



# Becoming a 501(c)(3): A Practical Guide for Lake Associations

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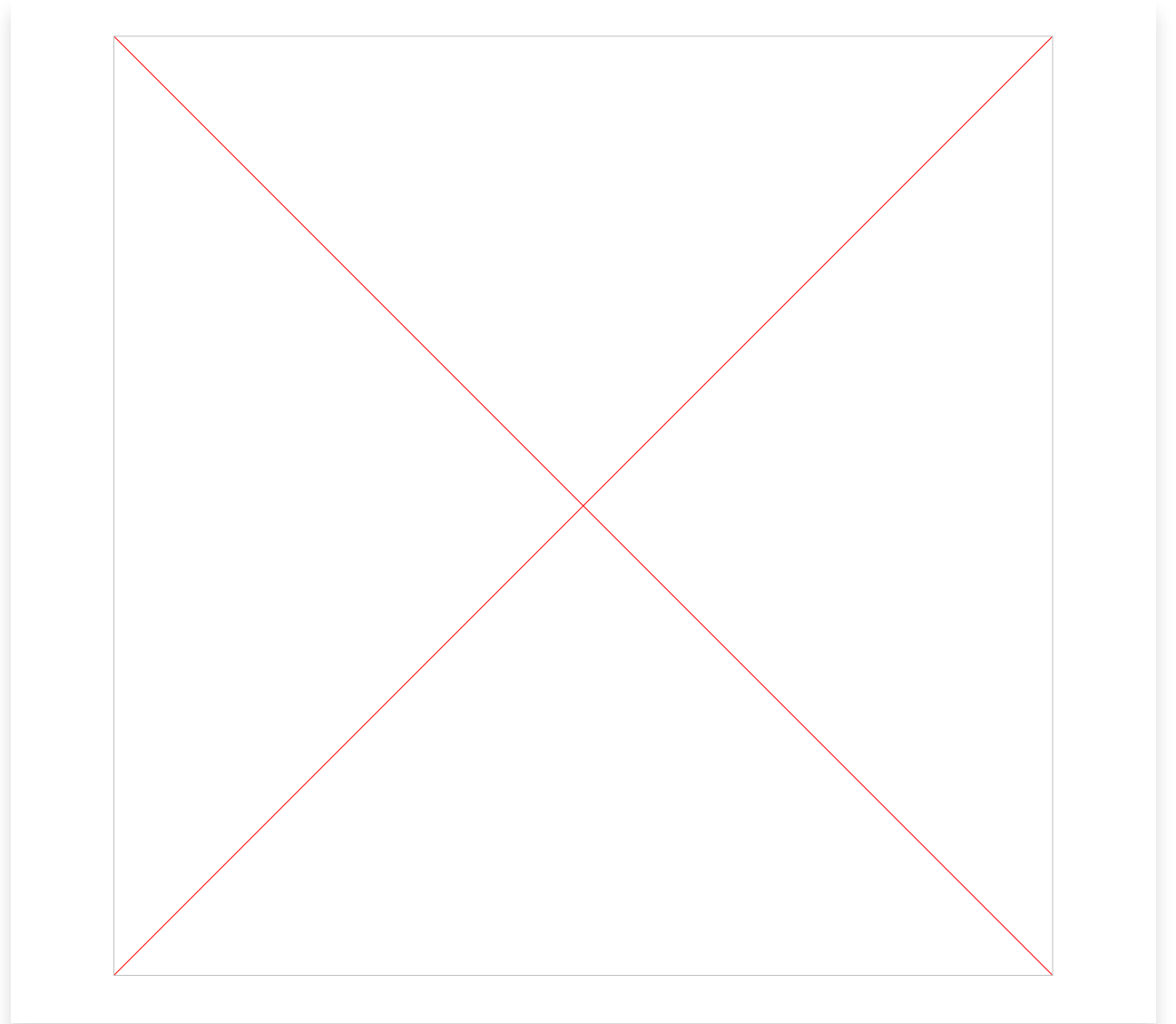
Chair

CLEAR Trust

**June 2026**



# INTRODUCTION TO THE CHARITABLE TRUSTS UNIT



# CRESCENT LAKE ENVIRONMENTAL ACTION RESPONSE (CLEAR) TRUST





# PERKINS POND PROTECTIVE ASSOCIATION

New Hampshire Department of Justice

# OBJECTIVES



Choosing the Board Members

Forming a 501(c)(3)

Compliance

Common Missteps

Internal Controls

Staying Vibrant

Fundraising

# Organizations that Require Formal Documentation



New Hampshire  
Secretary of State

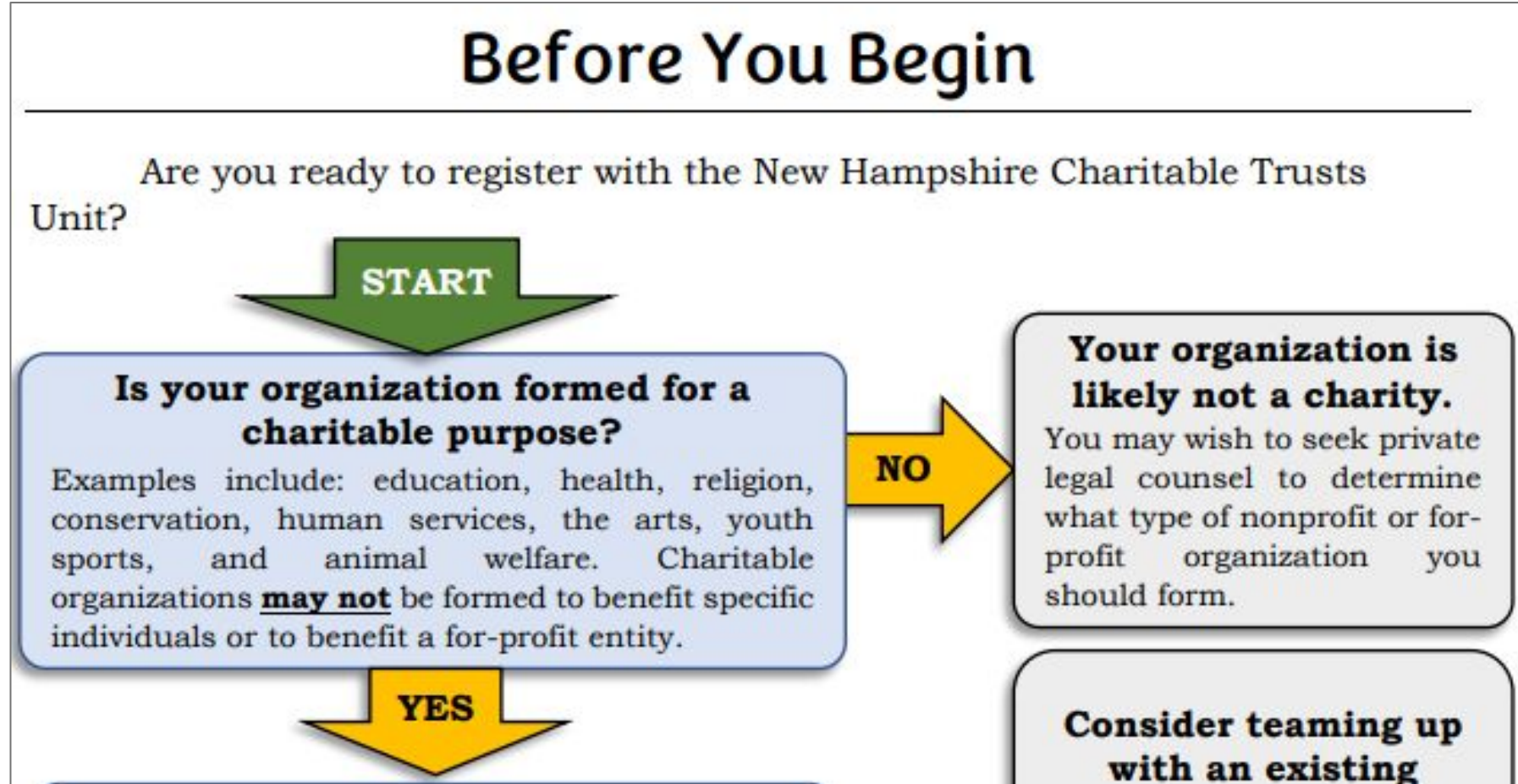


Choose a sturdy  
thoughtful name

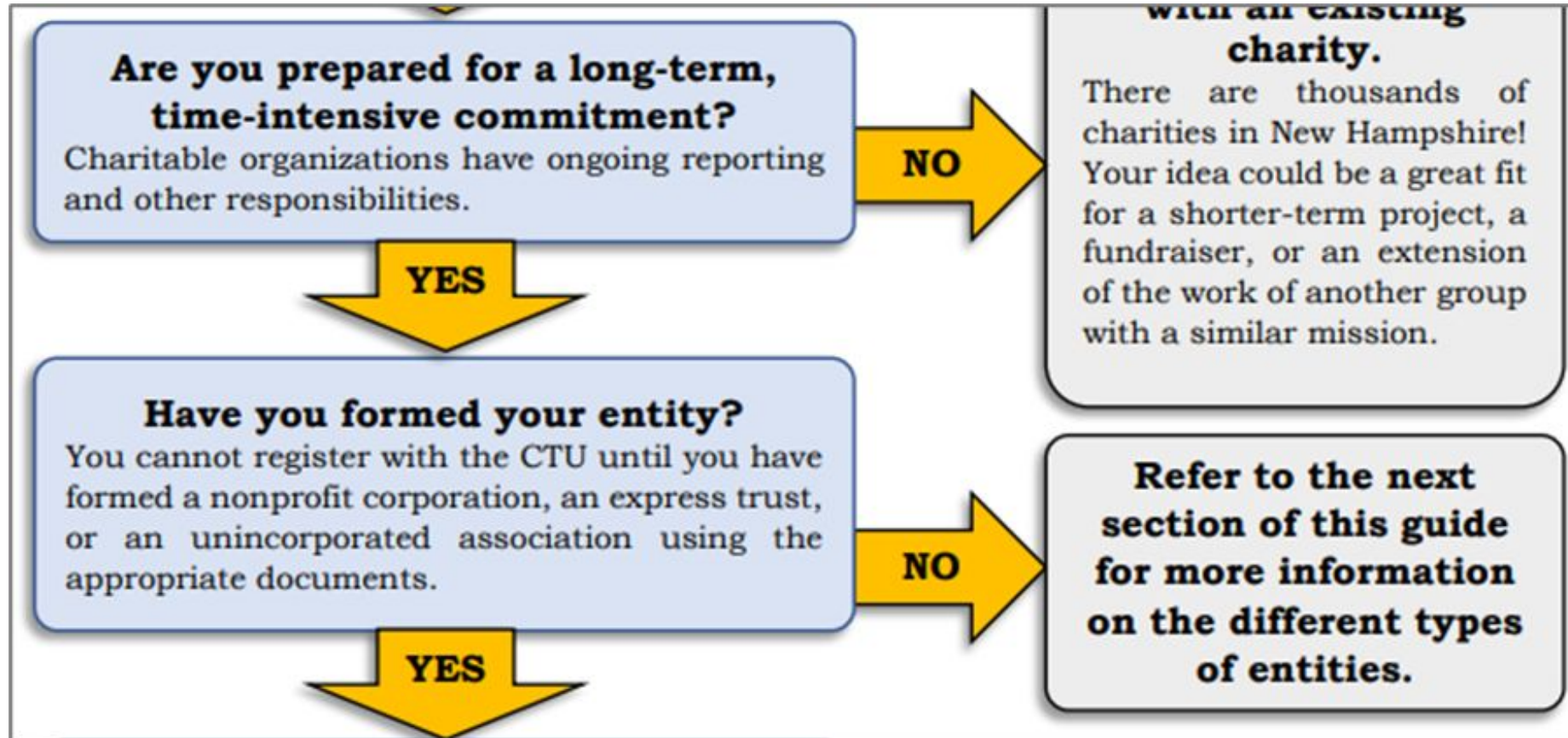
Design a logo



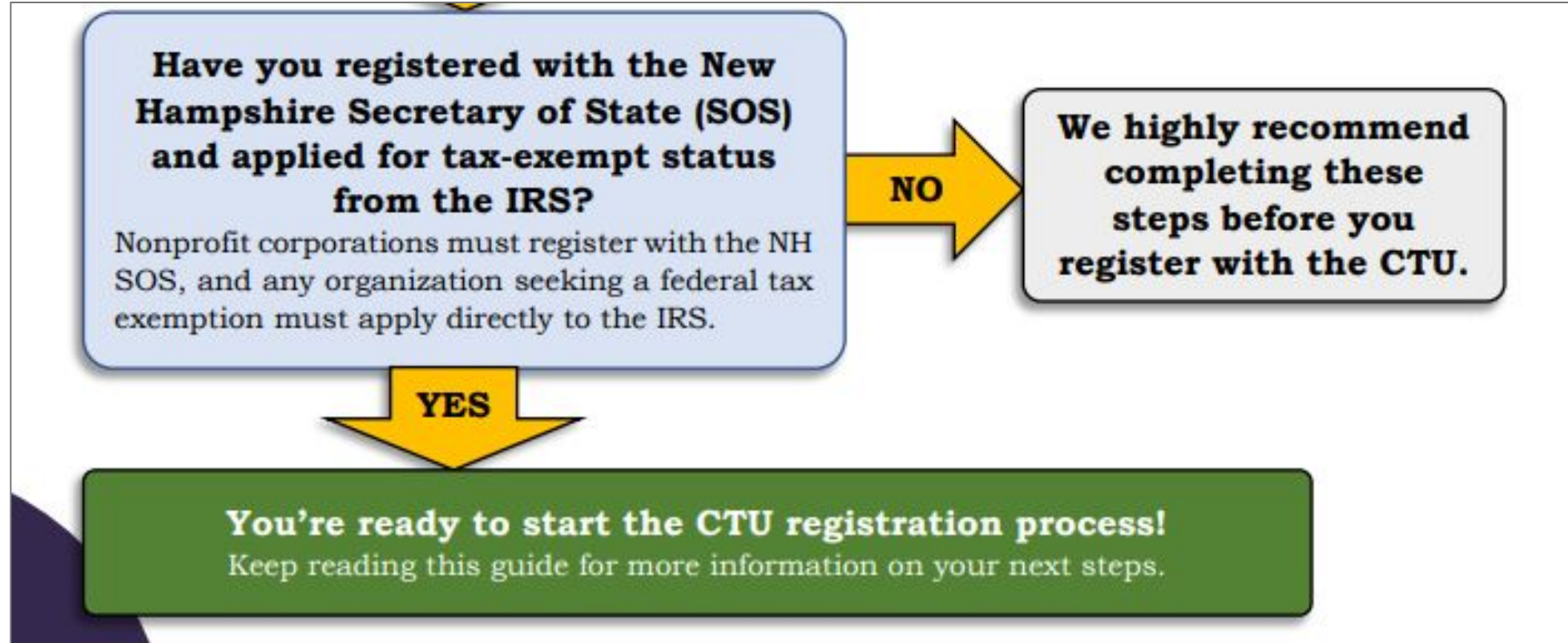
# WHAT IT TAKES TO BECOME REGISTERED



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# CHARITABLE TRUSTS UNIT REQUIREMENTS

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Certified Articles of Incorporation/Agreement  
from Secretary of State

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Bylaws

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List of Board Members

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Letter of Determination from IRS

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Bank Statement or copy of 990 filing from IRS

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Pecuniary Benefit Transactions provision

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# CHOOSING THE BOARD MEMBERS

Governing body, ultimately responsible for the management of the affairs of the organization

Board may delegate certain responsibilities to committees, but the board is legally responsible

Officers have the authority specifically delegated in the bylaws.



# CHOOSING BOARD MEMBERS

- Evaluate whether the person is willing to contribute the necessary and potential financial commitment that may be requested of the board
- Consider their tenure and network as lake residents
- Prepare them for resistance
- Remember the 90/10 rule relating to donations
- Match positions with skills (Treasurer, Secretary, etc.)



# ADVISOR / CONSULTANT

- Choose an advisor / consultant with experience and credibility if hiring one
- Do this at very beginning, after selecting board members
- Be sure the cost is within budget
- Be sure they will be responsive

# NEW BOARD MEMBERS SHOULD RECEIVE

New board member orientation

Tour of facilities

Introduction to staff

Board member manual

- Governing documents
- Board contact list
- Conflict of Interest and other policies or protocols

# Five Basic Good Governance Practices

**Maintain corporate minutes of all board meetings.**

**Annually review Conflict of Interest policies.**

**Approve the Executive Director/CEO's compensation and benefits and document how the board determined that the compensation is appropriate and not excessive.**

**Require the board to review a copy of the Annual Report filing with CTU and IRS Form 990 before it is filed.**

**Disclose to the public the nonprofit's three most recently filed annual returns with the IRS, as well as its application for tax exemption and related correspondence and attachments.**



# CONFLICTS OF INTEREST

A transaction with a charitable trust in which a director, officer or trustee of the charitable trust has a financial interest, whether direct or indirect.

**A charitable organization should not:**

- Lend money or property to a director;
- Sell, purchase or lease (for more than five years) real estate from or to a director without prior court approval; or
- Engage in transactions that are unfair or impair the charity's ability to perform its mission.

# PBT GUIDANCE



**Board Member cannot be in the room for the deliberations or vote**



**Math matters to have a 2/3 majority of disinterested members to approve a PBT**



**Meeting Minutes and newspaper postings showing statutory compliance will be required with annual report**



**CTU staff review every reported PBT and the documentation supporting it**



**Leases, mortgages and conveyance of real estate can require probate court approval before being executed**

# PECUNIARY BENEFIT TRANSACTIONS

## Pecuniary Benefit Transactions

New Hampshire Law has specific rules for handling certain types of conflicts of interest referred to as “Pecuniary Benefit Transactions” or “PBTs.” [RSA 7:19-a](#). The boards of directors of all charitable nonprofit organizations must understand and comply with these statutes.



### What is a PBT?

“Pecuniary benefit transaction” means a transaction with a charitable trust in which a director, officer, or trustee of the charitable trust has a **financial interest, direct or indirect.**

Put simply, whenever a financial benefit may flow **from** your charitable organization **to**

1. A board member;
2. the family member of a board member; or
3. an entity of which 1 or 2 above is a proprietor, partner, employee, or officer.

### An “indirect” financial interest

arises where the transaction involves a person or entity of which a director, officer, or trustee, or a member of the immediate family of a director, officer, or trustee, is a proprietor, partner, employee, or officer.

# PECUNIARY BENEFIT TRANSACTIONS



## Why do PBTs Matter?

Directors of nonprofit organizations owe a **fiduciary duty of loyalty** to the organization and its mission. PBTs test the director's loyalty because the director or their family stands to gain financially from the transaction.

## Which transactions are PBTs?

Here are some **examples** of transactions that qualify as PBTs under New Hampshire law and transactions that do not.

<b>PBTs</b>	<b>NOT PBTs</b>
<ul style="list-style-type: none"><li>✓ A board member owns a stationery store that sells office supplies to the organization.</li><li>✓ A board member is employed by a nonprofit that receives a grant from the organization.</li><li>✓ A board member's spouse is a bookkeeper who is paid to manage the organization's accounts.</li><li>✓ A board member's family member is a paid employee of the organization.</li><li>✓ A board member leases property to the organization.</li></ul>	<ul style="list-style-type: none"><li>✗ Transactions totaling less than \$500 to a board member in a fiscal year.</li><li>✗ Reasonable compensation for one executive director.</li><li>✗ Expenses incurred in connection with the official duties of a board member (e.g., travel, reimbursement of fundraising expense).</li><li>✗ Benefits provided to a board member on the same basis as the public and subject to eligibility criteria.</li><li>✗ A continuing transaction from before the interested board member's election to the board.</li><li>✗ Donations and contributions <b>from</b> a board member <b>to</b> the organization.</li></ul>

# PECUNIARY BENEFIT TRANSACTIONS



Can my organization  
engage in PBTs?

It depends...



## Some PBTs are **strictly prohibited**:

- ✘ Loans from the organization to a board member. RSA 7:19-a, V.
- ✘ Leases by an organization from a board member for a term greater than 5 years and sales of real estate from a board member to the organization, unless approved by the probate court. RSA 7:19-a, VI.
- ✘ The presiding officer of a New Hampshire nonprofit corporation cannot be a paid employee. RSA 292:6-a.

# PECUNIARY BENEFIT TRANSACTIONS

**Other PBTs are allowed only if all of the following are satisfied:**



- ✓ The transaction is in the best interest of the organization.
- ✓ The transaction is for goods or services purchased in the ordinary course of business for reasonable or discounted value.
- ✓ 2/3 of disinterested board members vote in favor of the transaction after full disclosure of all material facts.
- ✓ NO board member who has engaged in a PBT in the fiscal year is present or participates in the vote or discussion.
- ✓ The vote is recorded in the minutes of the meeting, including who was present. *\*See example on next page.*
- ✓ The organization notifies the Director of Charitable Trusts of all PBTs that occurred in the fiscal year on Schedule C of its annual report.

**In addition, if the transaction exceeds \$5,000 in a fiscal year, the organization must:**

- ✓ Publish notice of the transaction in a local newspaper. *\*See example on next page.*
- ✓ Notify the Director of Charitable Trusts before consummating the transaction.

# PECUNIARY BENEFIT TRANSACTIONS

## Examples



### Meeting Minutes

The following is a sample board resolution including the minimum required elements for a PBT vote. If applicable, the minutes must also reflect any additional requirements imposed on the organization by its bylaws, conflict of interest policy, or other governing document or policy.

**RESOLVED:** That the board hereby authorizes **charity name**, pursuant to RSA 7:19-a:II(b), to enter into a pecuniary benefit transaction with **director name** in the amount of **amount** for **purpose**. The board authorizes this transaction based upon findings that the transaction is in the organization's best interests; that the transaction involved goods or services purchased or benefits provided in the ordinary course of the organization's business; that the transaction was for a reasonable or discounted price based upon **basis for determination**; that the material facts of the transaction were disclosed to the board; and that no member of the board who has engaged in a pecuniary benefit transaction in the current fiscal year participated in, voted on, or was present for the discussion of this transaction.

**AYE:** **Board member(s) voting in favor**

**NAY:** **Board member(s) opposing**

**ABSTAIN:** **Board member(s) abstaining**

**RECUSED:** **Board members not present for or participating in discussion or vote**

# PECUNIARY BENEFIT TRANSACTIONS



## Newspaper Notice

Under RSA 7:19-a, II(d), notice of PBTs exceeding \$5,000 in a fiscal year must be printed in a newspaper of general circulation in the community in which the charity's principal New Hampshire office is located. If there is no such office, the notice must be published in a newspaper of general circulation throughout the state. At minimum, the notice must include:

- That the notice is provided in accordance with RSA 7:19-a, II (d);
- The name of the charity;
- The name of any director, officer, or trustee involved in the pecuniary benefit from the transaction;
- The nature of the transaction; and
- The specific dollar amount of the transaction.

### Public Notice re: RSA 7:19-a, II(d)

Pursuant to the requirements of NH RSA 7:19-a, II(d), notice is hereby given that a pecuniary benefit transaction that exceeds \$5,000 in a fiscal year will occur between **charity name** and **name and title of involved officer(s)/director(s)** in the amount of **amount**, the nature of said transaction(s) being more particularly described as follows: **description**.

ATTEST: **Name and address of charity**  
BY: **Name of president or secretary**  
DATE: **Date**

This document is provided as a convenient reference. It does not address every scenario in which the PBT statute may apply. Board members should read and understand RSA 7:19-a in its entirety and refer to our [Guidebook for New Hampshire Charitable Organizations](#) for additional information. Discuss questions with your organization's attorney or contact our office at [CharitableTrustsUnit@doj.nh.gov](mailto:CharitableTrustsUnit@doj.nh.gov) or (603) 271-3591.



# FINANCIAL CONTROLS

- Establish policies relating to finances, including handling of cash, reconciling bank statements, checks, bank cards, etc.
- Monitor policy compliance (audit management letter)
- Carefully consider which director should be the Treasurer
- Ask the ED about the qualifications and supervision of accounting staff



# BEST PRACTICES

- Regular meetings
- Annual review of bylaws, articles of agreement and written policy
- Annual evaluations of board meetings and members
- Written protocols for meetings and minutes
- Review financials including Form 990 as a board
- All board members, management, staff should be able to articulate mission
- Board members should undergo training re: fiduciary responsibilities
- Engaging board meetings



# ANNUAL REQUIREMENTS

- Annual report filing with IRS (990, 990-N, 990-EZ, or 990-PF)
  - Acknowledge charitable contributions of \$250 and above
- Annual report filing with CTU (NHCT-12 with 990, 990-EZ or 990-PF. The 990-N is not accepted.)
  - Indicate any PBTs if necessary
- Secretary of State report filing every 5 years.
- 1099s if organization has paid employees for services over \$600



# OTHER

- Practice solicitation visits
  - Prepare a PowerPoint and rehearse
- Attend and publicize forums / assemblies relating to lake environmental issues
- Form partnerships with local Conservation Commissions, Select Boards, etc.
- Post on your lake's website or Facebook page
- Build a mailing list / consider gift payment options

# WEBSITES

## [Charities and nonprofits | Internal Revenue Service](#)

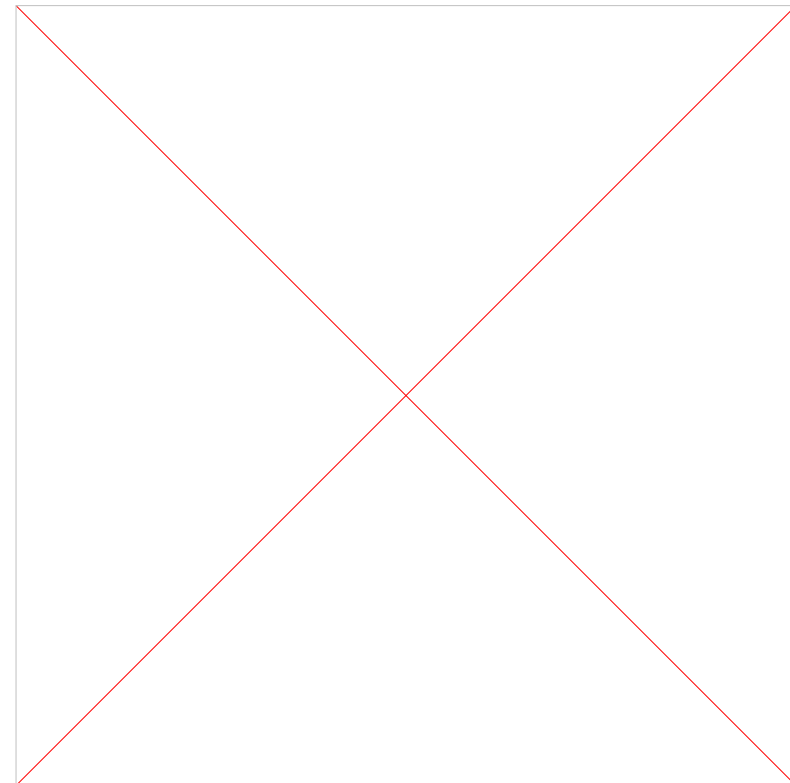
- IRS

## [New Hampshire Quickstart | Home](#)

- New Hampshire Secretary of State

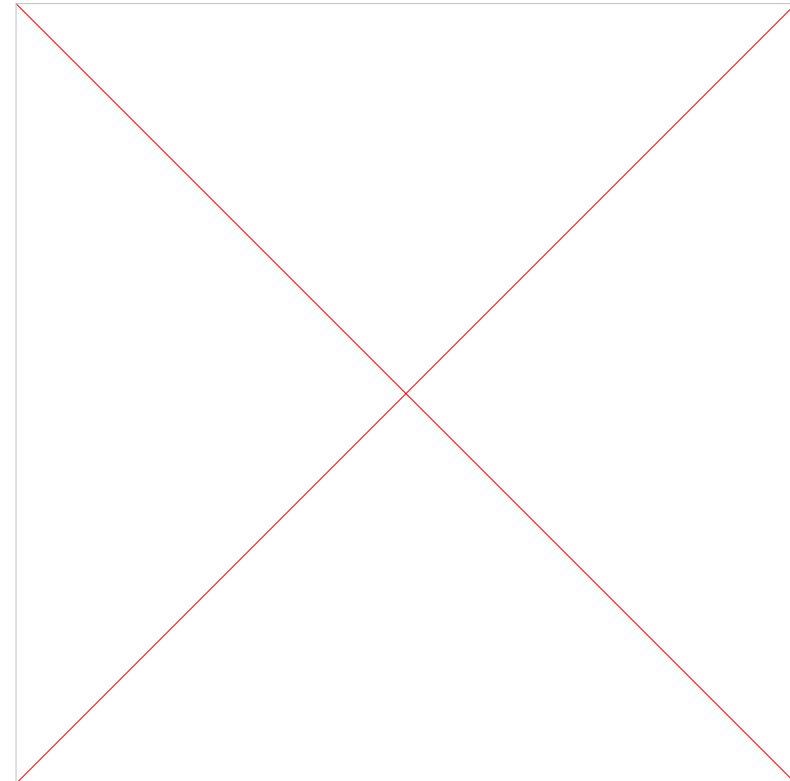
## [Charitable Trusts | New Hampshire Department of Justice](#)

- Charitable Trusts Unit



# RESOURCE GUIDE

- [www.nhnonprofits.org](http://www.nhnonprofits.org)  
Nonprofit checklist, workshop announcements, employment opportunities, etc.
- [www.boardsource.org](http://www.boardsource.org)  
A national organization dedicated to building effective nonprofit boards
- [www.councilofnonprofits.org](http://www.councilofnonprofits.org)  
Network of nonprofits across North America
- [www.guidestar.org](http://www.guidestar.org)  
Scanned images of all 990s and 990PFs filed with the IRS
- [www.stayexempt.irs.gov](http://www.stayexempt.irs.gov)  
Resources tailored specifically for 501(c)(3) organizations with tips and tips to keep tax-exempt
- <https://www.stayexempt.irs.gov/home/resource-library/virtual-small-mid-size-tax-exempt-organization-workshop>  
IRS Tax Exempt Organization Workshop



[www.doj.nh.gov/bureaus/charitable-trusts](http://www.doj.nh.gov/bureaus/charitable-trusts)

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## CTU Resources for:

- Charity directors and executives
- Municipalities
- Donors/public
- Fundraisers
- Healthcare

## Including:

- Training videos
- Forms
- Handbooks
- Policies
- Reports