



# **Financial Considerations for Lake Associations: Meeting Organizational and Legal Requirements**



# Financial Considerations Discussion Outline

- Goals and Planning
- Financial Reporting
- Legal Requirements
- Fiscal Sponsorships



# Establish Goals and a Planning Process

- It is hard to accomplish anything without goals and plans laying out how to achieve them
- Define what success means to your organization



# Identify Stakeholders

- Members
- Local residents
- Lake users
- Lake environment
- Local government



# Establish Basic Plans

- Mission statement
- Long-term goals
- Budget process
  - Immediate financial goals
  - Long-term financial goals
  - Establish reserves



# Financial Reporting



# Identify Reporting Requirements

- Who will get reports?
  - Staff
  - Board
  - Members
  - State association
  - IRS
  - WI Dept of Regulation & Licensing (DRL)



# Identify Useful Information For Different Users

- Staff
- Board
- Members
- State association
- IRS
- DRL





# Basic Financial Statement Decisions

- Year-end of organization
  - What is the natural cycle of the organization?
  - State-wide group has December year-end
- Cash or accrual basis accounting
- Accounting software
  - QuickBooks is most common



# Agency Audit?

- Audit establishes credibility for grant applications
- Provides assurance to Board and members
- Required by Wisconsin statute if fundraising exceeds \$400,000 (review if exceeds \$200,000)



# Identify Legal Requirements



# Incorporation

- Limits personal liability of Board and members
- Papers filed with Department of Financial Institutions
- Non-stock corporation, Chapter 184
- State grants non-profit status
- Articles of incorporation must have appropriate IRS wording



# Apply to IRS for 501(c)(3) Status

- IRS grants tax-exempt status
- Exempt from application if annual gross revenues will be under \$5,000
  - Creates some doubts about deductibility of donations and limits receiving grants
- File form 1023 within 15 months of forming organization



# Register with DRL for Fundraising License

- Must have a license to fundraise with general public in Wisconsin
  - Includes businesses and foundations
- Exempt if under \$5,000 and only volunteers
- File “Charitable Organization Registration Statement” (form #296) within 30 days of starting to fundraise



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# Sales Tax Exemption

- WI Dept of Revenue form S-103
- Need IRS determination letter for application
- May still need to pay sales taxes if sell over \$25,000 per year in sales taxable items or have professional entertainment at event (WDOR Pub. 206)



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# Insurance

- Liability
- Theft/fraud
- Equipment
- Workers compensation





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# Employees

- Review worker versus independent contractor rules
- Use an outside payroll company to reduce chances of a mistake
- Issue 1099s to all contractors paid at least \$600 (unless incorporated)
- New IRS compliance initiative



# Filing Requirements

- IRS form 990, 990-EZ or 990-N
  - File annually if gross revenues are normally over \$25,000
  - Due 4 1/2 months after year end. Can extend three months (twice). Form 8868
  - Late penalties are large (\$20 per day for small organizations)
  - IRS is less willing to waive penalties than in the past



# Filing Requirements

- IRS form 990-EZ
  - Under \$500,000 for 2009 returns
  - Under \$200,000 for 2010 returns
  - Over \$25,000 (3 year average) for 2009 returns
  - Over \$50,000 (3 year average) for 2010 returns



# Filing Requirements

- IRS form 990-N
  - File if too small to file 990-EZ
  - Same due dates
  - Filed electronically directly on IRS website, [www.irs.treas.gov](http://www.irs.treas.gov)
  - Can lose recognition of exempt status if not filed for 3 years.



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# Form 990 Tips

- Form is combination of financial and compliance disclosures
- IRS does not review forms beyond missing pages and a few boxes
- Check IRS website
  - Includes topics such as: donor acknowledgements, valuing special events, requirements for public inspections, and a discussion of intermediate sanctions



# More 990 Tips

- Copies publicly available at:  
[www.guidestar.org](http://www.guidestar.org)
  - Assume that donors will look at it
  - Treat it as marketing tool
- Possibility of filing 990-T and WI 4-T if have unrelated business activity
  - Example: Running a concession stand



## **Form 308 or 1952 for DRL**

- File annually
- Due six months after year-end
- Can file affidavit instead if fundraising is under \$5,000 for year. Or if under \$50,000 and all fundraising is in one county



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# State of Wisconsin

- File annual corporate report to maintain corporate status





# Fiscal Sponsorships



# Fiscal Sponsorships are Very Common


- Many small organizations start out being sponsored
- A group with charitable status may be asked to sponsor another group
- Greg Colvin, *Fiscal Sponsorship: Six Ways to Do It Right*



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# ...And are Commonly Done Wrong

- Fiscal Agency is not allowed
- A group that is using its status to help another group is responsible for how the money is used
- Best structure is to award a grant to the sponsored group.
  - Written agreement
  - Progress reports on grant



# Tax Reporting for Fiscal Sponsorships

- The grant passed through the group must be reported as revenue and expense of the sponsor. It must fit your exempt purposes and mission.
- The recipient entity must also report income and expense as some type of entity – partnership or sole proprietor are common. Send a 1099-MISC to recipient.



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