

Separating LMSC and Club Funds

Anna Lea Matysek, 5/26/10

Definitions of LMSCs and Clubs

United States Masters Swimming (USMS) has 501(c)(3) tax-exempt status. USMS has 52 subordinate organizations, called Local Masters Swimming Committees (LMSCs). These 52 LMSCs all have 501(c)(3) tax-exempt status as part of a group exemption obtained by USMS. Tax-exempt status means that an organization does not have to pay federal income tax. It also qualifies the organization to accept donations which are deductible to the donor (within IRS limits).

LMSCs exist to govern. They register swimmers, grant sanctions to events, and disseminate information to their member clubs and swimmers. USMS identifies LMSCs by a two-letter abbreviation (such as PC for Pacific) and a numeric code (such as 38 for Pacific).

More than 600 clubs are members of USMS. The tax status of these clubs varies. Some have obtained tax-exempt 501(c)(3) status; others are operated as for-profit clubs. USMS member clubs are not subordinate organizations of USMS. They are not automatically tax-exempt; they must file for individual exemption if they wish to operate as a non-profit club.

Clubs are formed for the purpose of providing a means for swimmers to compete as a group. In some cases they also provide coaches, facilities, and workouts. USMS identifies clubs by a two- to four-character abbreviation (such as WCM for Walnut Creek Masters).

Separation of Funds

Many LMSCs have only one club that is registered within their boundaries. Historically many of these LMSCs have operated as though their LMSC and their club were one and the same.

The IRS requires that the LMSC's funds not be commingled with the funds of any other entity. This means that club funds and LMSC funds cannot be kept in the same bank account.

To determine how funds should be separated, think about how they are being used. If they are used for activities related to the two-letter, LMSC abbreviation, they are LMSC funds. If they are used for activities of members as they represent their club, they are club funds.

For example, the Atlantis LMSC (abbreviation AT) has a club called Atlantis Masters (abbreviation ATLA). The following table gives examples of how funds would be used by each of these groups.

Example LMSC: AT (Expenses related to the governance of the AT LMSC)
Travel costs of AT LMSC delegates to annual convention
Registration expenses (postage, envelopes, copies, etc.)
Contractor expenses (webmaster, registrar)
AT LMSC web site expenses (domain name, hosting fees)
Meeting expenses (annual member meeting and AT LMSC officer meetings)
AT LMSC newsletter expenses
Pool measurement device (steel tape, laser, etc.)
AT LMSC awards

Example Club: ATLA (Expenses related to activities of swimmers as they represent Club ATLA)
Annual club registration fee paid to USMS
ATLA club banner
T-shirts with ATLA's club name on them
Relay fees at meets where the members of ATLA are swimming for that club
ATLA club web site expenses (if the club has a web site)
ATLA club newsletter expenses (if the club has a newsletter)
Paying the expenses of a coach to attend Nationals to organize relays and do on-deck coaching
Club awards and events

Expenses that could be assumed by either the LMSC or the Club
Hosting swim meets
Hosting clinics for swimmers or coaches
Grants for coaches (ASCA, SwimFest, etc.)
Club development activities – promotional materials, workshops, ads, free clinics

What an LMSC CANNOT do:

An LMSC cannot function as a repository or manager of club funds unless the funds are in a separate bank account. The LMSC cannot collect and keep club funds in its own bank account and pay for club expenses, even if the accounting for such funds are maintained and segregated, such as the use of a Due to/Due from affiliate account. Actual segregation of club cash through a separate bank account is required.

Establishing a Club Bank Account

- 1) Apply for a Federal EIN (Employers Identification Number), even if the club will not have employees. The EIN is a unique number that identifies the organization to the IRS. Every organization is required to have an EIN, even if will not have employees. Use IRS Form SS-4 to apply for an EIN or apply for it online at <http://www.irs.gov/businesses/small/article/0,,id=102767,00.html>
- 2) Determine whether your club will operate as a non-profit organization.
- 3) If so, apply for federal tax-exempt status (IRS Form 1023), unless your club receipts are normally less than \$5,000 per year. Then the club is automatically exempt and does NOT have to apply for tax-exempt status.
- 4) If so, investigate requirements for your state's non-profit status and determine whether your club needs to register with your state as a non-profit.
- 5) Open a bank account under your EIN.
- 6) If LMSC and club funds are currently commingled in one LMSC bank account, determine what portion of the funds are really club funds. Move those funds to the club bank account.

Collecting Club Fees

When a swimmer registers with USMS, the LMSC has the option of collecting a fee from each person who joins. This is the LMSC fee; it is collected from every swimmer, regardless of whether the swimmer chooses a club or chooses to be unattached. The LMSC fee is kept in the LMSC bank account and is used for activities related to the governance and administration of the LMSC.

Clubs can also charge a "club fee." Any swimmer who chooses to register with a particular club is charged that club's fee. Swimmers who choose to be UNAT (Unattached) do not pay a club fee. Through online registration, these fees may be collected as part of the credit card transaction. If the LMSC's clubs collect fees, it is up to the LMSC to decide if the LMSC will collect and then distribute those fees to the various clubs. At the end of each month, USMS sends a check to each LMSC to distribute the LMSC fees and the club fees that were collected for that month. If the LMSC decides not to collect club fees online, then the club is responsible for collecting them in some other manner.

Once a separate bank account for a club is established, a club will probably need to consider charging a club fee to provide ongoing revenue. The LMSC may want to evaluate whether they can reduce their LMSC fee, since some previously funded activities will now be funded by the club.