

Accounting Workshop (for non-accountants) for LMSC's and Clubs/Teams

- I) Financial Operating Guidelines (FOG)
 - a) USMS FOG: See Appendix A.
 - b) LMSC FOG: See Appendix B.
 - i) Requirements:
 - (1) Annual Financial Statements (FS): itemized income statement & balance sheet;
 - (2) Send to National Office 4 months after Year End.
 - ii) Recommendations: in LMSC FOG, discussed in II-IV below.
 - iii) Bonding carried by USMS, requires FS and annual internal review. Note: as of 9/30/07, USMS has NOT yet procured bonding for 2008 calendar year.
 - iv) IRS requirements: in LMSC FOG, discussed in VII below.
 - v) Clubs/Teams only IRS requirements, but encouraged to follow FOG.
- II) Basics
 - a) The Checking Account.
 - i) Avoid fees, on line access limit to data inquiry, minimum two authorized signors; Treasurer, Finance Chair, recommend President
 - b) Paying Bills.
 - i) Manual checks: Carbonless 2-part checks; Computer checks: 1 check per page, bottom half tear off check copy. Pay only on documentation, use spending authority limit
 - ii) Reimbursing members, use expense form AND require documents, verify authorization to spend
 - c) Filing, Record Keeping, Retention.
 - i) Staple check copy to documents or write check # on top of stapled documents.
 - ii) File in check # order.
 - iii) Audit trail, ability to trace summary data on FS to each and every single transaction and for disbursements must clearly indicate who approved.
 - iv) Required to keep 3 years after due date of tax return or 2 years after filing tax return, whichever is longer; prefer 7 years.
 - v) Employee and subcontractor documents: keep 7 years.

- d) Bank reconciliations, MUST DO MONTHLY, not check signor nor depositor.
- e) Deposits.
 - i) Restrictively endorse checks "For Deposit Only" upon receipt from mail.
 - ii) Carbonless 2 part deposit slips, list every deposit item, copy every check.
 - iii) Retain bank deposit verification.
 - iv) Staple deposit slip copy, bank verification and check copies together. File by date.
 - v) Itemize accounting break out for every deposit. Use manual or electronic spreadsheet. See Appendix C.
 - vi) Who makes deposit: Registrar sends deposit detail to Treasurer, if Treasurer, sends registrations details to Registrar.
- f) Bad checks, must communicate to Registrar. Decide: who is collection enforcer; do you charge for returned checks (does your bank charge fees for returned checks), do you revoke USMS registration.
 - i) NSF (Not Sufficient Funds) checks can be re-deposited once. Some banks do this automatically. Returned checks with holes punched in the account number cannot be re-deposited.
 - ii) Call 1st: call check maker.
 - iii) Collection secret, you can call the bank upon which check is drawn against, ask for accounting, give them the account #, check # and amount of check and inquire whether there are sufficient funds to cover the check. Just because there are funds when you call does not mean they will be there when you re-deposit the check.
 - iv) One event fees bad checks - probably SOL.
- g) Reconcile Registrars' transmittal report to National, and to National's Invoice for Dues collected. THIS WILL BECOME MORE IMPORTANT WITH NATIONAL ONLINE REGISTRATION.

III) Segregation of Duties.

- a) Intent: Checks and balances. One person should not be in control of multiple transactions, reporting and review functions. If one person has to be in control of multiple transactions, then there must be oversight and control functions that mitigate the procedures.
- b) Registrar: Cannot perform check signing and deposit functions. Prefer registrar not receive checks and not perform deposit.
- c) Individual receiving checks in mail should not be check signor.
- d) Bank reconciliations MUST be performed by someone who does not sign checks or prepare deposits. Note: if secondary check signor does not typically have access to checks and does not typically sign checks, that person can perform the bank reconciliation.
- e) Financial Statement compilation should be performed by someone other than primary check signor.
- f) Periodic review of disbursements and deposits and related documents should be performed by an independent person.
- g) Require two co-signors on investment accounts. Two signatures required to transfer funds to anywhere other than reinvestment or checking account.

IV) Accounting

- a) Chart of Accounts (COA): See Appendix D.
 - i) What is it? A: listing of all accounts.
 - ii) How to use it? For management purposes as distinguished from tax accounting classifications.
 - iii) Major categories:
 - (1) Assets; (4) Revenues;
 - (2) Liabilities; (5) Expenses
 - (3) Equity;
- b) General Ledger -- what is this? The GL is the entire data base of transactions organized according to the COA in a double entry bookkeeping system. With the advent of computerized programs, double entry bookkeeping is transparent to the novice.

- c) Accounting Tips:
- i) USMS dues ARE NOT REVENUES.
 - (1) They are a liability, record them as such. See Appendix G Advanced Tax Topics, for a more complete discussion.
 - (2) Lower revenues have lower tax reporting requirements - 990EZ versus 990 and State Requirements.
 - ii) Cut-off procedures for revenues: Coordinate with registrar to know exact USMS liability as of end of year. Expanded explanation in workshop.
 - iii) Cash basis for small inventory items, need to capitalize? i.e. medals, tee-shirts, etc.
 - iv) Expense small asset purchases. Pick a dollar limit such as \$250 or \$500. Examples: Purchase QB software for \$150 or a new laser jet printer for \$200. Just expense those items as office or office equipment line item.
 - v) COA – keep it simple. Do not go crazy and set up a line item for every transaction type. Consider whether there is a management need to track expense. Best example: Office expense; supplies, printing, copying, paper, ink, bank fees and so on; just treat these items all as office expense.
 - vi) Quickbooks. Great accounting program for the non-accountant. No need for double entry bookkeeping. Basic version, \$100 or less. Pro version, \$160 has “nice” features including “Accountants Copy”. Email file to accountant or tax preparer. They are able to make changes and “import” the changes to you while you continue to enter transactions. I anticipate having a prototype QB file set up for download and immediate use by LMSC or Club/Team.

V) Reporting

- a) Annual Financial Report, complete Income Statement and Balance Sheet. See Appendix E.
- b) Tax Return is based on average Gross Receipts for 3 years. See Appendix G, Part II, Advance Tax Topics for definition of Gross Receipts.
 - i) Federal 990 and Schedule A if receipts over \$100,000.
 - ii) 990EZ and Schedule A if over \$25,000 less than \$100,000 and total assets under \$250,000.
 - iii) Old Rule: No return if under \$25,000.
 - iv) New Rule: Effective now you must electronically report legal name, name doing business as, mailing address, web site (if exists) EIN, name and address of principle officer and evidence of organization's continuing basis for tax exemption.
- c) Budget, not required but highly recommended.
- d) Interim communication to members is simply good business practice. Web site and/or Newsletters. Same for annual financial report and budget.

VI) Budgeting

- a) Bottom up – from each budget center head. Top down - dictated by management,
- b) Zero based, every line item starts at \$0 and builds up from there.
- c) Historical results a good basis for developing budget items and estimating budget needs. However, do not exclusively rely upon history.
- d) Spreadsheets, highly recommended. Use someone handy in spreadsheets. Useful to evaluate when historical data compared to budgets and proposed budget. See Appendix F.

VII) Taxes. See also Appendix G, Advance Tax Topics

- a) What is FEIN or EIN? Federal Employers Identification Number, or Employers Identification Number. These terms are the same thing and used interchangeably. It is not your “tax exempt number” which is generally issued by your state. It is a unique # that identifies the organization to the IRS. Every organization is required to have an FEIN, even if will not have employees. Use [Form SS-4](#) and its [Instructions](#) to apply for an FEIN or apply for it on line at <http://www.irs.gov/businesses/small/article/0,,id=102767,00.html>
- b) What is the difference between Non-profit and Tax-exempt status? Please see Appendix G Part I, for more detailed explanation. Basically, Non-profit status is granted by the states and to obtain exemption from Federal income taxation, an organization must apply for and be granted tax-exempt status from the IRS. Tax-exempt status also qualifies the organization to accept donations which are deductible to the donor within IRS limits.
- c) Requirements:
 - i) LMSC’s – exempt under USMS GEN;
 - ii) Clubs/teams currently must file for individual exemption (if non profit). See Appendix G, Part III, Advance Tax Topics. Hope to expand USMS GEN coverage to “qualified” Clubs/Teams;
 - iii) Federal requirements – see VI above. Due date 15th of 5th month – s/b May 15th;
 - iv) States – varies. Contact your state’s Department of Revenue or Treasury, Secretary of State, or Attorney General, for State specific requirements
 - v) Employees must be paid as employees, subject to withholding and employment taxes and reporting.
 - vi) Who constitutes an employee? Non-technical answer: Do you require where and when they work, do you supervise or set parameters for what they do – employee, do they perform these services for others, work their own hours, work at their location – contractor. If in doubt contact a tax professional.

vii) 1099's. All individuals who are not employees of the LMSC, and to whom the LMSC pays \$600 or more during the tax year, MUST receive a 1099-Misc from the LMSC.

Recommend: BEFORE making 1st payment you require them to give you mailing address and social security number. Corporations not required to receive 1099's except all lawyers must receive.

viii) Unrelated Business Income (UBI), if more than \$1000 of gross income, another tax report 990T. Due date 15th day of 5th month, s/b May 15th. What is UBI? Any trade or business that is regularly carried on and NOT substantially related to the organization's exempt purpose or function (besides needing funds).

(1) Advertising, sponsorships, rentals. Any business activity that is unrelated to your exempt purpose.

(2) Allocation of expenses to UBI, specific IRS rules for magazine/newsletters. Best to contact a tax professional. See IRS link at

<http://www.irs.gov/charities/article/0,,id=123293,00.html>

VIII) Investing Surpluses (cash).

a) Money market, bank: MMkt accounts typically paying .5%.

Good for parking short term excess cash that will be used and as a small reserve to cash flow uncertainty.

b) Certificates of Deposits - CD's. These are the recommended investment option. Shop around. Negotiate with your bank.

Switch if necessary. Different types of CD's with various flexibilities on redeeming and interest rates.

c) Other: stocks, bonds, mutual funds, foreign currency, and so on are NOT appropriate.

d) Cash flow, plan your CD's to mature when you will need the cash (ie: right after convention). Create "ladder maturities" Purchase 4 CD's maturing in 3, 6, 9 and 12 months. Then upon maturity roll over each as a 12 month CD. Plan your CD purchases when cash comes in, Dec-Feb.

IX) Technical resources: Where to go for HELP

- a) USMS FOG: www.usms.org/admin/FOG.pdf
- b) LMSC FOG: www.usms.org/admin/lmschb/lmsc_hb_treas.pdf
- c) Taxes - You may direct technical and procedural questions concerning nonprofit organizations to the IRS Tax Exempt and Government Entities Customer Account Services at (877) 829-5500 (toll-free number). Also visit these internet links:
 - (1) General business info <http://www.irs.gov/businesses/index.html>
 - (2) IRS Forms and publications <http://www.irs.gov/formspubs/index.html>
 - (3) Information for public non profits (LMSC's, Clubs and Teams)
<http://www.irs.gov/charities/charitable/article/0,,id=122670,00.html>
 - (4) UBI <http://www.irs.gov/charities/article/0,,id=123293,00.html>
 - (5) E-filing <http://www.irs.gov/charities/article/0,,id=148518,00.html>
 - (6) FAQ's for tax-exempts <http://www.irs.gov/charities/content/0,,id=96986,00.html>
 - (7) Apply online for FEIN <http://www.irs.gov/businesses/small/article/0,,id=102767,00.html>
- d) Chart of Accounts to be developed and posted in future on USMS website.
- e) Prototype: Application for Tax exemption, partially filled in form, to be posted in future on USMS website for use by Clubs and Teams
- f) Quickbooks: www.intuit.com
- g) Workshop Leader: Phil Dodson, 847-256-6962, e-mail: MYFAVCPA at AOL dot COM. Feel free to contact me at anytime.

Appendix A USMS FOG, sections related to LMSCs

VIII. INVESTMENTS AND RESERVES

B. Common stocks, preferred stocks, option devices, and obligations denominated in foreign currencies or derivative products are not considered appropriate financial instruments for USMS or any of its LMSCs.

XI. LOCAL MASTERS SWIM COMMITTEES (LMSCs)

A. Each LMSC shall produce annual financial statements consisting of at least an income statement and a balance sheet, based on sound accounting principles. Effective 1/1/08, each LMSC shall use the standard chart of accounts and financial statements format developed by USMS for LMSC use. LMSC financial statements may be prepared more often than once per year for LMSC use.

B. Each LMSC shall use the same fiscal year as USMS, which is a calendar year.

C. As required by USMS Code of Regulations and Rules of Conduct, a copy of each LMSC's annual financial statements shall be sent to the USMS National Office within 4 months after its year-end.

D. Any LMSC with annual gross receipts normally in excess of \$25,000 must file a tax return for that tax year, with a copy to be sent to the USMS National Office. All LMSCs are reminded that income unrelated to exempt activities may be taxable. Any organization's gross receipts are considered to be normally in excess of \$25,000 if the organization is:

1. Up to a year old and has received more than \$37,500 in gross receipts during the first year;
2. Between one and three years old and averaged more than \$30,000 in gross receipts during each of its first two tax years; or
3. Three years old or more and has averaged more than \$25,000 in gross receipts for the immediately preceding three years (including the year for which the return would be filed).

E. Any LMSC which makes payments in excess of \$600 in any fiscal year to any individual for services rendered shall issue an IRS Form 1099-MISC to that individual. Reimbursement of out-of-pocket expenses is not considered to be payments for services rendered.

F. It is recommended that each LMSC maintain all financial statements and records, including receipts, bank statements, and supporting documents for revenues and expenses for a minimum of three years, and possibly for as long as seven years, after the tax filing deadline for each year.

G. It is recommended that each LMSC's financial records be reviewed occasionally by someone other than the LMSC's Treasurer, such review to include:

1. Verification of bank balances
2. Sample review of revenues
3. Documentation for expenses

H. It is recommended that the functions of Treasurer and Registrar not be performed by the same person.

I. USMS reserves the right to inspect all financial records of any LMSC upon reasonable notice to the LMSC.

Appendix B

United States Masters Swimming

2007 Treasurer ~ page 1

Treasurer

The USMS House of Delegates has included financial guidelines for the LMSCs in the USMS Financial Operating Guidelines (FOG). A summary of FOG financial requirements, IRS requirements, and financial recommendations is listed below. In addition, FOG in its entirety is included at the end of this section. The sections of FOG that pertain specifically to LMSCs are Part XI and portions of Part VIII.

LMSCs vary greatly in size and level of banking and other financial activities, so not all fit into the same mold. At the same time, LMSC treasurers perform an important and complex function. Good accounting practices and knowledge of USMS's financial policies for LMSCs are vital to an LMSC's financial health.

Bonding insurance is carried by USMS, and coverage extends to the LMSCs. However, coverage requires that each LMSC produce an annual financial statement and that annually an internal review of the LMSC's records is performed. Therefore, your LMSC must meet these requirements to ensure its coverage under the USMS bonding policy.

LMSC Financial Requirements

1. Each LMSC shall produce an annual financial statement consisting of at least an income statement and a balance sheet, based on sound accounting principles. LMSC financial statements may be prepared more often than once per year for LMSC use. See pages 3 and 4 of this section of the handbook for sample income statements and balance sheets.
2. As required by the USMS *Code of Regulations and Rules of Conduct*, a copy of each LMSC's annual financial statement must be sent to the USMS National Office within 4 months after the end of the LMSC's fiscal year. This financial statement should include an income statement with itemized revenues and expenditures and a balance sheet.

LMSC Financial Recommendations

1. Each LMSC should maintain financial statements and records, including receipts, bank statements, invoices, and other supporting documentation for a minimum of 3 years and possibly for as long as 7 years after the tax filing deadline for the year.
2. The same person should not be both treasurer and registrar.
3. Each LMSC should use the same fiscal year as USMS, which is the calendar year.
4. Each LMSC's financial records should be reviewed occasionally by someone other than the LMSC's treasurer, such review to include:
 - A. Verification of bank balances
 - B. Sample review of revenue
 - C. Review of expense documentation
5. Common stocks, preferred stocks, option devices, obligations denominated in foreign currencies, and derivative products are not considered appropriate financial instruments for USMS or any of its LMSCs.

IRS Requirements for Not-for-Profit Organizations

1. Each LMSC with annual gross receipts normally in excess of \$25,000 must file a tax return (form 990 or 990-EZ) for that tax year. An organization's gross receipts are considered to be normally \$25,000 or less if the organization is:
 - a. Up to a year old and has received \$37,500 or less during its first tax year;
 - b. Between 1 and 3 years old and averaged \$30,000 or less in gross receipts during each of its first 2 tax years; or
 - c. Three years old or more and averaged \$25,000 or less in gross receipts for the immediately preceding 3 tax years (including the year for which the return would be filed).
2. Any LMSC that makes payments of \$600 or more in any fiscal year to a person for services rendered must issue an IRS form 1099-MISC to that person by January 31 of the following year. Reimbursement for out-of-pocket expenses is not considered to be payment for services rendered.
3. All LMSCs are reminded that income unrelated to exempt activities may be taxable. Consult a tax advisor if you believe that the revenue from unrelated activities may be taxable.

Appendix B continued

PLEASE NOTE:

The reporting requirements for organizations with less than \$25,000 in gross receipts changes for 2007 (reports due in 2008). **LMSC Treasurers will need to possibly change/improve your recordkeeping for 2007.**

Current Law. The requirement that an exempt organization file an annual information return does not apply to organizations (other than private foundations) with gross receipts of \$25,000 or less. Also exempt from the filing requirement are churches, their integrated auxiliaries, and conventions or associations of churches; the exclusively religious activities of any religious order; section 501(c)(1) instrumentalities of the United States; section 501(c)(21) trusts; an interchurch organization of local units of a church; certain mission societies; certain church-affiliated elementary and high schools; certain State institutions whose income is excluded from gross income under Section 115; certain governmental units and affiliates of governmental units; and other organizations that the IRS has relieved from the filing requirement pursuant to its statutory discretionary authority.

New Law. Effective for notices and returns with respect to annual periods beginning after 2006, the new law requires organizations that are excused from filing an information return by reason of normally having gross receipts below a certain specified amount (generally, under \$25,000) to furnish to the IRS annually, in electronic form, the legal name of the organization, any name under which the organization operates or does business, the organization's mailing address and Internet web site address (if any), the organization's taxpayer identification number, the name and address of a principal officer, and evidence of the organization's continuing basis for its exemption from the generally applicable information return filing requirements. Upon such organization's termination of existence, the organization is required to furnish notice of such termination.

Four people oversee the financial operations of USMS: the USMS treasurer, Finance Committee chair, internal auditor, and controller. Contact information for each of them is listed elsewhere in this handbook and in the USMS rule book. You may use them as a resource.

Computerized accounting packages are available at a range of prices. These packages include templates and basic examples of financial statements. You may contact the controller if you want to discuss which package would be best for you.

LMSCs vary tremendously in the nature of activities and the level of financial detail required. Pages 3 and 4 of this section contain examples of income statements and balance sheets. These statements are examples only, and may be adjusted for your own use.

Appendix C Deposit Worksheet

Deposit detail for Date _____

| Name | Total \$ | LMSA Dues | USMS Dues | LMSA Contributions | USMS ISHOF Contributions | Transfer Fees | Club Dues | Club Registrations | Sanction Fees | Other | Explain Other | Deposit Test |
|------|----------|-----------|-----------|--------------------|--------------------------|---------------|-----------|--------------------|---------------|-------|---------------|--------------|
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |

Deposit detail for Date November 1, 2007

| Name | Total \$ | LMSA Dues | USMS Dues | LMSA Contributions | USMS ISHOF Contributions | Transfer Fees | Club Dues | Club Registrations | Sanction Fees | Other | Explain Other | Deposit Test |
|------------------|----------|-----------|-----------|--------------------|--------------------------|---------------|-----------|--------------------|---------------|-------|---------------|--------------|
| Joe Doe | 35.00 | 15.00 | 20.00 | | | | | | | | | 0.00 |
| Rob Smith | 38.00 | 15.00 | 20.00 | 2.00 | 1.00 | | | | | | | 0.00 |
| Barbara Masters | 41.00 | 15.00 | 20.00 | 1.00 | | | 5.00 | | | | | 0.00 |
| Evanston Masters | 50.00 | | | | | | | | 50.00 | | | 0.00 |
| Team IL | 25.00 | | | | | | | 25.00 | | | | 0.00 |
| Daily Total | 189.00 | 45.00 | 60.00 | 3.00 | 1.00 | 0.00 | 5.00 | 25.00 | 50.00 | 0.00 | | 0.00 |

Appendix D Sample Chart of Accounts

Sample Clubs and Teams

| Account Name/Description | Account Type |
|----------------------------------|---------------|
| Checking | BANK |
| Money Market | BANK |
| Advances & Returned Checks | CURRENT ASSET |
| Swim Meet Equipment | FIXED ASSETS |
| Accumulated Depreciation | FIXED ASSETS |
| ILMSA & USMS Dues collected | LIABILITIES |
| Fund Balance | EQUITY |
| Restricted Funds | EQUITY |
| Member Dues | INCOME |
| Summer Dues | INCOME |
| Winter Dues | INCOME |
| Activities | INCOME |
| Swim Meet Fees | INCOME |
| T-shirts, Swim Suits, Misc Sales | INCOME |
| Contributions Income | INCOME |
| Advertising and Misc Income | INCOME |
| Refund Member Dues | EXPENSE |
| Program Expenses | EXPENSE |
| Coaches fees | EXPENSE |
| Equipment Rental Swim Meets | EXPENSE |
| Officials Expenses | EXPENSE |
| Relay entries | EXPENSE |
| Sanctions Fees | EXPENSE |
| Social Expenses | EXPENSE |
| Supplies - swimming activities | EXPENSE |
| Swim Meet Expenses & Supplies | EXPENSE |
| Travel | EXPENSE |
| Trophies & Gifts | EXPENSE |
| Tshirts, Swim Suits, Caps Exp | EXPENSE |
| Pool fees | EXPENSE |
| Pool fees:Summer Season | EXPENSE |
| Pool fees:Winter Season | EXPENSE |
| Administrative | EXPENSE |
| Office & Office Supplies | EXPENSE |
| Postage and Delivery | EXPENSE |
| Insurance | EXPENSE |
| Bank Service Charges | EXPENSE |
| Depreciation Expense | EXPENSE |
| Newsletter | EXPENSE |
| Professional Fees | EXPENSE |
| Repairs | EXPENSE |
| Miscellaneous | EXPENSE |
| Interest Income | OTHER INCOME |
| Donations | OTHER EXPENSE |
| Interest Expense | OTHER EXPENSE |

Sample LMSC

| Account Name/Description | Account Type |
|-------------------------------|-------------------------|
| Checking | Bank |
| Money Market | Bank |
| Certificate of Deposit | Bank |
| Advances & Returned Checks | Other Current Asset |
| Equipment | Fixed Assets |
| Accumulated Depreciation | Fixed Assets |
| Accounts Payable | Accounts Payable |
| Due to USMS (Dues collected) | Other Current Liability |
| Fund Balance | Equity |
| Restricted Funds | Equity |
| Member dues | Income |
| One Event Fees | Income |
| Club registrations | Income |
| Sanction fees | Income |
| Activity Fees Income | Income |
| Mechandise Sales | Income |
| Awards and medals receipts | Income |
| T-shirts and other Misc Sales | Income |
| Misc income | Income |
| Activity Expenses | Expense |
| Activities | Expense |
| Sanction Refunds | Expense |
| Awards and medals receipts | Expense |
| T-shirts and other Misc Sales | Expense |
| Members expenses | Expense |
| Registration Refund | Expense |
| Scholarships / Discounts | Expense |
| Administrative expenses | Expense |
| Advertising | Expense |
| Board/annual meetings | Expense |
| Professional fees | Expense |
| Office, postage & shipping | Expense |
| Miscellaneous | Expense |
| Depreciation Expense | Expense |
| Registrar Expenses | Expense |
| Registrar Postage & supplies | Expense |
| Registrar fees | Expense |
| Newsletter | Expense |
| Newsletter postage | Expense |
| Newsletter Printing | Expense |
| USMS Conventions | Expense |
| Web site | Expense |
| Interest income | Other Income |
| Contributions | Other Income |

Appendix E Sample Financial Statements

Small LMSC (Your LMSC's Name Here)

| STATEMENT OF REVENUES AND EXPENDITURES FOR THE YEAR ENDED 12/31/06 | | STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES AS OF 12/31/06 | |
|--|---------------|--|--------------|
| REVENUES | | ASSETS | |
| Individual registrations | \$5,000 | Cash—Checking account | \$790 |
| Club registrations | 75 | TOTAL ASSETS | 790 |
| Sanction fees | 250 | | |
| Interest | 30 | LIABILITIES | |
| TOTAL REVENUE | 5,355 | Sanction deposit fees | 50 |
| | | | |
| EXPENDITURES | | FUND BALANCE | |
| Registration to USMS | | Fund balance at 12/31/05 | 805 |
| Individual & club | 3,780 | Net 2005 excess (deficit) | (65) |
| LMSC | 20 | Fund balance at 12/31/06 | 740 |
| Postage | 100 | | |
| Copy costs | 150 | TOTAL LIABILITIES & FUND | |
| Telephone | 250 | BALANCE | \$790 |
| National convention | 1,000 | | |
| Miscellaneous supplies | 100 | | |
| Banking costs | 20 | | |
| TOTAL EXPENDITURES | 5,420 | | |
| | | | |
| NET EXCESS (DEFICIT) OF | | | |
| REVENUE OVER EXPENDITURES | (\$65) | | |

Note that this example treats USMS dues as expenses, rather than liabilities. Hence it must also be including USMS dues in its revenues. See Appendix G, Part II Advanced Tax Topics for the IRS instructions on this issue.

Appendix E Sample Financial Statements
(continued)

Large LMSC (Your LMSC's Name Here)

| STATEMENT OF REVENUES AND EXPENDITURES FOR THE YEAR ENDED 12/31/06 | | STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES AS OF 12/31/06 | |
|--|---------------|--|-----------------|
| REVENUES | | ASSETS | |
| Individual registrations | \$20,000 | Cash—Checking account | \$13,940 |
| Clinic fees | 250 | Inventory—T-shirts | 400 |
| Awards & T-shirt sales | 800 | Property—Computer | 1,250 |
| Club registrations | 250 | Accumulated depreciation | (300) |
| Sanction fees | 250 | TOTAL ASSETS | 15,290 |
| Interest | 60 | | |
| TOTAL REVENUE | 21,610 | LIABILITIES | |
| | | Sanction deposit fees | 175 |
| EXPENDITURES | | | |
| Registration to USMS | | FUND BALANCE | |
| Individual & club | 12,100 | Fund balance at 12/31/05 | 14,975 |
| LMSC | 20 | Net 2005 excess (deficit) | 140 |
| Newsletter costs | 5,000 | Fund balance at 12/31/06 | 15,115 |
| Postage | 300 | | |
| Depreciation | 300 | TOTAL LIABILITIES & FUND | |
| Telephone | 300 | BALANCE | \$15,290 |
| Copy cost | 200 | | |
| National convention | 1,800 | | |
| Computer support | 1,200 | | |
| Miscellaneous supplies | 200 | | |
| Banking costs | 50 | | |
| TOTAL EXPENDITURES | 21,470 | | |
| | | | |
| NET EXCESS (DEFICIT) OF | | | |
| REVENUE OVER EXPENDITURES | \$140 | | |

Note that this example treats USMS dues as expenses, rather than liabilities. Hence it must also be including USMS dues in its revenues. See Appendix G, Part II Advanced Tax Topics for the IRS instructions on this issue.

Appendix E Sample Financial Statements continued

Income Statement for _____LMSC For Years Ended December 31, 2006, 2005

| | 2006 | 2005 | 2004 |
|--|------------------|---------------|---------------|
| Income | | | |
| Member dues | \$ 19,141 | 17,905 | 22,328 |
| One event fees | 4,416 | 921 | 50 |
| Club & team registrations | 654 | 710 | 305 |
| Sanction fees | 1,350 | 1,300 | 875 |
| Mechandise Sales | | | |
| Awards and medals receipts | 2,011 | 1,598 | 1,937 |
| Awards & medals costs | (2,157) | (1,352) | (1,908) |
| Total Merchandise Sales | (146) | 245 | 30 |
| Activity events | 200 | 0 | 0 |
| Sponsorships | 0 | 0 | 0 |
| Advertising | 0 | 0 | 0 |
| Contributions | 691 | 4,425 | 259 |
| Misc income | 15 | 0 | 43 |
| Interest income | 2,203 | 171 | 154 |
| Total Income | 28,524 | 25,677 | 24,043 |
| Expenses | | | |
| Activity expenses | 489 | 0 | 0 |
| Web site | 66 | 243 | 700 |
| Sanction Refund | 550 | 435 | 125 |
| Board/annual meetings | 216 | 621 | 322 |
| Postage & shipping | 425 | 500 | 0 |
| Newsletter | | | |
| Newsletter postage | 656 | 500 | 657 |
| Newsletter Printing | 3,009 | 2,924 | 11,051 |
| Total Newsletter (4 per year) | 3,665 | 3,424 | 11,708 |
| USMS Conventions | 6,078 | 5,809 | 3,010 |
| Administrative expenses | 676 | 429 | 380 |
| Registrar Expenses | | | |
| Registrar Postage & supplies | 904 | 538 | 2,370 |
| Registrar fees | 494 | 0 | 4,043 |
| Total Registrar Expenses | 1,398 | 538 | 6,414 |
| Depreciation | 200 | 100 | 0 |
| Special Projects | 0 | 0 | 0 |
| Scholarships | 691 | 20 | 0 |
| Web site PC's and software upgrades | 0 | 0 | 0 |
| Total Expense | 14,454 | 12,119 | 22,658 |
| Net increase (decrease) in Fund Balance | \$ 14,070 | 13,558 | 1,385 |

Appendix E Sample Financial Statements continued

Balance Sheet for _____LMSC For Years Ended December 31, 2006, 2005

| | 2006 | 2005 |
|------------------------------------|------------------|---------------|
| ASSETS | | |
| Cash | \$ 2,669 | 1,245 |
| Money market | 3,275 | 6,750 |
| CD's | 28,000 | 11,000 |
| Total cash and cash equivalents | <u>33,944</u> | <u>18,995</u> |
| Inventory | 1,120 | 2,140 |
| Deposits | 250 | 250 |
| Equipment | 2,000 | 2,000 |
| Less accumulated depreciation | (300) | (100) |
| Net equipment | <u>1,700</u> | <u>1,900</u> |
| Total Assets | <u>\$ 37,014</u> | <u>23,285</u> |
| LIABILITIES & FUND BALANCE | | |
| Liabilities | | |
| Due to USMS (dues collected) | 4,734 | 5,200 |
| Sanction Deposits | 275 | 150 |
| Total Liabilities | <u>5,009</u> | <u>5,350</u> |
| Fund balance | | |
| Beginning funds balance | 17,935 | 4,377 |
| Current year surplus (deficit) | 14,070 | 13,558 |
| Ending funds balance | <u>32,005</u> | <u>17,935</u> |
| Total Liabilities and Fund Balance | <u>\$ 37,014</u> | <u>23,285</u> |

Appendix F Sample Budget Proposal

2007 Budget Proposal for _____ LMSC

| | Budget Jan - Dec 07 | Actual Jan - Dec 06 | Budget 2006 | Actual Jan - Dec 05 | Actual Jan - Dec 04 |
|---------------------------------------|------------------------|------------------------|----------------|------------------------|------------------------|
| Income | | | | | |
| Member dues | 20,090 | 19,141 | 19,662 | 17,905 | 22,328 |
| One event fees | 1,050 | 4,416 | 1,610 | 921 | 50 |
| Club & team registrations | 600 | 654 | 300 | 710 | 305 |
| Sanction fees | 1,250 | 1,350 | 650 | 1,300 | 875 |
| Mechandise Sales | | | | | |
| Awards and medals receipts | 1,750 | 2,011 | 1,750 | 1,598 | 1,937 |
| Awards & medals costs | (1,550) | (2,157) | (1,550) | (1,352) | (1,908) |
| Total Merchandise Sales | 200 | (146) | 200 | 245 | 30 |
| Activity events | 250 | 200 | 0 | 0 | 0 |
| Contributions | 500 | 691 | 150 | 4,425 | 259 |
| Misc income | 50 | 15 | 50 | 0 | 43 |
| Interest income | 2,800 | 2,203 | 175 | 171 | 154 |
| Total Income | 26,790 | 28,524 | 22,797 | 25,677 | 24,043 |
| Expenses | | | | | |
| Activity expenses | 950 | 489 | 0 | 0 | 0 |
| Web site | 2,000 | 66 | 900 | 243 | 700 |
| Sanction Refund | 625 | 550 | 575 | 435 | 125 |
| Board/annual meetings | 590 | 216 | 500 | 621 | 322 |
| Postage & shipping | 500 | 425 | 350 | 500 | 0 |
| Newsletter | | | | | |
| Newsletter postage | 1,361 | 656 | 1,490 | 500 | 657 |
| Newsletter Printing | 3,500 | 3,009 | 3,900 | 2,924 | 11,051 |
| Total Newsletter (4 per year) | 4,861 | 3,665 | 5,390 | 3,424 | 11,708 |
| USMS Conventions | 6,660 | 6,078 | 5,310 | 5,809 | 3,010 |
| Administrative expenses | 760 | 676 | 700 | 429 | 380 |
| Registrar Expenses | | | | | |
| Registrar Postage & supplies | 1,250 | 904 | 1,450 | 538 | 2,370 |
| Registrar fees | 725 | 494 | 707 | 0 | 4,043 |
| Total Registrar Expenses | 1,975 | 1,398 | 2,157 | 538 | 6,414 |
| Depreciation | 200 | 200 | 100 | 100 | 0 |
| Special Projects (Board Approval Rec) | 3,000 | 0 | 3,000 | 0 | 0 |
| Scholarships | 1,000 | 691 | 2,000 | 20 | 0 |
| Web site PC's and software upgrac | 770 | | | | |
| Total Expense | 23,891 | 14,454 | 20,982 | 0 | 22,658 |
| Net Income | 2,898 | 14,070 | 1,815 | 13,558 | 1,385 |

| | | | | |
|--------------------------------------|--------|--------|--------|--------|
| Cash in the bank 12/31/06, 05 | | 33,944 | 20,810 | 18,995 |
| Cash in the bank 12/31/07, projected | 36,842 | | | |

| | |
|------------------------------------|--------|
| Membership information | |
| Budget members 2007 - | \$ |
| # of 2007 members | 20,090 |
| # of 2007 mbrs after 9/1 (reduced) | 1,050 |
| Total | 21,140 |

| | Current Dues | Current After Sept | Forecast 2008 |
|----------------|-----------------|-----------------------|------------------|
| Members Dues: | | | |
| USMS dues | 34 | 21 | 35 |
| Less USMS dues | 20 | 15 | 25 |
| Net for LMSC | 14 | 6 | 10 |

Appendix G Advanced Tax Topics

Part I

The following information provides an overview of federal income taxes and IRS requirements for non profit organizations. This information is based on interpretations of IRS Publications and guidelines. It is provided for informational purposes only and should not be construed as tax advice. USMS nor any of its personnel or volunteers provide tax or legal advice. Please consult your own tax advisor for advice regarding your particular tax circumstances.

What is the difference between non-profit and tax-exempt status?

Non-profit status is a state law concept. Non-profit status may make an organization eligible for certain benefits, such as state sales, property, and income tax exemptions. Organizing as a non-profit organization (NPO) at the state level does not automatically grant the organization exemption from federal income tax. Since these organizations are formed at the state level, they are subject to the state's regulations for NPO's, which vary from state to state. Be sure to check with the appropriate state agency for your state's compliance requirements.

To qualify as exempt from federal income taxes, an organization must meet requirements set forth in the Internal Revenue Code. Generally speaking, if your Swim Team or Club is operated not for profit, then it probably qualifies for consideration as a tax exempt organization. NPO's involved in amateur sports, if qualified, are controlled under regulations for tax exempt organizations under section 501c(3) of the Internal Revenue Code. Hence they are referred to as 501c(3) organizations.

Although an NPO is not required to apply for 501c(3) status, the advantages of having 501c(3) status include exemption from federal income tax AND eligibility to receive tax-deductible charitable contributions for which donors may claim a tax deduction subject to certain IRS limitations.

If your NPO qualifies as a 501c(3) organization and its average gross receipts for the prior 3 years are less than \$5,000, then the IRS will automatically consider the NPO a 501c(3) tax exempt organization. However, if your NPO's average gross receipts exceed \$5,000 then your NPO will only be considered a tax exempt organization only if it applies for and is granted tax exempt status. Otherwise your NPO WILL BE SUBJECT TO FEDERAL INCOME TAXES and cannot accept tax deductible donations.

To obtain tax exempt status an NPO must apply to the Internal Revenue Service using IRS Form 1023 ⁽¹⁾. After reviewing the application, if accepted, the IRS will issue an authorization letter to the NPO granting it a 501c(3) tax-exempt status. The exemption does not apply to other Federal taxes such as employment taxes, nor does it automatically apply to states' income, sales and property taxes. These exemptions vary from state to state. Additionally, a tax-exempt organization must pay federal tax on income that is unrelated to their exempt purpose, Unrelated Business Income or UBI.

What qualifies an NPO as a 501c(3) organization are beyond the scope of this discussion. You are referred to IRS Publication 557, Chapter 3, page 16 and beyond, <http://www.irs.gov/pub/irs-pdf/p557.pdf> and advised to consult with a tax professional.

Appendix G Advanced Tax Topics Part II

The following information provides an overview of federal income taxes and IRS requirements for non profit organizations. This information is based on interpretations of IRS Publications and guidelines. It is provided for informational purposes only and should not be construed as tax advice. USMS nor any of its personnel or volunteers provide tax or legal advice. Please consult your own tax advisor for advice regarding your particular tax circumstances.

What are Gross Receipts

The following excerpt is taken from Page 4 of the instructions for Form 990EZ, Definition of What is Gross Receipts for use in determining which Form an organization is required to file.

For LMSC's these instructions are also relevant in determining whether to include USMS dues collected in your organization's gross receipts. Read the section under **Gross receipts when acting as an agent**. While this IRS example applies to insurance premiums, note the definitive statement of the last sentence "The same treatment applies in other situations in which one organization collects funds merely as an agent for another." If in doubt how to interpret this instruction for your LMSC, please consult your tax advisor.

How to Determine If an Organization's Gross Receipts are Normally \$25,000 (or \$5,000) or Less

To figure whether an organization has to file Form 990-EZ (or Form 990) apply the \$25,000 (or \$5,000) gross receipts test (below) using the following definition of gross receipts and information in *Figuring Gross Receipts* below.

Gross Receipts



Do not use the definition of gross receipts described in General Instructions A, under Section 501(c)(15) Organizations to figure gross receipts.

Gross receipts are the total amounts the organization received from all sources during its annual accounting period, without subtracting any costs or expenses.

Gross receipts when acting as an agent.

If a local chapter of a section 501(c)(8) fraternal organization collects insurance premiums for its parent lodge and merely sends those premiums to the parent without asserting any right to use the funds or otherwise deriving any benefit from collecting them, the local chapter does not include the premiums in its gross receipts. The parent lodge reports them instead. The same treatment applies in other situations in which one organization collects funds merely as an agent for another.

Appendix G Advanced Tax Topics

Part III

The following information provides an overview of federal income taxes and IRS requirements for non profit organizations. This information is based on interpretations of IRS Publications and guidelines. It is provided for informational purposes only and should not be construed as tax advice. USMS nor any of its personnel or volunteers provide tax or legal advice. Please consult your own tax advisor for advice regarding your particular tax circumstances.

Is your Organization required to file Form 1023 to tax-exempt consideration?

This excerpt is from IRS Publication 557, Pages 18 and 19.

Organizations Not Required To File Form 1023

Some organizations are not required to file Form 1023.

These include:

- Churches, interchurch organizations of local units of a church, conventions or associations of churches, or integrated auxiliaries of a church, such as a men's or women's organization, religious school, mission society, or youth group.
- Any organization (other than a private foundation) normally having annual gross receipts of not more than \$5,000 (see *Gross receipts test*, later).

These organizations are exempt automatically if they meet the requirements of section 501(c)(3).

Gross receipts test. For purposes of the gross receipts test, an organization normally does not have more than \$5,000 annually in gross receipts if:

1. During its first tax year the organization received gross receipts of \$7,500 or less,
2. During its first 2 years the organization had a total of \$12,000 or less in gross receipts, and
3. In the case of an organization that has been in existence for at least 3 years, the total gross receipts received by the organization during the immediately preceding 2 years, plus the current year, are \$15,000 or less.

An organization with gross receipts more than the amounts in the gross receipts test, unless otherwise exempt from filing Form 1023, must file a Form 1023 within 90 days after the end of the period in which the amounts are exceeded. For example, an organization's gross