

D R A F T
FOR DISCUSSION ONLY

HARMONIZED LEGAL FRAMEWORK FOR UNINCORPORATED NONPROFIT ASSOCIATIONS IN NORTH AMERICA

NATIONAL CONFERENCE OF COMMISSIONERS
ON UNIFORM STATE LAWS

Draft of April 30, 2007

*Changes shown in strike and score against
Uniform Unincorporated Nonprofit Association Act (1996)*

WITH PREFATORY NOTE AND COMMENTS

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NATIONAL CONFERENCE OF COMMISSIONERS
ON UNIFORM STATE LAWS

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ASSOCIATIONS IN NORTH AMERICA**

MARILYN E. PHELAN, Texas Tech University, 1802 Hartford, Lubbock, TX 79409
DAVID C. MCBRIDE, 1000 West St., P.O. Box 391, Wilmington, DE 19899
ROBERT L. MCCURLEY, JR., Alabama Law Institute, P.O. Box 861425, Tuscaloosa, AL
35486
DAVID T. PROSSER, JR., P.O. Box 1688, Madison, WI 53701
JUSTIN L. VIGDOR, 2400 Chase Square, Rochester, NY 14604
HARRY J. HAYNSWORTH, IV, 2200 IDS Center, 80 S. 8th St., Minneapolis, MN 55402,
National Conference Reporter

CANADIAN MEMBERS

ARTHUR L. CLOSE, 234 4th Ave., University of British Columbia, New Westminster, British
Columbia, Canada V3L 1N7
MICHELLE CUMYN, Pavillon Charles-De Koninck, local 1109, Universite Laval, Quebec,
Canada G1K 7P4
JAKE HARMS, Manitoba Justice, 410-405 Broadway, Winnipeg, Manitoba, Canada R3c 3L6
THOMAS TELFER, University of Western Ontario, Faculty of Law, London, Ontario, Canada
N6A 3K7
KEVIN ZAKRESKI, University of British Columbia, 1822 East Mall, Vancouver, British
Columbia, Canada V6T 1Z1

MEXICAN MEMBERS

EDGAR ELIAS AZAR, Rio de la Plata No. 48, Piso 8, Col. Cuauhtemoc, Mexico 06600
CLAUDIA E. DE BUEN UNNA, Mariano Escobedo 353-A Desp. 1402, Polanco, Mexico 11560
ELIAS MANSUR, Socrates 207, Polanco 11560, Mexico City, Mexico
JORGE SANCHEZ CORDERO, Arquimedes 36, Polanco 11560, Mexico City, Mexico 11560

EX OFFICIO

HOWARD J. SWIBEL, 120 S. Riverside Plaza, Suite 1200, Chicago, IL 60606, *President*
DALE G. HIGER, 1302 Warm Springs Ave., Boise, ID 83712, *Division Chair*

AMERICAN BAR ASSOCIATION ADVISOR

LISA A. RUNQUIST, 17554 Community St., Northridge, CA 91325-3922, *ABA Advisor*
JOHN H. SMALL, 1310 King St., Wilmington, DE 19801, *ABA Section Advisor*

EXECUTIVE DIRECTOR

JOHN A. SEBERT, 211 E. Ontario St., Suite 1300, Chicago, IL 60611, *Executive Director*

Copies of this Act may be obtained from:

NATIONAL CONFERENCE OF COMMISSIONERS
ON UNIFORM STATE LAWS
211 E. Ontario Street, Suite 1300
Chicago, Illinois 60611
(312) 915-0195

HARMONIZED LEGAL FRAMEWORK FOR UNINCORPORATED NONPROFIT ASSOCIATIONS IN NORTH AMERICA

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~~UNIFORM UNINCORPORATED NONPROFIT ASSOCIATION ACT (1996)~~

**HARMONIZED LEGAL FRAMEWORK FOR UNINCORPORATED NONPROFIT
ASSOCIATIONS IN NORTH AMERICA**

PREFATORY NOTE

This Act reforms the common law concerning unincorporated nonprofit associations in three basic areas – authority to acquire, hold, and transfer property, especially real property; authority to sue and be sued as an entity; and contract and tort liability of officers and members of the association.

A nonprofit organization may take at least three forms, in alphabetical order – charitable trust, corporation, or unincorporated association.

The Uniform Supervision of Trustees for Charitable Purposes Act largely governs the charitable trust form. The Uniform Law Foundation is organized as an Illinois charitable trust. Ill. Ann. Stat. Ch. 14, Sections 51-6g (Smith-Hurd 1992). A nonprofit organization, such as a church, could be two entities – a charitable trust with respect to a building and its use and a nonprofit corporation with respect to its other activities.

The American Bar Association's Model Nonprofit Corporation Act, first issued in 1952 and most recently revised in 1987, has been adopted in most States. Unlike this Act, it deals comprehensively with nonprofit corporations. The Model Act follows the same organization and numbering system as the ABA Model Business Corporation Act and so is equally comprehensive. It regulates both the external and internal relations of a corporation – from a corporation's responsibilities to contractors and public officials to rights and obligations among members and the corporation. It is the form commonly chosen by lawyers in organizing a nonprofit organization. Unlike this Act, the Model Act provides answers to most questions and provides some state regulation.

At common law an unincorporated association, whether nonprofit or for-profit, was not a separate legal entity. It was an aggregate of individuals. In many ways it had the characteristics of a business partnership.

This approach obviously created problems. A gift of property to an unincorporated association failed because no legal entity existed to receive it. For example, a gift of Blackacre to Somerset Social Club (an unincorporated nonprofit association) would fail because in law there is no legal entity to receive title. Some courts in time became uncomfortable with this result. Some construed such a gift as a grant to the officers of the association to hold the real estate in trust and manage it for the benefit of the members of the association. Later, some legislatures provided various solutions, including treating the association for these purposes as an entity.

Proceedings by or against an unincorporated association presented similar problems. If it were not a legal entity, each of the members needed to be joined as party plaintiffs or defendants.

Class action offered another approach. Again courts and legislatures, especially the latter, provided solutions. “Sue and be sued” statutes found their way on the law books of most States.

Unincorporated associations, not being legal entities, could not be liable in tort, contract, or otherwise for conduct taken in their names. On the other hand, their members could be. Courts borrowed from the law of partnership the concept that the members of the association, like partners, were co-principals. As coprincipals they were individually liable. Again courts and legislatures, responding to concerns of their constituents about this result, modified these rules. Courts found that, in large membership associations, some members did not have the kind of control or participation in the decision process that made it reasonable and fair to view them as co-principals. Legislatures also took steps. Perhaps the most striking are the statutes adopted in many States in the last decade excusing officers, directors, members, and volunteers of nonprofit organizations from liability for simple negligence. There is great variety in the details; a few statutes condition the immunity on the association carrying appropriate insurance or qualifying under Internal Revenue Code Section 501(c)(3).

Related to liability is the question of enforcement of a judgment obtained against an unincorporated association, its members, and its property. If fewer than all members are liable in contract or tort, the property that members own jointly or in common may not be seized in execution of a judgment without severing the interest of those who are liable from those who are not. Some members may not be liable because the judgment was not rendered against them. Again, courts using “joint debtor,” “common property,” and “common name” statutes fashioned more workable solutions. Some legislatures have also addressed the problem directly. For these purposes, unincorporated associations have been treated as legal entities – like a corporation.

The unincorporated nonprofit association is now governed by a hodgepodge of common law and state statutes governing some of their legal aspects. No State appears to have addressed the issues in a comprehensive, integrated, and internally consistent manner. This Act deals with a limited number of the major issues relating to unincorporated nonprofit associations in an integrated and consistent manner.

The Uniform Unincorporated Nonprofit Association Act (UUNAA) reforms the common law in three basic and important areas. It was drafted with the small informal associations in mind. These informal organizations are likely to have no legal advice and so fail to consider legal and organization questions, including whether to incorporate. The Act provides better answers than the common law for a limited number of legal problems. Its answers are more in accord with the expectations of those participating in the work of the unincorporated nonprofit association than the common law. While the Act is primarily directed at small nonprofit organizations, it may be surprising that some large nonprofit organizations are or until recently were unincorporated; for example, National Conference of Commissioners on Uniform State Laws, Association of American Law Schools (1900-1972), and American Bar Association (1878-1992). That these three are lawyer organizations may provide further evidence of the vitality of the rule of the shoemaker’s children.

The ABA Model Act deals comprehensively with nonprofit corporations, including troublesome questions of governance and membership. UUNAA, on the other hand, does not

treat these and other questions. Enactment of UUNAA would leave these matters to a jurisdiction's common law or its statutes on the subject.

This Act applies to all unincorporated nonprofit associations. Nonprofit organizations are often classified as public benefit, mutual benefit, or religious. For purposes of this Act, it is unnecessary to treat differently these three categories of unincorporated nonprofit associations. Unlike some state laws, it is not confined to the nonprofit organizations that are described in Section 501(c)(3), (4), and (6) of the Internal Revenue Code. There is no principled basis for excluding any nonprofit association. Therefore, the Act covers unincorporated philanthropic, educational, scientific, and literary clubs, unions, trade associations, political organizations, cooperatives, churches, hospitals, condominium associations, neighborhood associations, and all other unincorporated nonprofit associations. Their members may be individuals, corporations, other legal entities, or a mix.

The Act is designed to cover all of these associations to the extent possible. To the extent a jurisdiction decides to retain statutes dealing with specific kinds of nonprofit associations, this Act will supplement existing legislation. Many States have statutes on special kinds of unincorporated nonprofit associations, such as churches, mutual benefit societies, social clubs, and veteran's organizations. A State electing to adopt this Act will need to examine carefully its statutes to determine which it wants to repeal, which to amend, and which to retain.

The basic approach of UUNAA is that an unincorporated nonprofit association is a legal entity for the purposes that the Act addresses. It does not make these associations legal entities for all purposes. It is left to the courts of an adopting State to determine whether to use this Act by analogy to conclude that an association is a legal entity for some other purpose.

It should be noted, too, that many of the provisions are intended to be supplemented by a jurisdiction's existing law. For example, Section 5, which provides for the filing of a statement of association authority, does not provide details concerning the filing process. It leaves to other law such details as whether the filing officer returns a copy marked "filed" and stamps the hour and date thereof, and the amount of the filing fee.

Two sections are bracketed as optional – Section 12 on venue and Section 13 on service of process. A jurisdiction may decide that its present rules are consistent with the entity view of an association and provide the appropriate rule. Therefore, it would not adopt Sections 12 and 13. Both sections deal with only a part of the questions of venue and service of process. This means that if they are adopted they are only a part of the jurisdiction's law on the subject. They should probably be placed in the court rules or statutes on those subjects instead of in the State's code with the other sections of this Act.

There has been concern that this Act may deter nonprofit organizations from incorporating and that failure to incorporate would deprive the public of protections incorporation would provide. Clearly, incorporation does provide governmental involvement that this Act does not.

Most jurisdictions regulate solicitation by charitable organizations. Many of these are

comprehensive. See, for example, Ill. Ann. Stat. ch. 23, Sections 5100-5121 (Smith-Hurd 1992); Minn. Stat. Ann. Sections 309. 50-309.61 (West 1992); Uniform Management of Institutional Funds Act. These statutes frequently require, among other things, filing of a comprehensive statement with the attorney general before soliciting funds, including a copy of contracts with any professional fund-raisers, and registration of professional fund-raisers. A range of civil and criminal sanctions are provided. These statutes apply to all persons soliciting for charitable purposes, incorporated or not. In short, this Act's nonprofit associations are covered.

1 **~~UNIFORM UNINCORPORATED NONPROFIT ASSOCIATION ACT (1996)~~**

2 **HARMONIZED LEGAL FRAMEWORK FOR UNINCORPORATED NONPROFIT**

3 **ASSOCIATIONS IN NORTH AMERICA**

4
5 **SECTION 1. DEFINITIONS.** In this [Act]:

6 (a) “Established practices” means the practices used by an unincorporated nonprofit
7 association without material change or exception during the most recent five years of its
8 existence, or if it has existed for less than five years, during its entire existence.

9 (b) “Governing principles” means all the agreements, whether oral, in a record, implied
10 from its established practices, or in any combination thereof, that govern the purpose or
11 operation of an unincorporated nonprofit association and the rights and obligations of its
12 members and managers. The term includes any amendments and restatements of the agreements
13 constituting the governing principles.

14 (c) “Managers” means a person that is responsible, alone or in concert with others, for the
15 management functions stated in Section 20.

16 ~~(4)~~(d) “Member” means a person who, under the rules or practices of a nonprofit
17 association, may participate in the selection of persons authorized to manage the affairs of the
18 nonprofit association or in the development of policy of the nonprofit association.

19 ~~(3)~~(e) “Person” means an individual, corporation, business trust [statutory entity trust],
20 estate, trust, partnership, limited liability company, association, joint venture, public corporation,
21 government, or governmental subdivision, agency, or instrumentality, or any other legal or
22 commercial entity.

23 ~~(4)~~(f) “State” means a State of the United States, the District of Columbia, ~~the~~

1 ~~Commonwealth of Puerto Rico, United States Virgin Islands,~~ or any territory or insular
2 possession subject to the jurisdiction of the United States.

3 (2) (g) ~~“Nonprofit”~~ “Unincorporated nonprofit association” means an unincorporated
4 organization, ~~other than one created by a trust,~~ consisting of [two] or more members joined by
5 mutual consent for a common, nonprofit purpose that is not a trust [, a cooperative, domestic
6 partnership] or that is formed under any other statute that governs the organization and operation
7 of unincorporated associations. However, joint tenancy, tenancy in common, or tenancy by the
8 entireties does not by itself establish a nonprofit association, even if the co-owners share use of
9 the property for a nonprofit purpose.

10 **Comment**

11
12 1. With respect to relations external to a nonprofit association, whether a person is a
13 member of the organization determines principally a member’s responsibility to third parties.
14 Internally, whether a person is a member might determine specified rights and responsibilities,
15 including access to facilities, voting, and obligation to pay dues. This Act is concerned only with
16 determining whether a person is a member for purposes of external relations, such as liabilities to
17 third parties on a contract of the nonprofit association. Therefore, “member” is defined in terms
18 appropriate to these purposes. “Member” includes a person who has sufficient right to
19 participate in the affairs of a nonprofit association so that under common law the person would
20 be considered a co-principal and so liable for contract and tort obligations of the nonprofit
21 association.

22
23 The definition may reach somewhat beyond decisions of some courts. Either
24 participation in the selection of the leadership or in the development of policy is enough. Both
25 are not required. This broad definition of member ensures that the insulation from liability is
26 provided in all cases in which the common law might have imposed liability on a person, simply
27 because the person was a member.

28
29 2. A fund-raising device commonly used by many nonprofit organizations is the
30 membership drive. In most cases the contributors are not members for purposes of this Act.
31 They are not authorized to “participate in the selection of persons authorized to manage the
32 affairs of the nonprofit association or in the development of policy.” Simply because an
33 association calls a person a member does not make the person a member under this Act.

34
35 Section 6 nevertheless protects “a person considered to be a member by a nonprofit
36 association” even though the person is not within the definition of member in paragraph (1).
37

1 3. The role of a member in the affairs of an association is described as “may participate
2 in the selection” instead of “may select or elect” the governing board and officers and “may
3 participate . . . in the development of policy” instead of “may determine” policy. This
4 accommodates the Act to a great variation in practices and organizational structures. For
5 example, some nonprofit associations permit the president or chair to name some members of the
6 governing board, such as by naming the chairs of principal committees who are designated ex
7 officio members of the governing board. Similarly, the role in determination of policy is
8 described in general terms. “Persons authorized to manage the affairs of the association” is used
9 in the definition instead of president, executive director, officer, member of governing board, and
10 the like. Given the wide variety of organizational structures of nonprofit associations to which
11 this Act applies and the informality of some of them the more generic term is more appropriate.
12

13 4. “Person” instead of individual is used to make it clear that associations covered by this
14 Act may have individuals, corporations, and other legal entities as members. Unincorporated
15 nonprofit trade associations, for example, commonly have corporations as members. Some
16 national and regional associations of local government officials and agencies have governmental
17 units or agencies as members.
18

19 5. Paragraph (2) defines “nonprofit association.” The model American Bar Association
20 acts deal with both for-profit and nonprofit corporations. Unincorporated, for-profit
21 organizations are largely covered by the uniform partnership acts. The differences between for-
22 profit and nonprofit unincorporated organizations are so significant that it would be impractical
23 to cover both in a single act. Therefore, this Act deals only with nonprofit organizations.
24

25 6. A charitable trust is a form of an unincorporated nonprofit legal organization. It is,
26 however, not a nonprofit association within this Act. To the extent that trust law does not supply
27 an answer to a legal problem concerning a charitable trust, a court could look to this Act to
28 develop by analogy a common law answer.
29

30 7. The term “nonprofit association” is used instead of “association” for several reasons.
31 The risk that this Act when placed in a state’s code would be construed to apply to both nonprofit
32 and for-profit associations should thus be avoided. Acts dealing with one kind of association
33 when placed in a code have sometimes lost their identification and been inadvertently applied to
34 the other kind where the term “association” alone was used. For example, the New York Joint-
35 Stock Association Act of 1894 used the term “association,” which it defined to include only for-
36 profit organizations. “Association” was held in 1938 to include an unincorporated political party
37 and the act applied to it. *Richmond County v. Democratic Organization of Richmond County*, 1
38 NYS 2d 349 (1938). Subsequent decisions applied the act to other unincorporated nonprofit
39 organizations. The use of “nonprofit association” instead of merely “association” should also
40 avoid the risk of this Act being improperly used to develop a common law rule by analogy from
41 this Act to apply in a case involving a for-profit association. Roscoe Pound, *Common Law and*
42 *Legislation*, 21 Harv. L. Rev. 383 (1908); Robert F. Williams, *Statutes as Sources of Law*
43 *Beyond their Terms in Common Law Cases*, 50 Geo. Wash. L. Rev. 554 (1982).
44

45 Legal issues concerning unincorporated for-profit associations that are not partnerships
46 and so not controlled by a partnership act would be governed by a State’s other statutory or

1 common law. Resort to one of the two partnership acts for the purposes of developing a
2 common law rule by analogy would be appropriate. Resort for this purpose to this Act in the
3 case of an unincorporated for-profit association would not be appropriate.
4

5 8. Two or more persons is the common statutory requirement to constitute an
6 unincorporated nonprofit association. New Jersey, on the other hand, requires that there be
7 seven or more members to be an association under its laws. This Act suggests the smaller
8 number – two. Consideration was given to specifying “one” instead of “two.” For example, the
9 developer of a condominium may have created a condominium association as an unincorporated
10 nonprofit association. Before any units are sold the developer as owner of all units has all of the
11 memberships in the association. Should it be treated as a nonprofit association under this Act
12 from the beginning? It should not. Can one person be “joined by mutual consent for a common
13 purpose?” To ask the question would seem to be to answer it. If the concern is to give the
14 developer the entity protections provided by this Act, it is very likely that it already has some
15 protection because it is a business corporation.
16

17 Nevertheless, the number is placed in brackets, in part, to raise the question whether the
18 number should be one or two or even a larger number.
19

20 The members must be joined together for a common purpose. Several States provide that
21 they be “joined together for a **stated** common purpose” (emphasis added). Because of the
22 informality of many ad hoc associations, it is prudent not to impose the requirement that the
23 common purpose be “stated.” Very probably, it is the small, informal, ad hoc associations and
24 those third parties affected by them that most need this Act.
25

26 9. “Nonprofit” is not defined. A common definition – it is an association whose net
27 gains do not inure to the benefit of its members and which makes no distribution to its members,
28 except on dissolution – does not work for all nonprofit associations. Consumer cooperatives, for
29 example, make distributions to their members; but they are not for-profit organizations. Those
30 consumer cooperatives not organized under specific state or federal laws need the benefits of this
31 Act.
32

33 It is instructive to note that the drafting committee for the ABA Model Nonprofit
34 Corporation Act finally determined that it could not develop a satisfactory definition of
35 nonprofit. Instead, the act contains rules, regulations, and procedures applicable separately to
36 each of the three kinds of nonprofit corporation – public benefit, mutual benefit, and religious. It
37 does not define the three kinds; it described what they can do and how they may function.
38 Considering the corporation’s intended activities and the rules, regulations, and procedures
39 applicable to each of the three different kinds of corporations, a choice is made. Having made a
40 choice, the corporation is bound by the rules, regulations, and procedures prescribed for the kind
41 of nonprofit corporation chosen.
42

43 10. The final sentence of paragraph (2) is adapted from Section 201(d)(1) of Uniform
44 Partnership Act(1994). This stresses that more than common ownership and use is required. For
45 example, that three families own a lake cottage and share its use does not make the three families
46 a nonprofit association. Paragraph (2) precludes arrangements that are merely common

ownership from being a nonprofit association under this Act.

11. The definition of “person” in paragraph (3) is a standard NCCUSL definition.

12. The definition of “State” in paragraph (4) is a standard NCCUSL definition.

Derivation: “established practices” – Principle #2; “governing principles” – Principle #2; “member” – Principle #3; “manager” – Principle #4; “unincorporated nonprofit association” – Principle #1.

~~SECTION 2. SUPPLEMENTARY GENERAL PRINCIPLES OF LAW AND EQUITY.~~ RELATION OF ACT TO OTHER LAWS AND EQUITY.

(a) Principles of law and equity supplement this [Act] unless displaced by a particular provision of it.

(b) A provision in a statute in this State governing a particular type of unincorporated nonprofit association prevails over an inconsistent general provision in this [Act], to the extent of the inconsistency.

(c) This [Act] supplements the enacting jurisdiction’s regulatory laws and rules that are applicable to nonprofit organizations operating in this [State]. In the event of a conflict, these other laws and rules prevail.

Comment

1. This section is adapted from Uniform Commercial Code Section 1-103. The reference in Section 1-103 to “the law merchant” and its examples of supplementary rules, such as those of principal and agent and estoppel, were deleted as irrelevant or incomplete and unnecessary. This change in language does not manifest any change in substance.

2. This Act contains no rules concerning governance. However, recourse to rules of governance must be had to apply some of the Act’s rules. For example, whether a nonprofit association is liable under a contract made for it by an individual depends on whether the individual had the necessary authority to act as agent. Was the individual given the authority by someone empowered by the nonprofit association to give the authority? To decide a case like this a court must resort to the rules of the nonprofit association or, if there are none applicable or none at all, to the common law or other statutory law of the jurisdiction.

3. Efforts were made to develop default internal rules of governance – applicable if an association had none or none that were applicable. This effort demonstrated the complexity and difficulty of fashioning rules that would reasonably fit a wide variety of nonprofit associations – large and small, public benefit, mutual benefit, and religious, and of short and indefinite duration. It was thought best to leave this question to other law of the jurisdiction.

Derivation: Subsection (a) Principle #9; Subsection (b) – Principle #10; Subsection (c) – Principle #11.

SECTION 3. ~~TERRITORIAL APPLICATION.~~ GOVERNING LAW;

TERRITORIAL APPLICATION. ~~Real and personal property in this State may be acquired, held, encumbered, and transferred by a nonprofit association, whether or not the nonprofit association or a member has any other relationship to this State.~~

(a) Except as otherwise provided in Subsection (b), the law of this State governs all
unincorporated nonprofit associations formed or operating in this State.

(b) The law of the jurisdiction in which an unincorporated nonprofit association has its main place of activities governs relations among the members and managers and between the members and managers and the unincorporated nonprofit association.

Comment

This section is consistent with Restatement (Second) of Conflict of Laws Section 223 (1971). Section 3 makes a conveyance or devise of land located in a State that has adopted this Act effective even though it would not be effective under the law of the State in which the nonprofit association has its principal office or other significant relationship. No relationship of the nonprofit association other than that the property is situated in the State is required.

Derivation: Principle #6.

SECTION 4. REAL AND PERSONAL PROPERTY; NONPROFIT ASSOCIATION AS LEGATEE, DEVISEE, OR BENEFICIARY.

(a) ~~A~~ An unincorporated nonprofit association is a legal entity separate from its members for the purposes of acquiring, holding, encumbering, and transferring real and personal property

1 and managers.

2 (b) ~~A~~An unincorporated nonprofit association in its name may acquire, hold, encumber,
3 or transfer an estate or interest in real or personal property.

4 (c) ~~A~~An unincorporated nonprofit association may be a beneficiary of a trust or contract,
5 a legatee, or a devisee.

6 (d) An unincorporated nonprofit association has perpetual existence.

7 **Comment**
8

9 1. Subsection (a) makes a nonprofit association a legal entity separate from its members
10 for purposes of its dealing with real and personal property. This reverses the common law view
11 that a non-profit association was not a legal entity.
12

13 2. Subsection (b) is based on Section 3-102(8), Uniform Common Interest Act. It
14 reverses the common law rule. Inasmuch as an unincorporated nonprofit association was not a
15 legal entity at common law, it could not acquire, hold, or convey real or personal property.
16 Harold J. Ford, *Unincorporated Non-Profit Associations*, 1-45 (Oxford Univ. Press (1959); 15
17 A.L.R. 2d 1451 (1951); Warburton, *The Holding of Property by Unincorporated Associations*,
18 Conveyancer 318 (September-October 1985).
19

20 3. This strict common law rule has been modified in various ways in most jurisdictions
21 by courts and statutes. For example, courts have held that a gift by will or inter vivos transfer of
22 real property to a nonprofit association is not effective to vest title in the nonprofit association
23 but is effective to vest title in the officers of the association to hold as trustees for the members
24 of the association. *Matter of Anderson's Estate*, 571 P. 2d 880 (Okla. App. 1977).
25

26 A New York statute specifies that a grant by will of real or personal property to an
27 unincorporated association is effective if within three years after probate of the will the
28 association incorporates. McKinney's N.Y. Estates, Powers, & Trust Law, Section 3-1.3 (1981).
29

30 California gives any "unincorporated society or association and every lodge or branch of
31 any such association, and any labor organization" full right to acquire, hold, or transfer any "real
32 estate and other property as may be necessary for the business purposes and objects of the
33 society," and acquire and hold any property not so necessary for 10 years. California
34 Corporations Code, Title 3, Unincorporated Associations, Section 20001 (West 1991).
35

36 As is the case with many of the problems created by the view that an unincorporated
37 association is not an entity the statutory solutions are often partial – limited to special
38 circumstances and associations. Subsection (b) solves this problem for all nonprofit associations,
39 for all kinds of transactions, and for both real and personal property.
40

1 4. Even if a nonprofit association's governing documents provide that it "may not acquire
2 real property," subsection (b) makes effective a transfer of Blackacre to the association. A
3 different result would obviously disrupt real estate titles. The remedy for this violation of
4 internal rules lies not in preventing title from passing but, as with other organizations, in an
5 action by members against their association and its appropriate officers to undo the transaction.
6

7 5. Subsection (c) is a necessary corollary of subsection (b) and, thus, it may be
8 unnecessary. However, several States expressly provide that an unincorporated, nonprofit
9 association may be a legatee, devisee, or beneficiary. See, for example, Md. Estates & Trusts
10 Code Ann. Section 4-301 (1991). Therefore, it is desirable to continue this as an express rule.
11 Subsection (c) applies to both trusts and contracts. Not all state statutes apply expressly to both.
12

13 Derivation: Subsection (a) – Principle #7; Subsections (b) and (c) – Principle #12; and
14 Subsection (d) – Principle #8.
15

16 **SECTION 5. STATEMENT OF AUTHORITY AS TO REAL PROPERTY.**

17 (a) A nonprofit association may execute and [file] [record] a statement of authority to
18 transfer an estate or interest in real property in the name of the nonprofit association.

19 (b) An estate or interest in real property in the name of a nonprofit association may be
20 transferred by a person so authorized in a statement of authority [filed] [recorded] in the office in
21 the [county] in which a transfer of the property would be [filed] [recorded].

22 (c) A statement of authority must set forth:

23 (1) the name of the nonprofit association;

24 (2) the federal tax identification number, if any, of the nonprofit association;

25 (3) the address in this State, including the street address, if any, of the nonprofit
26 association, or, if the nonprofit association does not have an address in this State, its address out
27 of State;

28 (4) that it is an unincorporated nonprofit association; and
29 the name or title of a person authorized to transfer an estate or interest in real property held in the
30 name of the nonprofit association.

1 (d) A statement of authority must be executed in the same manner as [a deed] [an
2 affidavit] by a person who is not the person authorized to transfer the estate or interest.

3 (e) A filing officer may collect a fee for [filing] [recording] a statement of authority in the
4 amount authorized for [filing] [recording] a transfer of real property.

5 (f) An amendment, including a cancellation, of a statement of authority must meet the
6 requirements for execution and [filing] [recording] of an original statement. Unless canceled
7 earlier, a [filed] [recorded] statement of authority or its most recent amendment is canceled by
8 operation of law five years after the date of the most recent [filing] [recording].

9 (g) If the record title to real property is in the name of a nonprofit association and the
10 statement of authority is [filed] [recorded] in the office of the [county] in which a transfer of real
11 property would be [filed] [recorded], the authority of the person named in a statement of
12 authority to transfer is conclusive in favor of a person who gives value without notice that the
13 person lacks authority.

14 **Comment**

15
16 1. This section is based on Uniform Partnership Act (1994) Section 303. California
17 Corporations Code, Title 3, Unincorporated Associations, Section 20002 (West 1991), is similar.

18
19 2. A statement of authority need not be filed to conclude an acquisition of or to hold real
20 property. It is concerned only with the sale, lease, encumbrance, and other transfer of an estate
21 or interest in real property. For this, it should, but need not, be filed. The filing provides
22 important documentation.

23
24 3. Inasmuch as the statement relates to the authority of a person to act for the association
25 in transferring real property, subsection (b) requires that the statement be filed or recorded in the
26 officer where a transfer of the real property would be filed or recorded. This is usually the
27 county in which the real estate is situated. This is where a title search concerning the real estate
28 would be conducted. Uniform Partnership Act (1994) Section 303 provides for central filing,
29 such as with the Secretary of State, but its statement of partnership authority concerns authority
30 of partners generally, not just with respect to real estate.

31
32 4. “Filed” and “recorded” are bracketed to direct an enacting State to choose. In most
33 jurisdictions “recorded” will be the appropriate choice.

1
2 5. Subsection (c)(2) deals with the problem caused by the similarity of names of small
3 local nonprofit associations. There is no duplication of federal tax identification numbers.
4 Therefore, any confusion of identity is avoided by this requirement.
5

6 Subsection (c)(3) may present a problem for small, ad-hoc nonprofit associations. They
7 may have no fixed office address. They may meet in the homes of their leaders. However, if
8 they distribute literature or file petitions they are likely to have a mailing address.
9

10 Subsection (c)(4) informs those relying on the statement of the precise character of the
11 organization. Knowing that the organization is an unincorporated nonprofit association may
12 cause the person dealing with the organization to act differently.
13

14 6. Subsection (c)(5) permits the statement to identify as the person who can act for the
15 association one who holds a particular office, such as president. This designation relieves the
16 association from the need to make additional filings on each change of officers. Under local title
17 standards and practices the transferee and filing or recording office are likely to require a
18 certificate of incumbency if the statement designates the holder of an office.
19

20 7. Subsection (d) is designed to reduce the risk of fraud and to reflect law and practice
21 applicable to other organizations. It requires someone other than the person authorized to deal
22 with the real property to execute the statement of authority on behalf of the nonprofit association.
23 Whether the formalities of execution must conform to those of a deed or an affidavit is left for
24 each State to determine.
25

26 8. Subsection (f) makes a statement inoperative five years after its most recent recording
27 or filing. This prevents a statement whose recording or filing is unknown by the association's
28 current leadership from being effective. Reliance on a filing or recording this old is, in effect,
29 not in good faith.
30

31 9. Subsection (g) is based on Uniform Partnership Act (1994) Section 303(h). Its obvious
32 purpose is to protect good faith purchasers for value without notice who rely on the statement,
33 including those who acquire a security interest in the real property. If the required signatures on
34 the statement, deed, or both are forgeries, the effect of them is not governed by Section 5(g).
35 Instead, Section 2 applies and would invoke the other law of the State. In many States the deed
36 would be a nullity. See Boyer, Hovenkamp, and Kurtz, *THE LAW OF PROPERTY*, An
37 Introductory Survey (West Pub. Co. 4th ed. 1991).
38

39 **SECTION 6. LIABILITY.**

40 (a) The debts, obligations, or other liabilities of an unincorporated nonprofit association,
41 whether arising in contract, tort, or otherwise:

42 (1) are solely the debts, obligations, or other liabilities of the association; and

(2) do not become the debts, obligations, or other liabilities of a member or manager solely by reason of the member acting as a member or manager acting as a manager.

(b) A member of an unincorporated nonprofit association may be subject to liability for a debt, obligation or liability of the association under common law principles governing alter ego liability of shareholders of a corporation, taking into account differences in form between an unincorporated nonprofit association and a corporation.

(c) The failure of an unincorporated nonprofit association to observe particular formalities relating to the exercise of its powers or management of its activities is not a ground for imposing liability on the members for the debts, obligations, or other liabilities of the unincorporated nonprofit association.

Comment

Derivation: Subsection (a) – Principles #s 18 and 19; Subsection (b) and (c) – Principle #24.

SECTION 67. LIABILITY IN TORT AND CONTRACT.

(a) ~~A~~An unincorporated nonprofit association is a legal entity separate from its members for the purposes of determining and enforcing rights, duties, and liabilities in contract and tort.

(b) A person is not liable for a breach of ~~a~~an unincorporated nonprofit association's contract merely because the person is a member, ~~is authorized to participate in the management of the affairs of the nonprofit association, or~~ a manager, or is a person considered to be a member by the nonprofit association.

(c) A person is not liable for a tortious act or omission for which ~~a~~ an unincorporated nonprofit association is liable merely because the person is a member, ~~is authorized to participate in the management of the affairs of the nonprofit association, or~~ a manager, or is a person considered as a member by the ~~nonprofit~~ association.

1 (d) A tortious act or omission of a member or other person for which ~~a~~ an unincorporated
2 nonprofit association is liable is not imputed to a person merely because the person is a member
3 of the nonprofit association, ~~is authorized to participate in the management of the affairs of the~~
4 ~~nonprofit association, or a manager, or is a person considered as a member by the nonprofit~~
5 association.

6 (e) A member of, or a person considered to be a member by, ~~a~~ an unincorporated
7 nonprofit association may assert a claim against the ~~nonprofit~~ association. ~~A~~ An unincorporated
8 nonprofit association may assert a claim against a member or a person considered to be a
9 member by the ~~nonprofit~~ association.

10 **Comment**

11
12 1. At common law a nonprofit association was not a legal entity separate from its
13 members. Borrowing from the law of partnership, the common law viewed a nonprofit
14 association as an aggregate of its members. The members are co-principals. Subsection (a)
15 changes that. It makes a nonprofit association a legal entity separate from its members for
16 purposes of contract and tort.

17
18 2. This Act does not deal with liability of members or other persons acting for a
19 nonprofit association for their own conduct. With respect to contract and tort Section 6 leaves
20 that to the other law of the jurisdiction enacting this Act.

21
22 3. Subsections (b) through (e) are applications to common cases of the basic principle in
23 subsection (a). Because a nonprofit association is made a separate legal entity, its members are
24 not co-principals. Consequently they are not liable on contracts or for torts for which the
25 association is liable. Subsection (b) specifies that result with respect to contracts.

26
27 4. Subsection (b) applies the principle in subsection (a) to relieve members and others
28 from vicarious liability for the contracts of a nonprofit association.

29
30 5. Subsections (a) and (b) eliminate a risk that existed under common law. An agent
31 makes an implied warranty of authority to the other contracting party. If the purported principal
32 does not exist, the agent obviously breaches the warranty. Because an unincorporated nonprofit
33 association was not a legal entity; one purporting to act for it breached this implied warranty.
34 *Smith & Edwards v. Golden Spike Little League*, 577 P. 2d 132, 134 (Utah 1978). Subsection (b)
35 treats a nonprofit association as a legal entity; therefore, an agent who acts for it within her
36 authority does not breach the warranty.
37

1 6. “**Merely**” because a person is a member does not make the person liable on an
2 association’s contract. This formulation means that there are special circumstances that may
3 result in liability. For example, a member may expressly become a party to a contract with the
4 nonprofit association. Subsection (b) relieves members only of their vicarious liability. Liability
5 for one’s own conduct is left to the other law of the jurisdiction.
6

7 An agent with authority from a nonprofit association who negotiates a contract without
8 disclosing the agent’s representative status is liable on the contract. Under agency law an agent
9 acting within the agent’s scope of authority for an undisclosed or partially disclosed principal is
10 personally liable on the contract along with the principal, unless the other contracting party
11 agrees not to hold the agent liable. *Restatement (Second) Of Agency* 320-322; Reuschlein and
12 Gregory, *Agency & Partnership* 161-163 (West 2d ed. 1990).
13

14 Courts have pierced the corporate veil of nonprofit corporations. Comment, *Piercing the*
15 *Nonprofit Corporation Veil*, 66 Marq. L. Rev. 134 (1984). Section 6 makes a nonprofit
16 association a legal entity for these purposes. Therefore, as a matter of its other law a jurisdiction
17 enacting this Act may appropriately apply this doctrine to a nonprofit association. In *Macaluso*
18 *v. Jenkins*, 95 Ill. App. 3d 461, 420 N.E.2d 251 (1981), the president of a nonprofit corporation
19 was found to have so commingled its funds and assets with his own and those of a business
20 corporation he controlled and have treated them as his own for his benefit that the corporate veil
21 must be pierced to promote justice. He was found liable for a debt contracted in the name of the
22 nonprofit corporation. See also Harry G. Henn & John R. Alexander, *Law of Corporations*, pp
23 344-352 (West 3d ed. 1983); Alfred F. Conard, *Corporations in Perspective*, pp 424-433
24 (Foundation Press, 1976).
25

26 7. An example of a partial statutory solution of members’ liability for contracts of a
27 nonprofit association is California Corporations Code, Title 3, Nonprofit Associations, Section
28 21100 (West 1991). It relieves members from liability for “debts or liabilities contracted or
29 incurred by the association in the acquisition of lands or leases or the purchase, leasing,
30 designing, planning, architectural supervision, erection, contraction, repair, or furnishing of
31 buildings or other structures, to be used for purposes of the association.” As noted earlier, partial
32 and uncoordinated statutory solutions of common law problems are typical.
33

34 8. Subsection (c) applies the principle in subsection (a) to relieve members and others
35 from liability for torts for which the nonprofit association is liable. Inasmuch as Section 6
36 provides that a member is not a co-principal, the member cannot be considered to be an
37 employer of the employee who committed the tort. Again, only relief from vicarious liability is
38 provided.
39

40 Liability of a member or other person who acts for the nonprofit association is governed
41 by other law of the jurisdiction. That an employer is liable for a tort committed by its employee
42 does not excuse the employee.
43

44 9. The immunity from vicarious liability provided by subsections (b) and (c) does not
45 depend on the remedy sought. Whether it is for damages for breach of contract or tort, unjust
46 enrichment, or the like the immunity is provided.

1
2 10. Since the mid 1980's all States have enacted laws providing officers, board
3 members, and other volunteers some protection from liability for their own negligence. The
4 statutes vary greatly as to who is covered, for what conduct protection is given, and the
5 conditions imposed for the freedom from liability. Some apply only to nonprofit corporations.
6 *State Liability Laws for Charitable Organizations and Volunteers* (Nonprofit Risk Management
7 & Insurance Institute, 1990); *Developments, Nonprofit Corporations*, 105 Harv. L. Rev. 1578,
8 1685-1696 (1992). This means that members and volunteers involved with unincorporated
9 nonprofit associations do not obtain protection under those state statutes.”

10
11 The 1987 Texas act, for example, relieves directors, officers, and other volunteers from
12 liability for simple negligence that causes death, damage, or injury if the volunteer acted in the
13 scope of her duties for a charitable organization exempt under Internal Revenue Code Section
14 501(c)(3) or (4). The act also limits the amounts that may be recovered from an employee or the
15 organization if the organization carries requisite liability insurance. The constitutionality of the
16 provision relieving volunteers from liability has been questioned under Article I, Section 13 of
17 the Texas Constitution – the Open Courts provision. Note, *The Constitutionality of the*
18 *Charitable Immunity and Liability Act 1987*, 40 Baylor L. Rev. 657 (1988). Some statutes
19 premise all relief upon the organization having specified liability insurance.

20
21 Section 6 does not affect these statutes. As noted earlier Section 6 deals only with
22 vicarious liability. These statutes concern liability for one's own conduct.

23
24 11. Although not a concern of Section 6, perhaps it should be noted that nonprofit
25 organizations have been held liable for tortious acts and omissions not only of employees but
26 also of members. In *Guyton v. Howard*, 525 So. 2d 918 (Fl. App. 1988) a nonprofit organization
27 was held liable for the negligence of members who acted for the organization in conducting an
28 initiation that resulted in injury.

29
30 12. Subsection (d) applies the principle in subsection (a) to reverse the common law rule
31 that the negligence of an employee of an association is imputed to its members. A member as
32 co-principal was vicariously responsible for an employee's conduct within the scope of the
33 employee's duties. Section 6, however, makes the nonprofit association a legal entity. Thus, a
34 member is not a co-principal and the employee's negligence is not imputed to a member.

35
36 Because the employee's negligence is not imputed, the member's suit against the
37 nonprofit association for negligence by the employee is not subject to the defense of contributory
38 negligence.

39
40 Some courts treated large nonprofit associations as entities for some purposes and so did
41 not impute the negligence of an employee to a member. Therefore, a member could recover
42 from the association. *Marshall v. International Longshoreman's and Warehouseman's Union*,
43 57 Cal. 2d 781, 371 p. 2d 987 (1962); Judson A. Crane, *Liability of an Unincorporated*
44 *Association for Tortious Injury to a Member*, 16 Vand L Rev 319, 323 (1963).

45
46 13. Subsection (e) applies the principle in subsection (a) to reverse the common law rule

1 that a member may not sue the member's unincorporated nonprofit association. A member as
2 co-principal is logically a defendant as well as a plaintiff in such an action. The logic is that one
3 may not sue oneself.

4
5 Subsection (a) makes an unincorporated nonprofit a legal entity. Therefore, a member is
6 separate from the nonprofit association. There is thus no logical obstacle to either suing the
7 other. A nonprofit association may, for example, sue a member for delinquent dues. See, for
8 example, Section 6.13 ABA Nonprofit Corporation Act (1987).

9
10 14. The Texas Supreme Court recently overruled the common law rule and held that a
11 member may sue the unincorporated nonprofit association of which the person is a member. *Cox*
12 *v. Thee Evergreen Church*, 836 S.W.2d 167 (Tex. 1992). The court also overturned the Texas
13 common law rule that the negligence of an employee is imputed to a member. The court referred
14 to a statute authorizing a nonprofit association to sue and be sued and other Texas statutes giving
15 entity status for limited purposes to unincorporated nonprofit associations. It did not, however,
16 rely on them in overturning the historic common law rule. It simply found the old rule not
17 suitable for present times. The court also followed recent developments in other courts.

18
19 15. Section 6 relieves from vicarious liability not only members but also certain others.
20 Persons who are "authorized to participate in the management of the affairs of the nonprofit
21 association" are protected. Persons within this group – largely directors and officers, however
22 denominated – are likely also to be members as defined in Section 1(1), and protected as such. If
23 they are not members (i.e. not co-principals) they should not be found liable at common law.
24 Section 6 extends protection to this group out of abundant caution. It is possible that a court
25 might misapply the common law rationale for liability to hold a non-member manager
26 vicariously liable. Section 6 prevents that somewhat remote possibility.

27
28 Section 6 also extends protection to a person who is not within the definition of
29 "member" in Section 1(1) but is "considered to be a member by the nonprofit association." A
30 person within this clause is one who does not have the relationship to the nonprofit association
31 that would permit a finding under the common law that the person is a co-principal. Also the
32 person is not a director, officer, or manager within the preceding phrase. That a person not
33 within the two preceding phrases but within the third phrase might be found vicariously liable
34 seems quite remote. Nevertheless, Section 6 accords this person protection.

35
36 As noted earlier, Section 6 concerns vicarious liability only. Liability for one's own
37 conduct is covered by other law of the enacting jurisdiction.

38
39 Derivation: Subsections (a)-(d) – Principles #s 20-23; Subsection (e) – Principle #25.
40 Note: Principle #23 covered in Comment.

41 42 **SECTION 7 8. CAPACITY TO ASSERT AND DEFEND; STANDING.**

43 (a) ~~A~~ An unincorporated nonprofit association, in its name, may institute, defend,

1 intervene, or participate in a judicial, administrative, or other governmental proceeding or in an
2 arbitration, mediation, or any other form of alternative dispute resolution.

3 (b) ~~A~~An unincorporated nonprofit association may assert a claim in its name on behalf of
4 its members if one or more members of the nonprofit association have standing to assert a claim
5 in their own right, the interests the nonprofit association seeks to protect are germane to its
6 purposes, and neither the claim asserted nor the relief requested requires the participation of a
7 member.

8 **Comment**

9
10 1. Subsection (a) broadly recognizes the right of a nonprofit association to participate as
11 an entity in judicial, administrative, and governmental proceedings, and in arbitration and
12 mediation on behalf of it and its members. It may sue and be sued. Many States have enacted
13 statutes granting unincorporated associations these rights. Many have rejected the argument that
14 these acts made an unincorporated nonprofit association a separate legal entity for other
15 purposes.

16
17 2. Ohio Rev. Code Ann. Section 1745.01 (Baldwin 1991) provides that an
18 unincorporated association may “sue or be sued as an entity under the name by which it is
19 commonly known and called.” This formulation has an element that subsection (a) does not
20 have – a description of the association name to be used. Maryland requires that the
21 unincorporated association have a “group name.” Md. Estates & Trust Code Ann. Section 6-
22 406(a) – (1991). As some of the informal nonprofit associations may not have fixed on a name
23 but need the benefit of the rule, subsection (a) does not require that it have a name.

24
25 3. Subsection (b) describes an association’s standing to represent the interests of its
26 members in the proceeding. It is the federal standing rule. *Hunt v. Washington Apple*
27 *Advertising Commn*, 432 U.S. 333, 343, 97 S. Ct. 2434, 53, L. Ed. 2d 383 (1977). A nonprofit
28 association must meet the three requirements only if it seeks to represent the interest of its
29 members. If the suit concerns only the nonprofit association’s interests, subsection (b) does not
30 apply.

31
32 4. If participation of individual members is required, the nonprofit association does not
33 have standing. If the injury for which a claim is made or the remedy sought is different for
34 different members, their participation through testimony and presenting other evidence is
35 required. The typical case in which a nonprofit association has standing is where it seeks only a
36 declaration, injunction, or some form of prospective relief for injury to its members. *Warth v.*
37 *Seldin*, 422 U.S. 490, 515, 95 S. Ct. 2197, 45 L. Ed. 2d 343 (1975).

38
39 5. Subsection (b) does not require the nonprofit association to show that it suffered harm

1 or has some interest to protect to have standing to represent the interests of its members. *Warth*
2 *v. Seldin*, 422 U.S. 490, 511 95 S. Ct. 2197, 45 L. Ed. 2d 343 (1975). Some States require an
3 association to have an interest to protect which is separate from that of its members. One court
4 found that the probable loss of members if it did not take action on their behalf was a sufficient
5 interest to protect to give it standing to represent its members. This approach certainly
6 diminishes greatly the burden of satisfying the requirement. States have further modified the old
7 standing rule. Recently many States have adopted the three-pronged federal rule, which is the
8 rule in subsection (b).

9
10 This section does not re-state rules of joinder because they will be governed by the
11 jurisdiction's other law.

12
13 Derivation: Subsection (a) – Principle #13.
14

15 **SECTION 8 9. EFFECT OF JUDGMENT OR ORDER.** A judgment or order against
16 a nonprofit association is not by itself a judgment or order against a member or a ~~person~~
17 ~~authorized to participate in the management of the affairs of the nonprofit association~~ manager.

18 **Comment**

19
20 1. This section is consistent with Restatement (Second) of Judgments, Section 61(2),
21 which provides: "If under applicable law an unincorporated association is treated as a jural entity
22 distinct from its members, a judgment for or against the association has the same effects with
23 respect to the association and its members as a judgment for or against a corporation"
24

25 2. Section 8 applies not only to judgment but also to orders, such as an award rendered in
26 arbitration or an injunction.
27

28 3. Section 8 reverses the common law rule. Under the common law's aggregate view of
29 an unincorporated association, members, as co-principals, were individually liable for
30 obligations of the association.
31

32 4. Some States changed the common law rule by statute. Ohio, for example, provides
33 that the property of an unincorporated association is subject to judgment, execution, and other
34 process and that a money judgment against the association may be "enforced only against the
35 association as an entity" and not "against a member." Ohio Rev. Code Ann., Section 1745.02
36 (Baldwin 1991).
37

38 5. That a judgment against a nonprofit association is also not a judgment against one
39 authorized to manage the affairs of the association recognizes fully the entity status of a
40 nonprofit association.
41

42 6. An obvious corollary of this section is that a judgment against a nonprofit association

1 may not be satisfied against a member unless there is also a judgment against the member.

2
3 Derivation: Principles #s 16 and 19.

4
5 **~~SECTION 9. DISPOSITION OF PERSONAL PROPERTY OF INACTIVE~~**

6 **~~NONPROFIT ASSOCIATION.~~** ~~If a nonprofit association has been inactive for [three] years,~~
7 ~~or for a longer or shorter period specified in a document of the association, a person in~~
8 ~~possession or control of personal property of the association may transfer custody of the~~
9 ~~property:~~

10 ~~(1) if a document of a nonprofit association specifies a person to whom transfer is to be~~
11 ~~made under these circumstances, to that person; or~~

12 ~~(2) if no person is so specified, to a nonprofit association or nonprofit corporation~~
13 ~~pursuing broadly similar purposes, or to a government or governmental subdivision, agency, or~~
14 ~~instrumentality.~~

15 **~~Comment~~**

16
17 ~~1. Section 9 is not a dissolution rule. An inactive nonprofit association may not be one~~
18 ~~that has dissolved. It may have just stopped functioning and have taken no formal steps to~~
19 ~~dissolve. It might possibly be revived.~~

20
21 ~~Section 9 gives a person in possession or control of personal property of a nonprofit~~
22 ~~association an opportunity to be relieved of responsibility for it. Compliance with the section~~
23 ~~provides a safe harbor.~~

24
25 ~~2. "Inactive" is not defined. A nonprofit association that has accomplished its purpose,~~
26 ~~such as seeking approval in a school bond election, is very likely inactive. A nonprofit~~
27 ~~association that has stopped pursuing its purposes, collecting dues, holding elections of officers~~
28 ~~and board members, and conducting meetings, and has no employees would seem to be inactive.~~

29
30 ~~"Inactive" does not describe a nonprofit association whose sole purpose is to act should a~~
31 ~~specific problem arise. That there has been no activity because the problem has not arisen does~~
32 ~~not make the standby organization "inactive."~~

33
34 ~~A three year period of inactivity is suggested. It is unlikely that a nonprofit association~~
35 ~~that has been inactive for that period will begin functioning again. Thus, it is prudent to transfer~~
36 ~~custody of its assets to someone likely to make appropriate use of them. While it is unlikely that~~

1 a nonprofit association would deal with this issue, if its document does provide a shorter or
2 longer period, that period governs.

3
4 ~~3. Section 9 applies only to personal property—tangible and intangible. Unclaimed~~
5 ~~property acts also apply to both kinds of personal property. All States have some form of~~
6 ~~unclaimed property act. Therefore, the relationship of these acts to this Act must be examined.~~
7 ~~The Uniform Unclaimed Property Act (1995) applies to certain intangible and tangible personal~~
8 ~~property. If the property has been unclaimed by the owner for five or more years it is presumed~~
9 ~~abandoned. Intangible property, such as checking and savings accounts and uncollected~~
10 ~~dividends, is the main concern of these Acts. The obligor, such as a bank or other financial~~
11 ~~institution and corporation, is directed to report and turn over the property to the state~~
12 ~~administrator.~~

13
14 ~~The only tangible personal property to which the Uniform Unclaimed Property Act~~
15 ~~(1995) applies, according to Section 3, is that in “a safe deposit box or any other safekeeping~~
16 ~~repository.” Many States have additional statutes that apply to property abandoned in airport,~~
17 ~~bus, and railroad lockers and the like. Tangible personal property of an inactive nonprofit~~
18 ~~association in the control or possession of a member or other person is not likely to be in these~~
19 ~~places. Therefore, overlap of this Act with the other state acts with respect to tangible personal~~
20 ~~property is likely to be very limited.~~

21
22 ~~Property of an inactive nonprofit association is likely to be in the possession or control of~~
23 ~~a former member, board member, officer, or employee. Especially with respect to intangible~~
24 ~~property, their relation to the property is unlike that of those regulated by the unclaimed property~~
25 ~~acts. They are custodians or fiduciaries and not obligors. Those upon whom duties are imposed~~
26 ~~by the unclaimed property acts are obligors on such intangible property as bank accounts, money~~
27 ~~orders, life insurance policies, and utility deposits. The person acting under Section 9 is very~~
28 ~~unlikely to be in the position of an obligor on such intangible property. In summary, there~~
29 ~~appears to be limited overlap.~~

30
31 ~~Other special statutes may apply, such as laws governing unexpended campaign funds.~~
32 ~~Texas, for example, permits a person to retain political contributions for six years after the~~
33 ~~person is no longer an office holder or candidate. It gives the person six choices of transferees,~~
34 ~~including a “recognized tax exempt charitable organization formed for educational, religious or~~
35 ~~scientific purposes.” Tex. Code Ann. Elections Section 251.012(d) and (e) (Vernon’s 1986).~~
36 ~~Minnesota provides that if an unincorporated religious society “ceases to exist or to maintain its~~
37 ~~organization” title to its real and personal property vests in the “next higher governing or~~
38 ~~supervisory” body of the same denomination. Minn. Stat. Ann. Section 315.37 (West 1992).~~

39
40 ~~4. It is the custody of and not the title to the property that is transferred. To whatever~~
41 ~~purpose the property was dedicated while in the hands of the transferor, it remains so dedicated~~
42 ~~in the hands of the transferee. Identification of the persons to whom the property may be~~
43 ~~transferred and cy pres principles recognize that the purpose to which the transferee may put the~~
44 ~~property need not be precisely that to which it was initially dedicated. For example, the initial~~
45 ~~purpose may no longer be viable.~~

1 5. ~~Section 9 does not address what should be done with real property of an inactive~~
2 ~~nonprofit association. This seems justified. A nonprofit association owning real property of~~
3 ~~significant value is unlikely to become inactive. In the rare case that it does, the assistance of a~~
4 ~~court may be obtained in making appropriate disposition of the real property, primarily to ensure~~
5 ~~good title.~~

6
7 6. ~~To obtain a Section 501(c)(3) tax classification as a nonprofit association an~~
8 ~~association must specify a distribution of assets on dissolution that satisfies the Internal Revenue~~
9 ~~Code. To avoid the interpretation that Section 9 might be construed to override an approved~~
10 ~~distribution provision in an association's governing document the primacy of that distribution~~
11 ~~provision is expressly recognized in paragraph (1).~~

12
13 7. ~~If there is no bylaw or other controlling document the person may transfer the custody~~
14 ~~of the personal property to another nonprofit organization or a government or governmental~~
15 ~~entity. The nonprofit organization need not have the same nonprofit purpose as the inactive one.~~
16 ~~It is enough that the transferee's purpose is "broadly similar." This requirement should not be~~
17 ~~construed narrowly. Otherwise, the risk of potential litigation over the transferor's choice will~~
18 ~~frustrate the section's purpose to provide a safe harbor.~~

19
20 ~~There is no limitation with respect to the choice of a government or governmental entity.~~

21
22 8. ~~Inasmuch as the transfer is made without consideration and the association almost~~
23 ~~certainly rendered insolvent, creditors of a nonprofit association would be protected by the~~
24 ~~Uniform Fraudulent Transfer Act Sections 4(a) and 5 and similar statutes. Whether they would~~
25 ~~also be protected if the transfer is made to the administrator of an unclaimed property statute~~
26 ~~depends on the terms of a jurisdiction's act. Uniform Unclaimed Property Act (1981) Sections~~
27 ~~20 and 24 contemplate that a creditor may proceed against property in the hands of the~~
28 ~~administrator if the creditor claims an interest in the property, such as a security interest or~~
29 ~~judgment lien. It is less clear that Section 15 of the 1995 Act recognizes this action. However, a~~
30 ~~general creditor without some claim against the property would not be protected. It is unlikely~~
31 ~~that an inactive nonprofit association would have both unpaid creditors and a significant amount~~
32 ~~of property. Therefore, the two issues discussed above are unlikely to arise.~~

33
34 9. ~~The person in possession or control is not required to give notice of the proposed~~
35 ~~transfer to anyone. An examination of to whom notice might reasonably be given reveals the~~
36 ~~difficulty with such a requirement. Almost by definition an inactive nonprofit association has no~~
37 ~~current members.~~

38
39 **SECTION 10. APPOINTMENT OF AGENT TO RECEIVE SERVICE OF**
40 **PROCESS.**

41 (a) A nonprofit association may file in the office of the [Secretary of State] a statement
42 appointing an agent authorized to receive service of process.

1 (b) A statement appointing an agent must set forth:

2 (1) the name of the nonprofit association;

3 (2) the federal tax identification number, if any, of the nonprofit association;

4 (3) the address in this State, including the street address, if any, of the nonprofit
5 association, or, if the nonprofit association does not have an address in this State, its address out
6 of State; and

7 (4) the name of the person in this State authorized to receive service of process
8 and the person's address, including the street address, in this State.

9 (c) A statement appointing an agent must be signed and [acknowledged] [sworn to] by a
10 person authorized to manage the affairs of the nonprofit association. The statement must also be
11 signed and acknowledged by the person appointed agent, who thereby accepts the appointment.
12 The appointed agent may resign by filing a resignation in the office of the [Secretary of State]
13 and giving notice to the nonprofit association.

14 (d) A filing officer may collect a fee for filing a statement appointing an agent to receive
15 service of process, an amendment, a cancellation, or a resignation in the amount charged for
16 filing similar documents.

17 (e) An amendment to or cancellation of a statement appointing an agent to receive service
18 of process must meet the requirements for execution of an original statement.

19 **Comment**
20

21 1. This section authorizes but does not require a nonprofit association to file a statement
22 authorizing an agent to receive service of process. It is, of course, not the equivalent of filing
23 articles of incorporation. However, some nonprofit associations may find it prudent to file.
24 Filing may assure that the nonprofit association's leadership gets prompt notice of any lawsuit
25 filed against it. Also, depending upon the jurisdiction's other laws, filing gives some public
26 notice of the nonprofit association's existence and address.

27
28 2. Central filing with a state official is provided. This is where parties will seek

1 information of this kind and where this is commonly publicly filed.

2
3 3. The format of this section is very much like Section 5, which concerns a statement of
4 authority with respect to property. Because one requires local and other central filing they are
5 not combined.

6
7 **SECTION 11. CLAIM NOT ABATED BY CHANGE.** A [claim for relief] against a
8 an incorporated nonprofit association does not abate merely because of a change in its members
9 or ~~persons authorized to manage the affairs of the nonprofit association managers.~~

10 **Comment**

11
12 This provision reverses the common law rule of partnerships, which courts often
13 extended to unincorporated nonprofit associations. Uniform Partnership Act (1994) Sections 29
14 and 31(4). This Act's entity approach requires this change of the old common law rule. Similar
15 provisions are found in many state statutes. See, for example, Ohio Rev. Code Ann.,
16 Corporations, Section 1745.04 (Baldwin 1991); Md. Ann. Code art. 6-406(a)(2); and 12 Vt. Stat.
17 Ann. Section 815 (Equity Pub. 1973). Uniform Partnership Act (1994) adopts an entity approach
18 and so changes the old rule. See Sections 603(a) 701, and 801 of 1994 Act.

19
20 Derivation: Principle #14.

21
22 **[SECTION 12. VENUE.** For purposes of venue, a nonprofit association is a resident of
23 the [city or] county in which it has an office.]

24 **Comment**

25
26 1. Venue, unlike service of process, is treated by statute. See for example Mont. Code
27 Ann. Section 25-2-118(1) (1991); 28 USCA 1391. A criterion used by all States for fixing venue
28 is the county of residence of the defendant. Most States specify as many as eight additional
29 grounds for venue, including the county in which the real estate that is the subject of the suit is
30 situated and the county in which the act causing, in whole or in part, the personal injury or other
31 tort occurred. None of these additional criteria present a special problem with respect to an
32 unincorporated nonprofit association.

33
34 2. If an aggregate view of a nonprofit association were taken, the association is resident
35 in any county in which a member resides. See Wright, Miller, & Cooper, 15 *Federal Procedure*
36 *& Practice* 3812 (1986). Conforming to the entity view of an association, Section 12 rejects the
37 common law view.

38
39 This section is bracketed because some States have already satisfactorily solved this
40 problem.

1
2 States have by statute modified the common law rule. Illinois, for example, provides that
3 “a voluntary unincorporated association sued in its own name is a resident of any county in
4 which it has an office or if on due inquiry no office can be found, in which any officer resides.”
5 Ill. Code Civ. Prac. Section 2-102(c).
6

7 3. Section 12 makes a nonprofit association a resident of any county (or city) in which it
8 has an office. If it has an office in five counties, for example, it may be sued in any of the five
9 counties.
10

11 4. “City,” in brackets, is for use by those States, such as Virginia, in which there is
12 territory that is not in a county but in a city only.
13

14 Derivation: Principle #17.
15

16 **SECTION 13. SUMMONS AND COMPLAINT; SERVICE ON WHOM.** In an
17 action or proceeding against a nonprofit association a summons and complaint must be served on
18 an agent authorized by appointment to receive service of process, an officer, managing or general
19 agent, or a person authorized to participate in the management of its affairs. If none of them can
20 be served, service may be made on a member.]

21 **Comment**

22

23 1. In most States the law with respect to service of process is in court rules. Where that
24 is the case, this section, if adopted, should be placed in these rules.
25

26 2. Some States have expressly addressed service of process on a nonprofit association.
27 Those States may wish to continue their rules and so should not adopt this section. For this
28 reason this section is bracketed.
29

30 Section 13 adapts Rule 4 of the Federal Rules of Civil Procedure to this setting.
31 However, it leaves to other applicable law details concerning service, such as who may make
32 service and the kind of the mailing. It specifies only to or on whom the service of process must
33 be addressed.
34

35 By rule or statute all jurisdictions have extensive law on service of process. The real
36 question for nonprofit associations is which set of these rules should apply. This Act treats a
37 nonprofit unincorporated association as a legal entity. Thus, the rules applicable to another legal
38 entity, the corporation, seem most appropriate.
39

40 Derivation: Principle #17.

1
2 **SECTION 14. MEMBER AS MEMBER NO AGENCY POWER.**

3 (a) A member of an unincorporated nonprofit association is not an agent of the
4 association solely by reason of being a member.

5 (b) A person's status as a member of an unincorporated nonprofit association does not
6 prevent or restrict law other than this [Act] from imposing liability on the association because of
7 the person's conduct.

8 **Comment**

9
10 Derivation: Principle #27 and ULLCA (2006) Section 301.
11

12 **SECTION 15. MEMBER'S RIGHTS.**

13 (a) Except as otherwise provided in its governing principles the members of an
14 unincorporated nonprofit association shall have the right to:

15 (1) admit, suspend, dismiss or expel members;

16 (2) select and dismiss managers;

17 (3) adopt and amend governing principles;

18 (4) sell, lease, exchange, or otherwise dispose of all, or substantially all of the
19 unincorporated nonprofit association's property, outside the ordinary course of its activities;

20 (5) approve a merger or conversion under [Article ____];

21 (6) undertake any other act outside the ordinary course of its unincorporated
22 nonprofit association's activities;

23 (7) determine the policy and purposes of the association; and

24 (8) any other act or right requiring action by members in the unincorporated
25 nonprofit association's governing principles.

(b) All matters to that are reserved for the member’s decision under Subsection (a) shall be decided by a majority vote of the members, unless the unincorporated nonprofit association’s governing principles otherwise provide.

Comment

Derivation: Principle #26.

SECTION 16. ADMISSION, SUSPENSION, DISMISSED OR EXPULSION OF MEMBERS.

(a) A person becomes a member of an unincorporated nonprofit association and can be suspended, dismissed or expelled in accordance with the unincorporated nonprofit association's governing principles. In the absence of applicable governing principles, a person can become a member or be suspended, dismissed or expelled from an unincorporated nonprofit association by a majority vote of its members. A person may not be admitted as a member without the person's consent.

(b) The suspension, dismissal or expulsion of a member does not relieve the member from any unpaid capital contributions, dues, assessments, fees or any other obligation incurred or commitment made by the member prior to the suspension, dismissal or expulsion.

Comment

Derivation: Principle #35.

SECTION 17. MEMBER RESIGNATION.

(a) A member may resign from membership in an unincorporated nonprofit association in accordance with the unincorporated nonprofit association's governing principles. In the absence of applicable governing principles, a member may resign at any time.

(b) The resignation of a member does not relieve the member from any unpaid capital

1 contributions, dues, assessments, fees or any other obligation incurred or commitment made by
2 the member prior to resignation.

3 **Comment**

4
5 Derivation: Principle #36.
6

7 **SECTION 18. TRANSFER OF MEMBERSHIP INTEREST PROHIBITED.**

8 Except as otherwise provided in the unincorporated nonprofit association's governing principles,
9 a member may not transfer the member's membership interest or any right thereunder to another
10 person.

11 **Comment**

12
13 Derivation: Principle #37.
14

15 **SECTION 19. SELECTION OF MANAGERS; MANAGEMENT RIGHTS OF**
16 **MANAGERS.**

17 (a) The members of an unincorporated nonprofit association select the association's
18 managers in accordance with Section [16]. If no managers have been selected, all the members
19 shall be deemed to be the managers.

20 (b) Except as otherwise provided in this [act] or an unincorporated nonprofit association's
21 governing principles,

22 (1) each manager has equal rights in the management and conduct of the
23 association's activities;

24 (2) all matters relating to the association's activities shall be decided by its
25 managers; and

26 (3) a difference arising among managers shall be decided by a majority of the

managers.

Comment

Derivation: Principles #s 28 and 29.

SECTION 20. DUTIES OF MANAGERS.

(a) A manager of an unincorporated nonprofit association shall perform the management responsibilities of the association in good faith, in a manner the manager believes to be in the best interests of the association, and with such care, including reasonable inquiry, as an ordinarily prudent person would reasonably exercise in a like position and under similar circumstances. In discharging these duties, a manager may rely in good faith upon opinions, reports, statements, or other information provided by another person that the manager reasonably believes is a competent and reliable source for the information.

(b) A manager who makes a business judgment in good faith satisfies the duties specified in Subsection (a) if the manager:

(1) is not interested, directly or indirectly, in the subject of the business judgment and is otherwise able to exercise independent judgment;

(2) is informed with respect to the subject of the business judgment to the extent the manager reasonably believes to be appropriate under the circumstances; and

(3) reasonably believes that the business judgment is in the best interests of the unincorporated nonprofit association in light of its stated purposes.

Comment

Note: This section as presently worded does not cover limitations on liability, *e.g.*, elimination of monetary damages or reduction of the duties of loyalty and due care that seem to be contemplated by Principle #33.

Derivation: Principles #s 31 and 33.

1
2 **SECTION 21. NOTICE AND QUORUM REQUIREMENTS.** Notice and quorum
3 requirements for meetings or members and managers are determined by the unincorporated
4 nonprofit association's governing principles.

5 **Comment**

6
7 Derivation: Principle #30.
8

9 **SECTION 22. RIGHT OF MEMBERS AND MANAGERS TO INFORMATION.**

10 (a) On reasonable notice, a member or manager of an unincorporated nonprofit
11 association may inspect and copy during regular business hours, at a reasonable location
12 specified by the association, any record maintained by the company regarding the association's
13 activities, financial condition, and other circumstances, to the extent the information is material
14 to the member's or manager's rights and duties under the association's governing principles of
15 this [Act].

16 (b) An unincorporated nonprofit association shall furnish each member or manager:

17 (1) Without demand, any information concerning the association's activities,
18 financial condition, and other circumstances which the association knows and is material to the
19 proper exercise of the member's or manager's rights and duties under the association's
20 governing principles; and

21 (2) On demand, any other information concerning the association's activities,
22 financial condition, any other circumstances which are material to the proper exercise of the
23 member's or manager's right and duties under the association's governing principles, except to
24 the extent the demand or information demanded is unreasonable or otherwise improper under the
25 circumstances.

(c) An unincorporated nonprofit association may impose reasonable restrictions on access to and use of information to be furnished under this section, including designating the information confidential and imposing nondisclosure and safeguarding obligations on the recipient.

Comment

Derivation: Principle #32 and ULLCA (2006) Section 410.

SECTION 23. DISTRIBUTIONS PROHIBITED; COMPENSATION AND OTHER PERMITTED PAYMENTS.

(a) Except as otherwise provided in Subsection (b), an unincorporated nonprofit association shall not pay dividends or distribute any part of its income or profits to its members or managers.

(b) An unincorporated nonprofit association may:

(i) pay reasonable compensation or reimburse reasonable expenses to its members
or managers for services rendered;

(ii) confer benefits upon or make contributions to its members or managers in
conformity with its nonprofit purposes;

(iii) repurchase its memberships and repay any capital contributions made by its
members to the extent authorized by its governing principles; and

(iv) make distributions of property to members upon winding up and termination
as permitted by Section [25].

Comment

Derivation: Principle #5 and Sections 6.40 and 6.41 of the Proposed Model Nonprofit Corporation Act-Third Edition (February 2006 Exposure Draft).

SECTION 24. INDEMNIFICATION AND ADVANCEMENT OF EXPENSES.

(a) An unincorporated nonprofit association shall reimburse a member or manager for any payment made and indemnify a member or manager for any debt, obligation, or other liability incurred in the course of the member or manager's activities on behalf of the association. To be entitled to indemnification, a manager must have complied with the duties stated in Section [20].

(b) If a person is made or threatened to be made a party in a proceeding based on malfeasance or misfeasance in conducting the affairs of an unincorporated nonprofit association, that person is entitled, upon written request to the association, to payment of or reimbursement by the association, of reasonable expenses, including attorneys fees and disbursements, incurred by that person in advance of the final disposition of the proceeding. To be entitled to these payments or advances, the person making the request must make a written affirmation that the person has a good faith belief that the criteria for indemnification in Subsection (a) have been satisfied and that the person will repay the amounts paid or reimbursed if it is determined that the criteria for reimbursement have not been satisfied.

Comment

Derivation: Principle #34.

SECTION 25. DISSOLUTION.

(a) An unincorporated nonprofit association may be dissolved by any of the following
methods:

(1) If the governing principles of the association provide a method for dissolution,
by that method.

(2) If the governing principles of the association do not provide a method for

dissolution, by the affirmative vote of a majority of the members.

(3) If the unincorporated nonprofit association's operations have been discontinued for at least three years by the managers or, if the unincorporated nonprofit association has no incumbent managers, by its last preceding incumbent managers.

(4) If the unincorporated nonprofit association's operations have been discontinued, by court order.

Comment

The vote required for dissolution would be a majority vote of the members, unless the governing principles require a higher vote. See Principle #26. Subsections (c) and (d) are only applicable if the unincorporated nonprofit association is inactive.

Derivation: Principle #38, Calif. Corp. Code § 18410.

SECTION 26. WINDING UP AND TERMINATION.

(a) Winding up and termination of an unincorporated nonprofit association must proceed as follows:

(1) All known debts and liabilities must be paid or adequately provided for;

(2) Any assets subject to a condition requiring return to the person designated by the donor must be transferred to that person;

(3) Any assets subject to a trust (e.g., endowment or restricted gifts) must be distributed in accordance with the trust agreement; and

(4) Any remaining assets must be distributed as follows:

(i) As required by other law that requires assets of a nontaxable unincorporated nonprofit association to be distributed to another nontaxable unincorporated nonprofit association with similar purposes;

(ii) In accordance with the unincorporated nonprofit association's

governing principles; and in the absence of applicable governing principles, to the current members of the association per capita or as the current members direct; or

(iii) If neither (i) nor (ii) apply, the net assets will escheat to the enacting jurisdiction by the means generally provided for escheat of property in the enacting jurisdiction's law.

Comment

Derivation: Principle #39.

SECTION 27. MERGERS AND CONVERSIONS. Use ULLCA (2006) Sections 1001-1009 as pattern, with following modifications (a) majority vs. unanimous vote for approval by an unincorporated nonprofit association and (b) no filing with Secretary of State is required if all the merging entities are unincorporated nonprofit associations.

Comment

Derivation: Principle #40.

SECTION 14 28. UNIFORMITY OF APPLICATION AND CONSTRUCTION.

This [Act] shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this [Act] among States enacting it.

SECTION 15 29. SHORT TITLE. This [Act] may be cited as the Uniform Unincorporated Nonprofit Association Act (1996).

SECTION 16 30. SEVERABILITY CLAUSE. If any provision of this [Act] or its application to any person or circumstance is held invalid, the invalidity does not affect any other provisions or applications of this [Act] which can be given effect without the invalid provision or application, and to this end the provisions of this [Act] are severable.

SECTION 17 31. EFFECTIVE DATE. This [Act] takes effect

1_____.

2 **Comment**

3
4 This Act provides an unincorporated, nonprofit association and its members with a legal
5 structure that conforms to the expectations of many of them.

6
7 Therefore, the need by the nonprofit association for additional time to revise procedures
8 and forms to conform to a significant change in the law is not necessary. However, this Act
9 materially affects third parties, particularly creditors of nonprofit associations. Anecdotal
10 evidence suggests that many creditors place little reliance on their rights against members in
11 extending credit. If they have any reservations about the creditworthiness of a nonprofit
12 association they obtain guarantees from creditworthy members or insist on cash. To the extent
13 that this is true, no change in credit policies is needed and so no extra planning time is needed.

14
15 Unless a jurisdiction's usual effective date rule provides little time for affected parties to
16 learn of a new law, it is unnecessary to extend this Act's effective date.

17
18 **SECTION 18 32. REPEALS.** The following acts and parts of acts are repealed:

19 _____

20 _____

21 The following acts and parts of acts are not repealed:

22 _____

23 _____

24 This [Act] replaces existing law with respect to matters covered by this [Act] but does not
25 affect other law respecting nonprofit associations.

26 **Comment**

27
28 This Act is not a comprehensive revision of the law of unincorporated nonprofit
29 associations. It is, however, designed to apply to all unincorporated nonprofit associations to the
30 extent of its coverage.

31
32 Many States have a patchwork of law relating to these associations. Some laws apply to
33 a specific kind of association, such as a denominational church or medical society. See, for
34 example, California Corporations Code, Title 3, Unincorporated Associations, Section 21200
35 (West 1991) (County and Regional Medical Societies); Minn. Stat. Ann. Section 315.01 et seq.
36 (West 1992) (religion societies). Other law deals with a very specific subjects, such as legal
37 protection of an association's insignia. Some go beyond a subject's treatment in this Act, such as

1 the recently enacted charitable immunity and liability acts that relieve individuals acting for an
2 association from liability for simple negligence.

3
4 In preparing a bill for the enactment of this Act careful attention should be given to
5 determining the appropriate relationship of this Act to existing statutes. It may be wise to repeal
6 expressly certain laws and to specify that certain others are not repealed. While it is unusual to
7 include a provision that certain statutes are not repealed, doing so in this situation will relieve
8 courts of difficult questions of repeal by implication.

9
10 **SECTION 33. SAVINGS CLAUSE.** This [Act] does not affect an action or proceeding
11 commenced or right accrued before this [Act] takes effect.

12 Comment

13
14 1. Section 20 is adapted from Uniform Partnership Act (1994) Section 1006(c). It
15 continues the prior law after the effective date of this Act with respect to a (i) “right accrued” and
16 (ii) pending “action or proceeding.” But for this section the new law of this Act would displace
17 the old in some circumstances. The power of a new act to displace the old statute with respect to
18 conduct occurring before the new act’s enactment is substantial. Millard H. Ruud, *The Savings*
19 *Clause – Some Problems in Construction and Drafting*, 33 Tex. L. Rev. 285, 286-293 (1955). A
20 court generally applies the law that exists at the time it acts.

21
22 2. Almost all States have general savings statutes, usually as a part of their statutory
23 construction acts. These are often very broad. See, for example, Model Statutory Construction
24 Act, Section 53. As this Act is remedial, the more limited savings provisions in Section 20 are
25 more appropriate than the broad savings provisions of the usual general savings clause. Section
26 20 and not a jurisdiction’s general savings clause applies to the Act.

27
28 3. “Right Accrued.” It is not always clear whether an alleged right has “accrued.” Some
29 courts have interpreted the phrase to mean that a “matured cause of action or legal authority to
30 demand redress” exists. *Estates of Hoover v. Iowa Dept. of Social Services*, 299 Iowa 702, 251
31 N.W. 2d 529 (1977). In *Nielsen v. State of Wisconsin*, 258 Wis. 1110, 141 N.W. 2d 194 (1966),
32 a landowner brought suit after the repeal of an act granting a landowner the right to recover from
33 the State for damages to her land caused by the State’s failure to install necessary culverts and
34 the like to prevent flooding. Before the act’s repeal the landowner’s land had been damaged by
35 flooding caused by the State’s failures. The court held that the statutory saving of “rights of
36 action accrued” saved her cause of action. In both of these cases, conduct that gave rise to a
37 cause of action had occurred before the act was repealed. It is said that it is not enough that there
38 is an inchoate right.

39
40 Apparently, there is no “accrued right” under a contract, for example, until there is a
41 breach.

42
43 4. “Action or Proceeding” Pending. The principal question is what is an “action or
44 proceeding” for this purpose. “Action” refers to a judicial proceeding. “Proceeding” alone,

1 especially when used with “action,” is broader and so includes administrative and other
2 governmental proceedings. It has been given the broader meaning. For example, in *State ex rel.*
3 *Carmean v. Board of Education of Hardin County*, 170 Ohio 2d 415, 165 N.E. 2d 918 (1960) a
4 petition to transfer certain land from one school district to another filed before a change in the
5 law was a “pending proceeding” to be decided under the old law. Similarly, a request for
6 permission to petition for an election to consolidate school districts was held to be a “proceeding
7 commenced” so that the substance and procedure of the old law, which was materially different
8 from the new, was preserved. *Grant v. Norris*, 249 Iowa 236, 85 N.W. 2d 261 (1957).

9
10 5. Uniform Partnership Act (1994) provides that the Act does not “impair obligations of
11 contract existing.” This is not carried forward. This phrase is intended to save only obligations
12 protected by the contracts clauses of state and federal constitutions. However, as it might be
13 construed more broadly and the constitution would protect without the phrase, the phrase is not
14 present in Section 20.

15
16 Derivation: Principle #15.
17

18 **SECTION ~~19~~ 34. [TRANSITION CONCERNING REAL AND PERSONAL**
19 **PROPERTY.**

20 **Alternative 1**

21 If, before the effective date of this [Act], an estate or interest in real or personal property
22 was by terms of the transfer purportedly transferred to a nonprofit association but under the law
23 the estate or interest did not vest in the nonprofit association, on the effective date of this [Act]
24 the estate or interest vests in the nonprofit association, unless the parties have treated the transfer
25 as ineffective.

26 **Alternative 2**

27 If, before the effective date of this [Act], an estate or interest in real or personal property
28 was by terms of the transfer purportedly transferred to a nonprofit association but under the law
29 the estate or interest was vested in a fiduciary, such as officers of the nonprofit association, to
30 hold the estate or interest for members of the nonprofit association, on or after the effective date
31 of this [Act] the fiduciary may transfer the estate or interest to the nonprofit association in its

1 name, or the nonprofit association may, by appropriate proceedings, require that the estate or
2 interest be transferred to it in its name.]

3 **End of Alternatives**

4 **Comment**

5
6 1. Two versions of Section 19 are offered. The initial common law rule was that a
7 purported transfer of property to an unincorporated nonprofit association totally failed as the
8 association was not a legal entity. If a State has that rule, it should adopt the first alternative. If,
9 on the other hand, its rule is that title does not pass to the association in its name but passes
10 instead to a fiduciary, such as its officers, to hold the property for the benefit of the members, a
11 State should adopt the second alternative.

12
13 If a State has by statute made transfers effective to some classes of nonprofit associations
14 but not all, it should adopt the appropriate alternative to those not covered. If a State has made
15 all transfers to all unincorporated nonprofit associations effective, it does not need Section 19.

16
17 2. Section 19 brings to fruition the parties' expectations that previous law frustrated.
18 Inasmuch as the common law did not consider an unincorporated nonprofit association to be a
19 legal entity, it could not acquire property. A gift of real or personal property thus failed.
20 Reference to the transfer as "purportedly" made identifies the document of transfer as one not
21 effective under the law. The first alternative gives effect to the gift. However, if parties were
22 informed about the common law they may have treated the gift as ineffective. In that case, the
23 final clause of Alternative 1 provides that the gift does not become effective when this Act takes
24 effect. The unless clause would apply, for example, if the residual beneficiaries of the donor's
25 will, knowing that the devise of Blackacre to the nonprofit association was ineffective under the
26 law, continued to use Blackacre as their summer home with the approval and acquiescence of
27 members and representatives of the nonprofit association.

28
29 3. Section 19 is not a retroactive rule. It applies to the facts existing when this Act takes
30 effect. At that time Alternative 1 applies to a purported transfer of property that under the law of
31 the jurisdiction that could not be given effect at the time it was made. The first alternative
32 belatedly makes it effective – effective when this Act takes effect and not when made. The
33 practical result of this difference is that when the purported transfer is effective, the transfer is
34 subject to interests in the property that came into being in the interim. The nonprofit
35 association's interest is subject, for example, to a tax or judgment lien that became effective in
36 the interim. An intervening transfer by the initial transferor may simply be evidence that the
37 "parties had treated the transfer as ineffective." If so, Alternative 1 by its terms does not vest
38 ownership in the nonprofit association.

39
40 4. Some courts gave effect to gift of property to an unincorporated nonprofit association
41 by determining that the gift lodged title in someone, often officers of the association, to hold the
42 property in trust for the benefit of the association's members. The second alternative addresses
43 this situation. When the Act takes effect it authorizes the fiduciary to transfer the property to the

1 association. If the fiduciary is unwilling or reluctant, the association may require the fiduciary to
2 transfer the property to the association. In either case, the association will get a deed transferring
3 the property to it which, in the case of real property, the association may record.
4

5 5. Jurisdictions that have a statute like New York's concerning grants of property by will
6 have a problem that needs special attention. The New York statute provides that a grant by will
7 of real or personal property to an unincorporated association is effective only if the association
8 incorporates within three years after probate of the will. McKinney's N.Y. Estates, Powers &
9 Trust Law Section 3-1.3 (1991). The grants by will that need attention are those that have not
10 become effective by incorporation of the association and have not become ineffective by the
11 running of the three year period. These grants seem entitled to the benefits of Section 19. If so,
12 some modification of Section 19 may be required.
13

14 ~~**SECTION 20. SAVINGS CLAUSE.** This [Act] does not affect an action or proceeding~~
15 ~~commenced or right accrued before this [Act] takes effect.~~

16 **Comment**

17

18 1. Section 20 is adapted from Uniform Partnership Act (1994) Section 1006(c). It
19 continues the prior law after the effective date of this Act with respect to a (i) "right accrued" and
20 (ii) pending "action or proceeding." But for this section the new law of this Act would displace
21 the old in some circumstances. The power of a new act to displace the old statute with respect to
22 conduct occurring before the new act's enactment is substantial. Millard H. Ruud, *The Savings*
23 *Clause—Some Problems in Construction and Drafting*, 33 Tex. L. Rev. 285, 286 293 (1955). A
24 court generally applies the law that exists at the time it acts.
25

26 2. Almost all States have general savings statutes, usually as a part of their statutory
27 construction acts. These are often very broad. See, for example, Model Statutory Construction
28 Act, Section 53. As this Act is remedial, the more limited savings provisions in Section 20 are
29 more appropriate than the broad savings provisions of the usual general savings clause. Section
30 20 and not a jurisdiction's general savings clause applies to the Act.
31

32 3. **"Right Accrued."** It is not always clear whether an alleged right has "accrued."
33 Some courts have interpreted the phrase to mean that a "matured cause of action or legal
34 authority to demand redress" exists. *Estates of Hoover v. Iowa Dept. of Social Services*, 299
35 Iowa 702, 251 N.W. 2d 529 (1977). In *Nielsen v. State of Wisconsin*, 258 Wis. 1110, 141 N.W.
36 2d 194 (1966), a landowner brought suit after the repeal of an act granting a landowner the right
37 to recover from the State for damages to her land caused by the State's failure to install
38 necessary culverts and the like to prevent flooding. Before the act's repeal the landowner's land
39 had been damaged by flooding caused by the State's failures. The court held that the statutory
40 saving of "rights of action accrued" saved her cause of action. In both of these cases, conduct
41 that gave rise to a cause of action had occurred before the act was repealed. It is said that it is
42 not enough that there is an inchoate right.
43

1 Apparently, there is no “accrued right” under a contract, for example, until there is a
2 breach.

3
4 ~~4. “Action or Proceeding” Pending.~~ The principal question is what is an “action or
5 proceeding” for this purpose. “Action” refers to a judicial proceeding. “Proceeding” alone,
6 especially when used with “action,” is broader and so includes administrative and other
7 governmental proceedings. It has been given the broader meaning. For example, in *State ex rel.*
8 *Carmean v. Board of Education of Hardin County*, 170 Ohio 2d 415, 165 N.E. 2d 918 (1960) a
9 petition to transfer certain land from one school district to another filed before a change in the
10 law was a “pending proceeding” to be decided under the old law. Similarly, a request for
11 permission to petition for an election to consolidate school districts was held to be a “proceeding
12 commenced” so that the substance and procedure of the old law, which was materially different
13 from the new, was preserved. *Grant v. Norris*, 249 Iowa 236, 85 N.W. 2d 261 (1957).

14
15 5. Uniform Partnership Act (1994) provides that the Act does not “impair obligations of
16 contract existing.” This is not carried forward. This phrase is intended to save only obligations
17 protected by the contracts clauses of state and federal constitutions. However, as it might be
18 construed more broadly and the constitution would protect without the phrase, the phrase is not
19 present in Section 20.