



Welcome to the 2nd Annual Task Force Educational Session

Case Study 1

- Joe Doe is President of the Four Corners Assoc.
- Joe sent a grant proposal to Nice Corp. on behalf of Four Corners Assoc. Basketball Committee .
- The proposal was for the purchase of a new truck to transport sporting equipment to AAU tournaments.
- Nice Corp approved the grant and sent Four Corners Assoc a check for \$15,000

Case Study 1 - continued

- Four Corners Assoc. purchased the truck on behalf of the assoc. basketball committee.
- The chair of the basketball committee told the Assoc. he would insure the truck on his own personal insurance.
- To insure the truck, the Chair had to put his name on the title of the truck.

Case Study 1 - Answer

■ Inurement

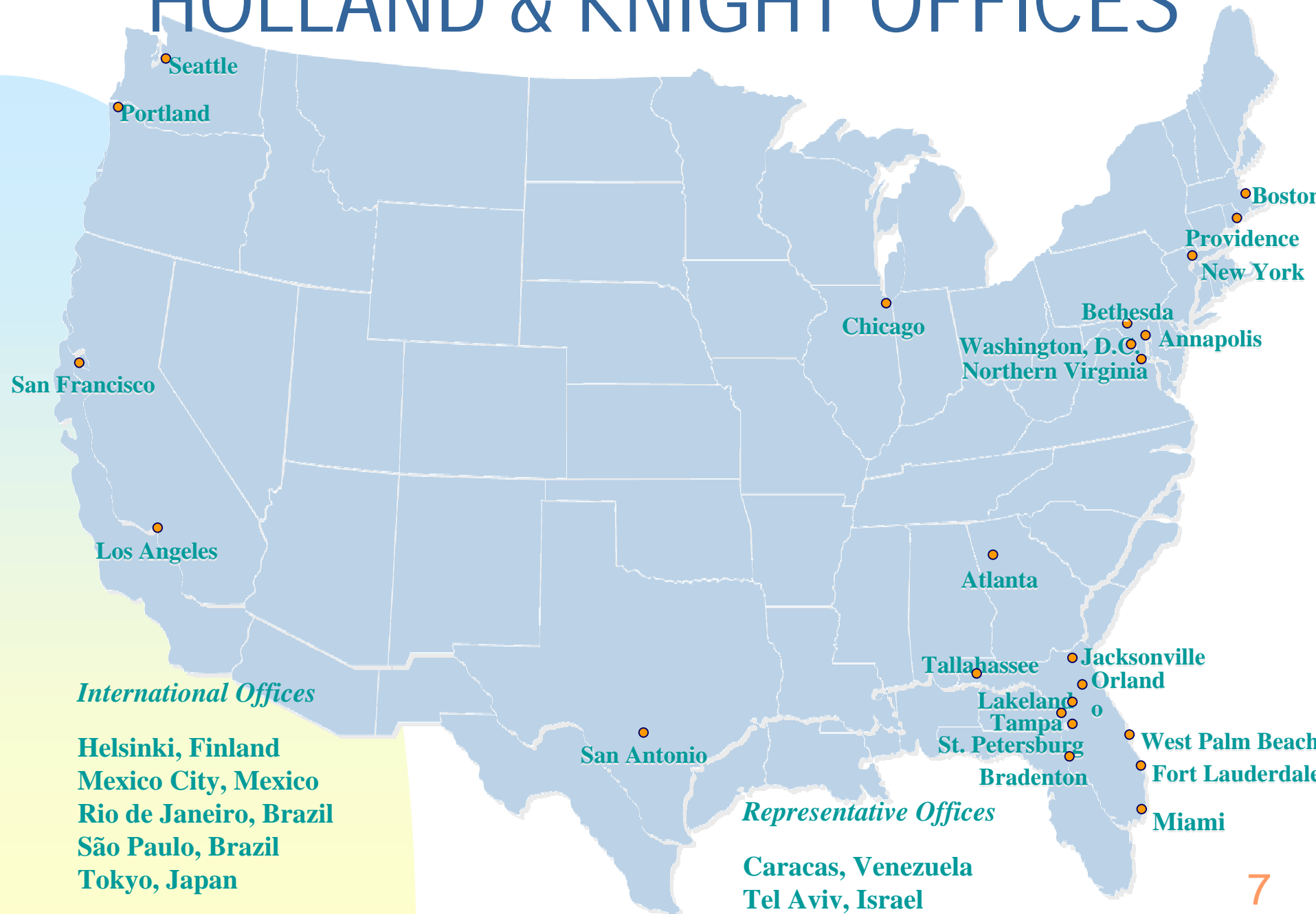
- ◆ Four Corners Assoc losses
501(c)3 status
- ◆ Joe must return truck
- ◆ Joe is taxed on the truck
- ◆ Assoc. is taxed on the truck



Business Plan Implementation

HOLLAND & KNIGHT LLP

HOLLAND & KNIGHT OFFICES



Business Plan Policy

XX. AAU BUSINESS PLAN POLICY

- ◆ .That no Association, Assoc. Sport Committee, nor National Sport Committee shall have its own 501(c) 3 determination letter; if they currently have a 501(c)3 determination letter, they must relinquish it immediately;
- ◆ .That all AAU Association(s) shall be unincorporated entities;
- ◆ .That all AAU Association(s) which are not incorporated shall remain unincorporated;
- ◆ .That the National AAU will become responsible for filing annually in all 50 states and the District of Columbia with DBA's listing the AAU Associations;
- ◆ .That AAU Association must have their own EIN(Employer Identification Number);
- ◆ .That AAU Association Sports Committee(s) operating a bank account must have its own EIN, if it is not using the AAU Association EIN;
- ◆ .That any National AAU Sports Committee operating a National Championship event or any other event in the name of the committee and operating a bank account must have its own EIN;
- ◆ .That if the AAU Association Sports Committee(s) operating a bank account under the Association's EIN must file a finance report to the Association;
- ◆ .That no organization shall use the EIN number of the Amateur Athletic Union of the U.S. Inc.;
- ◆ .That all Association(s), Association Sport Committee(s), National Sport Committee(s) desiring to be recognized as a 501(c)3 under the AAU of the US' group exemption file annually the request and consent form;
- ◆ .That no Association(s), Association Sport Committee(s), National Sport Committee(s) will participate/operate charitable gaming without the express written consent of the AAU of the U.S. Inc. issued by the National Executive Committee;
- ◆ .That all subordinates/affiliated organizations must file a Form 990 with the IRS annually;
- ◆ .That one or more educational seminars will be held each year in conjunction with the Annual Convention of the AAU;
- ◆ .That the AAU have a 3 level club membership program with differing benefits;
- ◆ .That level 3 clubs shall not conduct directly or indirectly any gaming. The term gaming includes: Bingo, Benos, lotteries, pull-tabs, pari-mutual betting, Calcutta wagering, pickle jars, punch boards, tip boards, tip jars, certain video games, casino games, sport betting, etc;
- ◆ .That all subordinates/affiliated organizations must adhere to the AAU trademark policy;
- ◆ .That this policy be implemented by November 1, 2003;
- ◆ .That any Association(s) and National Sport Committee(s) not following this policy shall forfeit all voting rights at the Board of Director's meeting;
- ◆ .That this policy be adopted in its entirety.



Meeting IRS / AAU Requirements



Continuing Education

Continuing Education

- AAU's exempt purpose
- Jeopardizing 501(c)3 status
- Advertising vs Sponsorship
- Independent contractor vs employee
- Form 990

Exempt Purpose

- What is AAU Exempt Purpose?

AAU's exempt purpose

- For the AAU and all of its subordinates, the exempt purpose is to: **foster national amateur sports competitions/programs**
- Primary activity must be to offer amateur sports programs

Jeopardizing 501(c)3 Status

- Private Benefit
- Personal Inurement
- Lobbying Activity
- Political Activity

Private Benefit

- A 501(c)3 organization must not allow any benefits (including non-monetary) to accrue to any individual or organization
- The intent is to ensure that a tax-exempt organization serves a public interest, not a private one

Penalties Associated with Private Benefit

- Tax the organization managers
- Tax the person who benefits from an excess benefit transaction
- Return the excess benefit to the organization

Inurement

- The organization's net earnings can not be used for the benefit of an individual or private shareholder
- This means 501(c)3 organizations can not allow income or assets to go to insiders

Inurement

- This rule is ABSOLUTE
- Any amount of benefit is grounds for loss of tax-exempt status
- AND insiders may be taxed

Private Benefit Vs Inurement

- Inurement = insiders
- Private Benefit = insiders and outsiders

Examples

- Unreasonable compensation
- Transfer of property for less than fair market value
- A loan to an insider with a repayment interest rate at less than fair market value
- Purchasing goods at greater than market value

Preventing Private Benefits and Inurement

■ Internal Controls

- ◆ Segregation of financial duties
- ◆ Requiring 2 signatures on large checks
- ◆ Internal audit
- ◆ Record keeping

■ Adopt a Conflict of Interest Policy

Case Study 2

- Jane Doe is president of Four Corner AAU
- Four Corners AAU signed a \$12,000 contract with Mega Corp. to mail out the 04-05 membership applications
- Jane and Jim Doe own Mega Corp
- Jim runs the Mega Corp company.

Case Study 2 - continued

- Jane signed the contract without taking it to the board of managers. The \$12,000 contract is 120% of fair market value of the work.
- Jim stated the Four Corners AAU received the 'deluxe service package'
- In reality the Assoc. received the same type of services as any other customer

Case Study 2 - Answer

- Private Benefit
 - ◆ Assoc. could lose 501(c)3 status
 - ◆ Jane and Jim could be taxed
 - ◆ Jim would have to return amount over billing

Case Study 3

- The Four Corners Assoc.'s Board of Managers decided to pay the Registration Chair.
- The Board of Managers made a motion and approved a salary of \$175,000 for the Registration Chair.
- The Registration Chair abstained from voting on this issue.

Case Study 3 - Answer

- Even though the entire Board of Managers approved the salary, the salary was not considered normal and customary compensation.
- A comparison should be made with other organizations of similar size, revenue, and type for a salary range.
- *NOTE:*
 - ◆ Reasonable Compensation is a hot topic with the IRS this year

Case Study 4

- Four Corners Assoc.'s Board of Managers decided to provide the officers with vehicles.
- The motion passed unanimously.
- Is this allowable?

Case Study 4 - Answer

- According to the IRS - yes
 - ◆ subject to rules and regulations
 - ◆ subject to reasonable compensation/ benefit package
- According to the AAU - no
 - ◆ The AAU has a policy prohibiting Associations, Sports Committees, and National Sports Committees from owning or leasing vehicles.

Lobbying

- An attempt to influence legislation
- If lobbying activities are substantial, a 501(c)3 organization may fail the operational test and risks losing its tax-exempt status
 - ◆ Substantial part test
 - ◆ Expenditure test

Political Campaign Activities

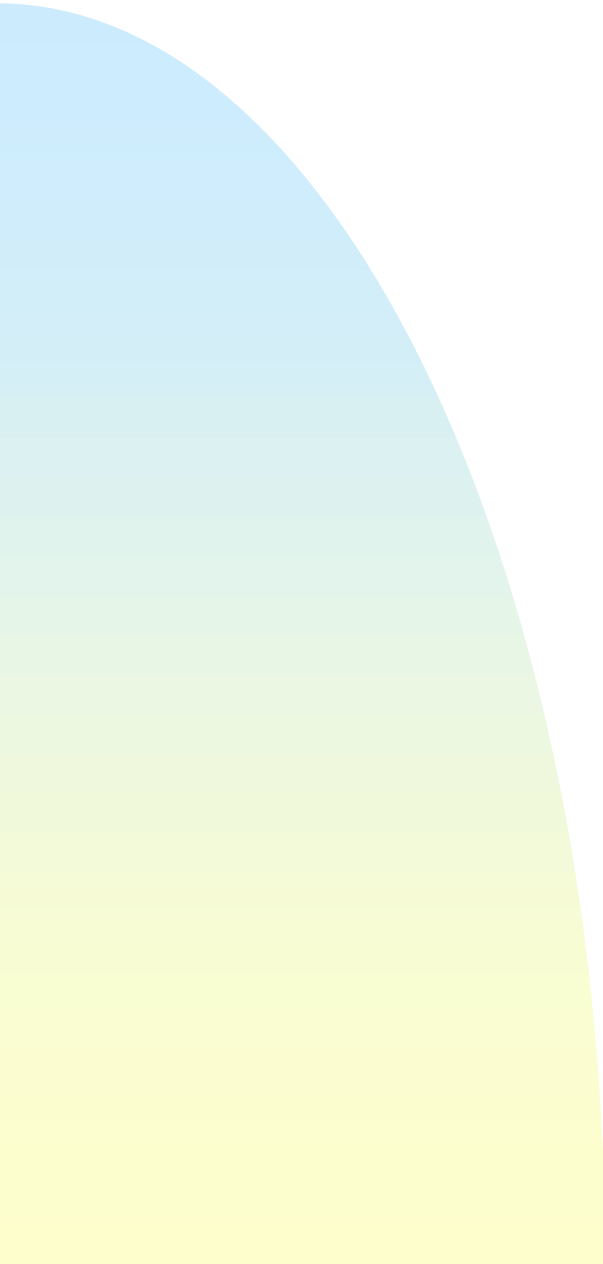
- All section 501(c)3 organizations are **ABSOLUTELY PROHIBITED** from **directly** or **indirectly** participating in, or intervening in, any political campaign on behalf of any candidate for elected public office.

Case Study 5

- Stacy Zeller is running for County Commissioner
- Four Corners AAU's Board of Managers voted and approved the motion to support Stacy Zeller's campaign
 - ◆ Stacy Zeller has been a very valuable volunteer for Four Corners AAU for the past 25 years.
- Four Corners AAU sent a check to Stacy Zeller's campaign for \$250.

Case Study 5 - Answer

- This is not allowed.
 - ◆ No political activity is allowed



Advertising VS Sponsorship

Advertising

- Taxable
 - ◆ Weekly bulletins, programs, website, P.A. announcements, broadcasts
- Qualitative and comparative language
- Price information, savings
- Endorsement

Sponsorship

- Not Taxable
- Qualified Sponsorship Payments
 - ◆ Mere recognition of sponsor
 - ◆ Logos and slogans that do not contain comparative and qualitative descriptions of the sponsor's products
 - ◆ Sponsors locations, telephone, and website address

Case Study 6

- The PA announcer at the Assoc. basketball tournament made the following announcement:
 - ◆ The Four Corners AAU basketball committee would like to thank Fastfood Corp for their generous sponsorship of this tournament. Fastfood Corp is located at the corner of Oak Avenue and Main Street. Fastfood Corp. specializes in hamburgers.

Case Study 6 - Answer

- Sponsorship
 - ◆ Mere recognition of sponsorship
 - ◆ Sponsor's location given
 - ◆ Sponsor's product recognized
 - ◆ No comparative or qualitative descriptions given
 - ◆ Not taxable

Case Study 7

- The PA announcer at the Assoc. basketball tournament made the following announcement:
 - ◆ The Four Corners AAU basketball committee would like to thank Fastfood Corp for their generous sponsorship of this tournament. Fastfood Corp is located at the corner of Oak Avenue and Main Street. Fastfood Corp's hamburgers have 10% less fat. Stop by on your way home and pick up dinner special for only \$15.99

Case Study 7 - Answer

- Advertising
 - ◆ Qualitative descriptions and price given.
 - ◆ Revenue received from Fastfood Corp is taxable.

Case Study 8

- Four Corners AAU charges companies \$500 per month for website sponsorship.
- On the web site a company may place it's logo, name, physical address, phone number, web address, brief description stating its type of business, and a hyperlink to its website.

Case Study 8 - Answer


- Sponsorship income
 - ◆ not taxable
- Note: Sponsor's website cannot say "Our products are endorsed by the AAU"

Case Study 9

- Four Corner's AAU charges companies \$500 per month for website sponsorship
- On the web site a company may place it's logo, name, address, phone number, web address, **detail description of each product and prices**, and a hyperlink to its website

Case Study 9 - Answer

- Advertising
 - ◆ Taxable
 - ◆ Product and price information



Independent Contractor VS Employee

CONTRACTOR

- Generally is hired to do a job without a great deal of control over the details of the job by the one who hires him/her.
- Generally makes the determination as to how, when, and where to do the work.
- Usually furnishes his/her own tools.
- Hires his own personnel to assist him/her.
- Chooses where to purchase supplies and services for performing the job.

Contractor

- Provides his/her own training.
- Has financial control over his/her own business; may have a significant investment; pays own expenses; has opportunity for profit or loss.
- Receives a Form 1099.

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. AMATEUR Athletic Union 110 Walt Disney Resorts P.O. Box 10,000 Lake Buena Vista, FL 32830		1 Rents	OMB No. 1545-0115 2004 Form 1099-MISC		Miscellaneous Income
		\$			
		2 Royalties			
PAYER'S Federal identification number 35-6057862	RECIPIENT'S identification number 223-11-4412	3 Other income	4 Federal income tax withheld	Copy B For Recipient	
		\$	\$ 0		
RECIPIENT'S name Bob Smile	Street address (including apt. no.) 1221 Oak Street	5 Fishing boat proceeds	6 Medical and health care payments		
		\$	\$		
City, state, and ZIP code Anytown, FL 33134	Account number (optional)	7 Nonemployee compensation	8 Substitute payments in lieu of dividends or interest	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.	
		\$ 650.00	\$		
15		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Crop insurance proceeds		
		\$	\$		
16 State tax withheld		11	12	13 Excess golden parachute payments	
		\$ 0	\$		
17 State/Payer's state no.		14 Gross proceeds paid to an attorney	15	16 State income	
		\$	\$ 0		

Form 1099-MISC

(keep for your records)

Department of the Treasury - Internal Revenue Service

Employee

- Is subject to the control of the Employer.
- Employer may (but is not required to) control even the smallest of details.
- Is generally told when, where, and how to do the work.
- Employer generally furnishes tools and/or equipment.
- Other personnel are hired by Employer.
- Purchases of supplies and services are determined by Employer.

Employee

- Purchases of supplies and services are determined by Employer.
- Training is provided by Employer.
- Generally don't make an investment in the business (although they may buy stock).
- Generally receive employee benefits.
- Indicating in a written contract that the person being hired is an Employee or Contractor is not determinative. It is generally a matter of control.
- Employees receive a W2.

010081 L2D		Void <input type="checkbox"/>		OMB No. 1545-0008 L2D		403		010081	
b Employer identification number 35-6057862				1 Wages, tips, other compensation 2596.15		2 Federal income tax withheld 274.55			
c Employer's name, address, and ZIP code AMATEUR ATHLETIC UNION OF THE UNITED STATES PO BOX 10000 LAKE BUENA VISTA FL 32830-1000				3 Social security wages 2596.15		4 Social security tax withheld 160.96			
				5 Medicare wages and tips 2596.15		6 Medicare tax withheld 37.64			
				7 Social security tips		8 Allocated tips			
d Employee's social security number 139-84-5215				9 Advance EIC payment		10 Dependent care benefits			
e Employee's first name and initial Last name BOB SMILE 263 JOHN STREET ORADELL, NJ 07649				11 Nonqualified plans		12a See instructions for box 12 Code			
				13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b Code			
				14 Other		12c Code			
						12d Code			
f Employee's address and ZIP code									
15 State Employer's state ID number FL		16 State wages, tips, etc.		17 State income tax		18 Local wages, tips, etc.		19 Local income tax	
								20 Locality name	

Form **W-2** Wage and Tax
Statement
Copy D For Employer.

2003

Department of the Treasury—Internal Revenue Service
For Privacy Act and Paperwork Reduction
Act Notice, see separate instructions.

Case Study 10

- Bball L3 club hosts an AAU tournament
- Bball club cuts a check to the tournament director for \$5,000. The tournament director pays the officials in cash.
- The tournament director gives Bball club signed receipts with names and amounts paid to officials.

Case Study 10 - continued

- The signed receipts have name, address, phone, and SSN of the official.
- All receipts add up to \$4,800. Tournament director returns unused \$200.

Case Study 10 - Answer

- Bball Club must go through all receipts for the year to send a Form 1099 to all officials who were paid \$600 or more
 - ◆ Bob Smile worked 10 weekends and was paid \$100 per weekend.
 - ◆ Bob Smile must receive a Form 1099 from Bball Club for \$1,000.

Case Study 11

- Four Corners AAU registrar gets paid \$.50 per athlete keyed into AAU database
- For the 03-04 year -- (from Jan 04 - Aug 04) the registrar keyed in 943 members
- For the 04-05 year -- (from Sep 04-Dec 04) the registrar keyed in 357 members

Case Study 11 - Answer

- The Association must send the registrar a Form 1099 or W2 for \$650.
 - ◆ 1,300 members @ \$.50



Form 990 Tax Return (Information Return)

Form 990

- Year ending August 31, 2004 the Form 990 is due
 - ◆ January 15, 2005
- Block H
 - ◆ H(d) Is this a separate return filed by an organization covered by a group ruling: YES
- Block I
 - ◆ Enter 4 digit GEN: 1155

Department of the Treasury
Internal Revenue Service**Return of Organization Exempt From Income Tax**

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

▶ The organization may have to use a copy of this return to satisfy state reporting requirements.

OMB No. 1545-0047

2003**Open to Public Inspection**

A For the 2003 calendar year, or tax year beginning , 2003, and ending		D Employer identification number :	
B Check if applicable: <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Final return <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	C Name of organization Number and street (or P.O. box if mail is not delivered to street address) Room/suite City or town, state or country, and ZIP + 4		E Telephone number ()
	F Accounting method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual <input type="checkbox"/> Other (specify) ▶		
	H and I are not applicable to section 527 organizations. H(a) Is this a group return for affiliates? <input type="checkbox"/> Yes <input type="checkbox"/> No H(b) If "Yes," enter number of affiliates ▶ H(c) Are all affiliates included? <input type="checkbox"/> Yes <input type="checkbox"/> No (If "No," attach a list. See instructions.) H(d) Is this a separate return filed by an organization covered by a group ruling? <input type="checkbox"/> Yes <input type="checkbox"/> No I Group Exemption Number ▶		
G Website: ▶			
J Organization type (check only one) ▶ <input type="checkbox"/> 501(c) () ◀ (insert no.) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527			
K Check here ▶ <input type="checkbox"/> if the organization's gross receipts are normally not more than \$25,000. The organization need not file a return with the IRS; but if the organization received a Form 990 Package in the mail, it should file a return without financial data. Some states require a complete return.			
L Gross receipts: Add lines 6b, 8b, 9b, and 10b to line 12 ▶			

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances (See page 18 of the instructions.)

Revenue	1 Contributions, gifts, grants, and similar amounts received:			
	a Direct public support	1a		
	b Indirect public support	1b		
	c Government contributions (grants)	1c		
	d Total (add lines 1a through 1c) (cash \$ noncash \$)	1d		
	2 Program service revenue including government fees and contracts (from Part VII, line 93)	2		
	3 Membership dues and assessments	3		
	4 Interest on savings and temporary cash investments	4		
	5 Dividends and interest from securities	5		
	6a Gross rents	6a		
	b Less: rental expenses	6b		
	c Net rental income or (loss) (subtract line 6b from line 6a)	6c		
7 Other investment income (describe ▶)	7			
Revenue	8a Gross amount from sales of assets other than inventory	(A) Securities	(B) Other	
	b Less: cost or other basis and sales expenses	8a		
	c Gain or (loss) (attach schedule)	8b		
	d Net gain or (loss) (combine line 8c, columns (A) and (B))	8c		
	9 Special events and activities (attach schedule). If any amount is from gaming, check here ▶ <input type="checkbox"/>	8d		
	a Gross revenue (not including \$ of contributions reported on line 1a)	9a		
	b Less: direct expenses other than fundraising expenses	9b		
	c Net income or (loss) from special events (subtract line 9b from line 9a)	9c		
	10a Gross sales of inventory, less returns and allowances	10a		
	b Less: cost of goods sold	10b		
	c Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a)	10c		
	11 Other revenue (from Part VII, line 103)	11		
12 Total revenue (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11)	12			
Expenses	13 Program services (from line 44, column (B))	13		
	14 Management and general (from line 44, column (C))	14		
	15 Fundraising (from line 44, column (D))	15		
	16 Payments to affiliates (attach schedule)	16		
17 Total expenses (add lines 16 and 44, column (A))	17			
Net Assets	18 Excess or (deficit) for the year (subtract line 17 from line 12)	18		
	19 Net assets or fund balances at beginning of year (from line 73, column (A))	19		
	20 Other changes in net assets or fund balances (attach explanation)	20		
	21 Net assets or fund balances at end of year (combine lines 18, 19, and 20)	21		

www.Form990.org

- www.form990.org
 - ◆ Desktop 990 - download free software:
<http://efile.form990.org/frmNPDownloads.asp>
 - ◆ offers eFiling for Form 990-EZ

Copies of Tax Return

- Who is entitled to copies of the Form 990 (tax return)?
 - ◆ Anyone who asks
- Form 990
 - ◆ Past 3 years
 - ◆ Public Inspection
 - ◆ Provide copy if requested in writing

Case Study 12

- Four Corners Association received a letter from a person surfing the web.
- This web surfer requested a copy of the Association's Form 990 for the past three years.
- Does the association have to provide these copies?

Case Study 12 - Answer

- Yes.