including amendments to articles of incorporation/corporate charters), while remembering the reserve the right to approve the more common and familiar bylaw amendments. Articles of incorporation (articles of organization/certificate or incorporation/corporate charter, depending in the state) are higher level governing documents than bylaws and generally supersede them. If a serious dispute arises between a subordinate unit and a central organization that has reserved the right to approve subordinate unit bylaws, but not articles of incorporation, the subordinate unit can “go over the head” of the bylaws and directly amend the articles of incorporation to, *e.g.*, disaffiliate and retain all its property without central organization approval.

(d) Group exemptions (may check more than one)

- Central organization has obtained a group exemption determination†
- Central organization annual files a group return for some or all of its subordinate units†
- Central organization requires subordinate units to participate in its group determination and possibly also in its group return, if filed†

(6) Termination of Relationship between Central Organizations and Subordinate Units

- Do central organization governing documents provide for discipline/termination/disassociation/dissolution of subordinate units? If so, are procedures included in a written policy? What types of discipline are permitted? What sanctions may be imposed? Reprimand? Probation? Suspension? Financial penalties?
- Does the central organization recognize inactive status for subordinate units? If so, what is the procedure by which a subordinate unit obtains inactive status? What are the consequences of inactive status?
- What happens to the property, including intellectual property, of the subordinate unit on termination/disassociation/dissolution? Does it revert to the central organization? Does it stay with the subordinate unit if it remains as a legal entity? Distributed to another similar organization pursuant to the directive of the central organization or decision of the members? Is it distributed among the members (common law solution, but may run afoul of the Tax Code's noninurement provision)?
- Who may initiate discipline/termination/disassociation/dissolution of subordinate units? Individual members of the subordinate unit? The subordinate unit itself? Other individual members of the central organization? Other subordinate units? Central organization officers, board, committees, or staff? Note that some state incorporation statutes may not allow an outside entity (such as a central organization) to reserve the right to initiate a nonjudicial dissolution of an incorporated subordinate unit without approval of the subordinate unit's membership. In such case, the central organization's remedies for subordinate unit disobedience may be largely contractual.

† Unless specifically required to do so, subordinate units may choose not to participate in a group exemption or (if included in the group exemption) in the group return (if the central organization chooses to file a group return). Subordinate units included in a group exemption must update their contact information regularly with the central organization for its required annual group report to the IRS. Subordinate units included in a group return (eligible only if also included in a group exemption) must provide financial information as well. Central organizations that have obtained a group exemption determination, and those who have done so and go on to file group returns, should include a provision in their unit charter or other similar document requiring the subordinate unit to provide the required information to the central organization.