

HOUSING CORPORATION FORMATION MANUAL SERIES
PI KAPPA PHI FRATERNITY

Outline of Series

- I. KEY ORGANIZER'S SUMMARY AND GUIDE
- II. Preliminary Groundwork for Formation or Reinstatement
- III. Drafting or Amending Articles of Incorporation
- IV. The Organization Meeting
- V. Drafting Bylaws
- VI. Tax Exemption Considerations and Application

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- I. PRESIDENT'S SUMMARY AND GUIDE
- II. Meetings, Decisions and Minutes: How a Corporation Operates
- III. Relations with the Student Chapter and Campus
- IV. Financial Management and the Housing Investment
 - Appendix A - How to Get the Bucks You Need for Competitive Housing
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Preface

“If one advances confidently in the direction of his dreams, and endeavors to live the life which he has imagined, he will meet with a success unexpected in common hours.”

--Henry David Thoreau

The manuals in the Housing Corporation Operations Series result from ten years of effort. The combined series represents the most comprehensive information source available to housing corporation officers in the fraternity world today. It is dedicated to you, the committed volunteer, without whom the Fraternity could not accomplish its objectives of expansion in number of chapters, membership growth and high standards.

The following individuals contributed to this series and deserve the Fraternity's debt of thanks: Brothers David R. Baker (Alpha Epsilon), Glenn A. Dickson (Beta Upsilon), Travis P. Julian (Omicron), David G. Lane (Omega), Gary A. Leonard (Alpha Epsilon), Durward W. Owen (Xi), Charles A. Rowland IV (Lambda), and Mark E. Timmes (Alpha Epsilon). Brother Steven S. Ryder (Gamma) prepared the initial draft. Brother Joseph A. Brady (Epsilon Omicron) coordinated the editorial committee that produced the final version.

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I. PRESIDENT'S SUMMARY AND GUIDE

A. Introduction

The purpose of these manuals is to assist in the development of housing corporations for chapters of Pi Kappa Phi Fraternity. If a chapter house is owned, a housing corporation is the legal entity which must hold title to the real estate and the furniture and equipment used in its operation. If a chapter house is being rented, a housing corporation should be involved as the lessee of such property. Almost every student chapter is housed or has goals to be housed in the future.

Local housing corporations have jurisdiction over the largest share of assets within the domain of the Fraternity—it's not unusual for corporations to be responsible for individual properties worth half a million to a million dollars. It's unquestionably important that those assets be managed capably and responsibly.

Student members alone or as a chapter cannot purchase a chapter house. It's inadvisable or impossible for a number of reasons. A housing corporation is required for such activity. Every chapter that operates a chapter house or intends to acquire one in the future must have a housing corporation.

The alumni members staffing a housing corporation may not have expertise in all aspects of buying, building, leasing, or operating property. However, they have the experience and local contacts needed to access the necessary information. The corporation can more effectively solicit support of alumni members and community business leaders. It can coordinate alumni fund raising projects which will be successful, whereas experience clearly dictates that a student chapter cannot.

The manual series is directed to the corporation's President. The President's responsible for coordinating the efforts of all officers. It's expected that the President will delegate most of the corporation's day to day work to other officers and committees. He should spend most of his time making sure that others are getting the needed work done rather than doing it himself.

It's assumed that most of the day to day operating tasks are assigned to others to be carried out. However, the reader should not interpret these as a pre-assignment to specific officers. The President or board of directors are encouraged to make assignments of responsibilities based on the capabilities of the individual volunteers.

The manuals are intended to be copied and distributed to the members of your board of directors. You should not, however, distribute the original copies. As President, it's expected that you're in control and make assignments of duties among your board of directors, subject to assignments made by the bylaws or the board itself. You'll need a complete set of manuals at all times.

The Operations Manual Series is intended to cover all general aspects of a housing corporation's ongoing operations. Due to variations in state laws and differing circumstances from chapter to chapter, some customizing will be needed in any specific situation.

The format of each manual's main section is condensed. A quick overview of necessary actions and steps is thus facilitated, essential to the person with primary responsibility. Expanded sections which detail suggested procedures (and potential pitfalls) are grouped in appendices following the main body of

each manual. The manuals are organized according to related actions and steps. The grouping facilitates delegation of responsibilities by the President to other officers or participants.

B. Meetings, Decisions and Minutes: How a Corporation Operates

The corporation's Secretary frequently has the duty of tasks under these subjects. He should be assisted by the corporation's volunteer legal counsel.

Operations Manual II—Meetings, Decisions and Minutes: How a Corporation Operates discusses basic corporate operations. The corporation's fiduciary duty is reviewed. Its members and board of directors are defined. The meetings of each are discussed as to purpose and format. The importance of keeping proper corporate minutes is presented. Strategies to improve participation of the officers and directors are suggested.

The President is responsible for:

1. Confirming distribution of minutes of previous meeting.
2. Coordination of activities of officers and committee chairmen between meetings.
3. Planning and preparation for next meeting.
4. Confirming distribution of notice of next meeting (if not previously included with minutes under Item 2 above).
5. Act as chairman of meeting.
6. See that the formal minutes book is properly maintained.
7. (Annual Meeting) See that the following are presented to the directors:
 - a. Annual financial statement for most recently ended fiscal year.
 - b. Evidence of filing of Form 990 (if gross income exceeded \$25,000).
 - c. Evidence of filing of Form 990-T and payment of tax (if gross investments income exceeded \$1,000).
 - d. Evidence of filing of Registration, Annual Report, Statement of Officers, or other report required to be filed with your state for most recent applicable period.

C. Relations with the Student Chapter and Campus

The corporation's President and/or Vice President have responsibility for some tasks under this heading. Others may be assigned as needed.

Operations Manual III—Relations with the Student Chapter and Campus deals with subjects that are very important in spite of their intangible nature. The

corporation's relationship with the student chapter is discussed. Coordination with the Chapter Advisory Committee and the university administration also are recommended.

The President is responsible for:

1. Meet with and involve chapter on a regular basis; involve student directors in the board of directors meetings.
2. Interface with the university's Greek affairs advisor and campus Greek alumni organizations (Advisors' Council, etc.)
3. Assure that the chapter officers and House Manager coordinate with the corporation's House Committee on needed repairs, etc.

D. Financial Management and the Housing Investment

The corporation's Treasurer usually will have responsibility for most tasks in this area. Some may be assigned to a Finance Committee as needed, however.

Operations Manual IV—Financial Management and the Housing Investment reviews the corporation's financial management needs. A "big picture" view is taken of all aspects, not a narrow view concentrating just on accounting. The corporation's budget must be planned each year. The current year's portion of longer-term financial commitments and goals must be included in the current budget as well.

The President is responsible for:

1. Assuring that the corporation's Treasurer meets with chapter officers to conduct an annual budget meeting before the academic year starts.
2. Assuring that the board of directors adopts the corporation's budget at a regular meeting.
3. Assuring that the corporation operates on a reasonable reserves policy for year-to-year furniture and equipment needs.
4. Assuring that the corporation operates with reasonable long-term financial plans for housing (housing reserves or building fund if owned; building fund for purchase if leased).
5. Assuring that the corporation complies with employment taxes and workers' compensation requirements if any employees are paid by the corporation.
6. Assuring that the corporation maintains a reasonable investment policy.

COMMENT: A "reasonable" policy is one that emphasizes prudent investing of reserves and other accumulated funds. An unreasonable policy could

take many forms. One that sometimes is encountered is to forego any reserves accumulations, in order to avoid income taxes and the inconvenience of having to file a Form 990-T with the Internal Revenue Service.

E. Insurance and Risk Management

Risk management is a responsibility often assigned to the corporation's House Committee. It usually requires coordination with Treasurer and corporation's volunteer legal counsel.

Operations Manual V—Insurance and Risk Management reviews the corporation's risk management and insurance needs. Risk management is needed in order to control risks posed by unexpected liabilities: accidents resulting in lawsuits, casualties to the building or contents from natural disasters, etc. A semiannual risk audit is the best way of assessing the scope of such risks.

The President is responsible for:

1. Risk audit confirmation.
2. Following annual elections, review of insurance policies in conjunction with the corporation's Treasurer and volunteer legal counsel.
3. In event of an accident or other mishap, coordinate the steps outlined in Operations Manual V.

F. House Projects, and Working with Contractors and Furnishers

Coordination of house maintenance and repairs, together with other projects, often is assigned to a House Committee of the corporation. It would coordinate with the corporation's Treasurer and volunteer legal counsel, and the student chapter officers.

Operations Manual VI—House Projects, and Working with Contractors and Furnishers reviews the corporation's construction, house maintenance and furnishings coordination needs. It includes a long section on how to deal with contractors.

The President is responsible for:

1. Assuring coordination between the student chapter officers, the corporation's House Committee, etc.
2. Following annual elections, review of the corporation's warranty files.

G. Chapter House Leasing or Purchase

If activities resulting in new housing are to be undertaken, usually a special Housing Committee is formed for the task. This committee would do the

basic research on zoning, desirable areas in which to locate, capable brokers to assist the corporation, etc., coordinating with the student chapter officers, the corporation's Treasurer, and the corporation's volunteer legal counsel in those efforts.

Operations Manual VII—Chapter House Leasing or Purchase deals with all aspects of pursuing new chapter housing. The best feasible type of housing commitment can be determined by the method presented in that manual. The impact of zoning and permit requirements also are discussed.

The President is responsible for:

1. Assure coordination between the student chapter officers, the corporation's House Committee, etc.
2. Coordination with the Chapter Advisor for chapter member education on alumni relations and future member responsibilities as alumni members.
3. If a special fund raising is planned or in process, coordination with the special Fund Raising Committee.

H. Alumni Relations: Publications, Events, and Fund Raising

These activities often are ongoing responsibilities of regular committees serving the corporation. These would be a Publications Committee and/or Social Events Committee. The President also must coordinate with the special Fund Raising Committee if a fund raising project is planned or underway.

Operations Manual VIII—Alumni Relations: Publications, Events, and Fund Raising deals with basic aspects of alumni publications, social events, and fund raising projects as they pertain to the corporation and student chapter.

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II. MEETINGS, DECISIONS AND MINUTES: HOW A CORPORATION OPERATES

A. Introduction

This manual provides an overview of housing corporation operating matters. It reviews the purposes of a housing corporation, how a corporation should operate, and provides information on the upgrading of the housing corporation's alumni resources. It is not all-encompassing. Many questions could arise which need specialized expertise, requiring review by capable professionals.

This manual, as with the others in this series, is written to the average alumnus member and does not presume an expert background. Its objective is to supply as much information as possible on a general level, highlighting those topics that are outside the capabilities of the average volunteer. An attorney reader may find some of the following material to be very elementary, but this manual is designed to help in routine day-to-day situations where there simply aren't any alumni members available having knowledge of corporate law.

B. The Corporation's Purpose and Fiduciary Obligation

A Housing corporation exists to operate chapter housing for the benefit of the Fraternity and its members. The laws of most states require that nonprofit corporations must have members in addition to directors; generally, the definition of who the members are can vary somewhat but this manual presumes that they are interested individuals who fall into two categories-- 1.) alumni members who pay dues and otherwise support the chapter and its alumni organization; and 2.) the student members who reside at the chapter house.

The corporation's board of directors has a duty to

represent all the members and consider their interests. Most importantly, the corporation must consider the needs of the members of the future—those who have yet to enroll at the university and become initiates—and not merely the needs of the members at the immediate present. The issue of who the corporation really must serve frequently is misunderstood.

The fiduciary duty requires viewing to the future in all aspects of the corporation's planning—housing, finances, etc. It's a responsibility which is not always carried out well, and even more often is not understood by the student chapter members. Problems sometimes result because the chapter members of the present want something that would adversely affect the chapter in the future. Some examples are given in Operations Manual IV—Financial Management. Nevertheless, it's the board of directors' responsibility to keep the future of the chapter in mind.

C. How to Improve Participation in Your Corporation Over Time

At some locations, members will sometimes complain about the participation of those serving on their local housing corporation. Holding their corporation meetings seems to be a chore, and it's very difficult to get everyone together more often than once a year. They have a feeling that something's "wrong" and that they should be doing much better.

COMMENT: People's expectations about meeting attendance should be realistic. A 50% to 65% turnout of board members for directors' meetings is usual; as long as the board obtains a quorum there is no problem. If having only 3 directors as a quorum bothers people (as in the case of a board having only

5 directors total), then of course the size of the board may be increased and additional individuals elected. Increasing the quorum ratio alone to “compel” directors to attend is not recommended.

A simple solution will improve the participation and regularity of your local housing corporation’s board of directors. It consists of the following steps:

1. Establish regular meeting schedule and stick to it.
2. Keep a record of who attends the meetings and who is a no-show.
3. Replace the no-shows with new participants.

Establish some minimum standards for attendance and participation. Over time, as the board’s composition changes with the less active directors being replaced, participation will improve.

D. Members and Meetings

Housing corporations use a corporate form of operation. An annual meeting of the members is necessary, akin to an annual stockholders meeting of a stock corporation. Members, like stockholders, review the corporation’s affairs and make decisions on basic matters which they alone can decide by law (annual election of directors), matters required to be submitted to the members by the bylaws (such as borrowing funds or mortgaging a property if members’ approval is required in the bylaws or by state law), or simply by a decision to submit the matter to the members by the board of directors.

The corporation’s members usually are not the same as its directors. The closest analogy is that the board of directors might be compared to a student chapter Executive Committee, while the members have a role similar to the student members of the chapter. Most of the corporation’s business is not acted upon at a members’ meeting but instead is acted on at a directors’ meeting.

COMMENT: Many differences exist between a corporation and a chapter, however. In a chapter, most decisions are made directly by the members who meet much more frequently (weekly or biweekly). The corporation’s members usually have a meeting only once a year. In a student chapter the officers act as coordinators for the decisions of the members. The officers may meet as a board (the chapter Executive Committee) but they don’t have the same level of authority as a corporation’s board of directors.

Reasons why a local housing corporation should provide for memberships, and should limit them to supporting student and alumni members of the Frater-

nity, are discussed in Formation Manual III—Drafting Articles of Incorporation.

Members’ meetings are infrequent and not heavy with business. Most corporate business is decided by the board of directors. The corporate form requires that the directors have actual decision-making authority and responsibility, except as to those matters reserved for the vote of the members under the bylaws or state law. Directors make decisions at more frequent meetings (usually two to six times a year or more) and the decisions are carried out by the corporate officers or committees assigned to the tasks.

COMMENT: Confusion may arise because some members expect that a corporation will operate in the same manner as a chapter. Corporations can’t do so because they don’t have all their members in a concentrated location (such as a university) and instead are geographically dispersed. An annual members’ meeting is a practical method of representation under those conditions. This explains why a corporate board of directors has substantially broader scope of authority than is typically encountered in a chapter structure.

The annual members’ meeting should be scheduled to coincide with the fraternity Founders’ Day or the campus Homecoming. Attendance of the alumni members should be better because they can combine several activities on the same trip.

The meeting should have a quorum of the corporation’s members present. The permissible minimum proportion of members constituting a quorum will vary from state to state. Your state corporation statutes may make specific provision for the minimum; many states set the number at ten percent of the total membership but a few specify no minimum for a quorum. A few use higher ratios, ranging as high as 25 or 30 percent.

The flow of business at an annual meeting should be as follows:

1. Convening, identification of presiding and recording officers, time convened and names of members attending
2. Quorum count, presentation of proof of notice
3. Reading of minutes of last year’s annual members’ meeting together with minutes of any special meetings held since; approval of those minutes (as read or as corrected or amended)
4. Reports of officers and committees
 - a. Finances
 - i. Annual report

- ii. Audit Committee
- b. Proofs of filings—information returns, tax returns, corporate registration statements/annual reports/designation of agent for service of process, etc.
- 5. Unfinished business (members' meetings usually have none)
- 6. New business
 - a. Resolutions for adoption by members
 - b. Elections of directors (those directors whose terms have expired)

Special meetings of the members also may be called in most states. A special meeting generally would concern itself only with the special agenda item requiring the convening of the special meeting. The agenda item must be described in the special meeting notice under the laws of many states.

E. Board of Directors—Meetings, Qualifications, Election

The board of directors, a specified number of individuals who act on behalf of the corporation's members, must be distinguished from its officers. The board of directors meets periodically to deal with corporate business, usually bimonthly or quarterly. The officers carry out activities of the corporation between those meetings and are responsible to the board. It is not necessary that an officer also be a director, although your corporation's bylaws may require it.

Board of directors' meetings generally follow a format such as:

1. Convening, identification of presiding and recording officers, time convened and names of directors (optionally, guests) attending
2. Quorum count, presentation of proof of notice of meeting
3. Reading of minutes of last regular directors' meeting together with minutes of any special meetings held since then; approval of those minutes (as read or as corrected or amended)
4. Reports
 - a. Chapter status
 - i. Total membership, resident in chapter house and nonresident; goal; break-even; etc.
 - ii. Chapter receivable and budget
 - b. Budget and Finance- corporation
 - c. Chapter house- maintenance, repairs, improvements, etc.
5. Unfinished business
6. New business
 - a. directors' resolutions, other business

- matters
- b. Elections of officers (Directors' meeting following the annual members' meeting only—those officers whose term has expired; vacancies in offices generally may be filled at any directors' meeting).
- c. Next meeting—adopt date, time, place.

Important qualifications of directors which should be sought and/or determined for each alumnus candidate are:

1. Their time available to devote to corporate affairs
2. Expertise in specific subjects
3. Involvement record (familiarity with tasks and amount of time required of directors and officers)
4. Balancing the board with people familiar with operations at other chapters (and benefiting from the broader experience that they possess)

If your geographical area is "thin" in terms of qualified and experienced alumni candidates, you have every reason to consider seeking out potential alumni initiates to round out your board. This should be a joint effort of both the board of directors and the chapter. As long as the alumnus initiate candidate has not previously been an member of any general college fraternity, he could be initiated by the chapter and made a valuable addition to existing alumni members.

All candidates should be evaluated on the basis of their interest level and recent involvement record, coupled with their available time and nearness to the corporation's principal place of business. A corporation's board never desires to be in a position of electing someone to a vacant directorship without any recent experience of his involvement.

The Nominating Committee is one of the corporation's most important committees. The committee is a necessity. It's not practical to elect people to the corporate officer positions without an in-depth review and assessment of their qualifications. At the same time, the need for a Nominating Committee can be difficult to communicate to people accustomed only to the smaller scale and geographical closeness of a student chapter's membership.

It is recommended that one or two (but no more) student members of the chapter serve as directors on the corporation's board. While it is possible for the alumni members to elect qualified students, representation may be better if the students elect their representatives directly.

Directors are elected at an annual members' meeting.

Elections generally should be elected as the last item of business at the meeting. Nomination and election procedures should not be terribly complicated. Most boards operate with a substantial informality; if yours has no established election procedure, consultation with a Robert's Rules reference is suggested.

F. Officers—Qualifications and Election

Officers generally should be elected as the last item of business at an annual directors' meeting held immediately after the annual members' meeting adjourns. As with election of directors, if your board has no established election procedure a consultation with a Robert's Rules reference should suggest practical alternatives.

Following are a few suggested considerations for qualifications of the candidates for office.

President—Position requires leadership, administrative ability. A major part is coordinating skill with work of others. A well-balanced corporation does not have a “Superman” President—he accomplishes his tasks by delegating to his supporting officers and committees—and following up on them to make sure that the jobs get done!

Vice President—Entails acting as President when the latter is absent. Another aspect could be recruitment of new members and the public relations side of operations.

Treasurer—A supremely important position, requiring the most personal time commitment of any officer to do the job well. Responsible for all financial matters, including budgeting for the current year and for the long term. A home computer and possession of spreadsheet and/or accounting software is very helpful.

Secretary—Compiles and maintains the corporation's minutes, records, and correspondence. This office often is under-appreciated; the need for good corporate minutes is not understood by many local boards. A home computer and word processing and/or database software is very helpful.

G. Corporate Minutes and Other Legal Records

Maintaining formal minutes and other records is essential. Corporation agencies in most states reserve a right to inspect the minutes at any time, and the minutes must be made available to the members at the corporation's principal place of business. The Internal Revenue Service can demand to see the minutes as well. Failure to maintain them can lead to a wide range of problems—taxability of corporate

income to individual officers is the worst case; suspension of corporate charter may be a best case consequence. Proper minutes also are essential to document proper corporate actions and decisions. They can be needed to show that the officers and directors are acting prudently, and that the corporation is actually conducting business as a corporation and not on behalf of individuals. These points can be helpful to maintain the limited liability of the corporation's officers and directors under some conditions (which frequently aren't foreseeable).

A meeting of the members is not the same as a meeting of the directors, even if held back-to-back on the same day. The meetings should be summarized in separate minutes.

For directors' meetings, it's recommended that copies of minutes of the previous meeting be circulated for review by directors prior to the following meeting. The best system is to mail them three to four weeks before the next scheduled meeting. Directors should have reviewed them by the time the meeting is held and observed whether additions or corrections are needed.

The minutes also could reflect the time and place of the next meeting. The time and place should be decided as the final matter of new business at each meeting. In that case, a separate notice of the meeting could be mailed out with the minutes (or the minutes action itself could constitute notice—if permitted by state law and the corporation's bylaws).

H. Required Filings

Virtually every state requires a filing to be made by its corporations on a time frame varying from annually to every five years in order to maintain corporate status. The statement name also will vary from state to state and may be called a Corporate Registration Statement, Statement by Domestic Nonprofit Corporation, Annual Report, or other name. The statement function may vary but can be distinguished by one important feature—failure to file it within a required time period can lead to substantial monetary penalties or may result in suspension or revocation of the corporate charter.

COMMENT: If the charter is suspended or revoked, it could have serious implications. The principal impact could be change of status to a “de facto corporation.” That status does not mean that the corporation can no longer hold meetings or function as a corporation; it can, only it is not a fully recognized valid corporation in that state. But the status change has some other problems associated with it. It means the loss of the principal corporate

benefit—limited liability—in transactions that occurred after the suspension/revocation.

Filings required are included here among other responsibilities usually assigned to Secretary of corporation. Depending on statement content, may be more appropriate to assign to Treasurer. Filing requirement compliance should be verified at annual meeting.

A directory of the housing corporation's officers should be completed annually and sent to the fraternity's Administrative Office. Sometimes a form will be sent to the President or Secretary for that purpose; if not, it may be necessary to copy a blank form from your file or send a letter requesting one to the Administrative Office (particularly if your corporation is not receiving any official mail at the Secretary's address) for completion of this requirement.

The corporation typically has to file other forms than those listed here—Form 990 with the Internal Revenue Service, reports with the state taxing agencies, business licenses, etc. Those reports are more properly the duty of the Treasurer and are discussed in Operations Manual IV—Financial Management.

I. Special Problems

1. Structural changes in the corporation - The housing corporation sometimes will need to make some changes in its organization structure for various reasons. Some of the more common examples are the following:

- a. **Increase in the number of directors serving on the board**—An increase in the number of directors can be accomplished by amending the bylaws alone if the number of directors was only specified in the bylaws. If the number was fixed in the articles of incorporation, the number may be changed only by amending the articles in compliance with the requirements for filing such amendments under the corporation laws of your state. Upon increase in the number of directors, a vacancy is created corresponding to each newly created directorship which can be filled by election as any other vacancy.
- b. **Decrease in the number of directors serving on the board**—A decrease can be accomplished by amending the bylaws alone if the number of directors was only specified in the bylaws. If the number was fixed in the articles of incorporation, the number may be changed only by amending the articles in

compliance with the requirements for filing such amendments under the corporation laws of your state. However, many states require that decreases cannot take place until the end of the term of office for which the director(s) originally was (were) elected. This would postpone the effect of a decrease until the next annual members' meeting at which time an election of directors probably would have been held in any event. Furthermore, laws of some states require that the reduction be taken up by those directors whose terms of office would have expired then in any event. If insufficient to take up all the reductions, a random drawing among remaining directors would be typical.

2. Failure to file required information or tax returns, documents, etc.
 - a. **Failure to file required state annual tax reports or returns**—Many states require filing of exempt organization information returns and/or unrelated business income tax returns similar to those required by federal law. Problems relating to failure to file such returns vary greatly from state to state and are beyond the scope of this manual.
 - b. **Failure to file a designation of agent for service of process**—Another frequently overlooked category of form or report is the required state registration statement/designation of agent for service of process. This form designates a particular individual at his specified address to be the corporation's "registered agent." Sometimes this form is combined with some sort of abbreviated "annual report" on the corporation's operations. It relates purely to the maintaining of corporate status with the state in which the corporation is chartered and has no federal equivalent. Failure to file can lead to suspension or revocation of the corporate franchise.

COMMENT: If the corporation ever were to be sued, the papers relating to the lawsuit generally would have to be served upon that agent. Acting in this capacity does not of itself make the agent personally liable with respect to the suit, however; it's not the agent being sued, but the corporation instead. The purpose of this requirement is simplify to officially notify the corporation of the suit through an officially designated person, so that an answer can be prepared by the corporation's attorney.

- c. **Failure to maintain corporate minutes and**

other records—The corporation must maintain proper corporate minutes including up-to-date copies of bylaws and a record of its current dues-paid members. Failure to do so could result in suspension or revocation of the corporate status. These are a serious problem, and will lead to other problems too complex to discuss here. Consult an attorney for proper guidance if any of these are discovered.

ADDITIONAL REFERENCES

Encyclopedia of Corporate Meetings, Minutes, and Resolutions. Sardell, William, reviser. Englewood Cliffs, NJ: Prentice-Hall, c1978.

Two volume set that is extremely thorough on most basic types of corporate resolutions and forms. Excellent chapters on drafting minutes of corporate meetings. The 1958 edition by Lillian Doris and Edith Friedman also is very good. Both editions are oriented more to stock corporations but easily may be translated to the needs of membership corporations.

Grange, William J., Schwartz, Donald E., Gray, William S., and Woodbury, Thomas C. Manual for Corporation Officers: The Law, Procedure, and Forms. New York, NY: Ronald Press Co., c1967.

Good comprehensive one volume work on corporations. Devoted almost exclusively to stock corporations rather than non-stock, and slanted toward New York and Delaware corporation laws, making applicability to other states more limited. Covers corporate minutes.

Lashbrooke, E. C., Jr. Tax Exempt Organizations. Westport, Cn.: Quorum Books, c1985.

Another good general work on exempt organizations. Covers a wide range of subjects including meetings, quorums, and other corporate matters, tax exemption, filings, unrelated business income tax, etc. Many common matters are listed in tables by state for quick reference. For example, a chart on p. 199 lists the states that tax unrelated business income (as of 1985)

and the applicable state tax statutes.

Oleck, Howard L. Parliamentary Law for Nonprofit Organizations. Philadelphia, Pa.: American Law Institute- American Bar Association Committee on Continuing Professional Education, c1979.

Provides a simplified, easily readable set of rules based on Robert's Rules, and a section explaining the common law principles associated with the rules pertaining to matters such as voting, meetings, and duties of officers.

Oleck, Howard L. Nonprofit Corporations, Organizations, and Associations, 4th ed. Englewood Cliffs, N.J.: Prentice-Hall, c1980.

The most comprehensive work available today covering all classes of nonprofit organizations, tax exemption, state laws and requirements, etc. Specific problems of 501©(7) organizations are not discussed enough due to the work's scope. The work also covers the other topics in this sources list beyond corporate operations alone.

Robert, Henry M. The Scott-Foresman Robert's Rules of Order Newly Revised by Sarah Corbin Robert with Henry M. Robert III, James W. Cleary, and William J. Evans. Glenview, Il.: Scott, Foresman and Co., c1981.

Latest revised edition of this parliamentary classic. Includes some surprisingly extensive discussion of voluntary societies, legislative conventions, constitution and bylaws, and other important matters. Good discussion of differences in parliamentary procedures between voluntary societies and legislative bodies. However, examples of minutes are inadequate for most corporate legal purposes.

Webster, George D. The Law of Associations: An Operating Legal Manual for Executives and Counsel. New York, N.Y.: M. Bender, 1971.

This manual covers legal aspects of all exempt organizations, although oriented more toward professional and trade associations.

HOUSING CORPORATION OPERATIONS MANUAL SERIES

PI KAPPA PHI FRATERNITY

III. Relations with the Student Chapter and the Campus

- A. Student chapter coordination
- B. Relationship with chapter and chapter advisors
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III. RELATIONS WITH THE STUDENT CHAPTER

A. Student Chapter Coordination

Every local housing corporation must coordinate its endeavors with the student chapter that it is created to assist. Coordination is usually accomplished through the student chapter officers, mainly by working directly with the corporation's officers on an ongoing basis.

The housing corporation sets goals and expectations for the chapter to meet. Generally, goals are established for a one year interval to be achieved during the coming academic year. A portion of the corporation's periodic regular board of directors' meetings are devoted to goals progress follow-up during the academic year. Visits and letters would be used as additional follow-up.

A policy followed in many locations is that the student chapter may operate with a reasonable latitude. Student members participating in their chapter should have the opportunity to develop leadership through practical operating experience. A housing corporation best facilitates that experience by guiding, not managing, chapter affairs.

It's recommended that the housing corporation officers meet with chapter officers, prior to the beginning of each academic year, to review responsibilities. The meeting's purpose should be to sign a new management agreement (a document discussed later in this manual), or to review and/or update an existing management agreement, with the student members who will be officers for the following

academic year.

It's also recommended that housing corporations have one or two student members serving as directors on the board. This enables the organizations to coordinate their efforts by direct participation, and helps prevent an "us versus them" mind frame from developing.

The "us versus them" problem can easily arise, leading to friction in the relationship. Both the corporation and chapter must take preventive steps. The housing corporation by its nature must be in a "landlord" position: establishing rent levels, collecting rent from the chapter, approving repairs, etc. In reality, however, the corporation is more of an advisory body than a landlord in the true sense. Its responsibilities go beyond those of a landlord, extending to such matters as establishing a reasonable resident occupancy level for budget purposes; monitoring the chapter's recruitment; and overseeing some aspects of chapter financial management.

For maximum effectiveness, the corporation's officers must:

1. Be accessible to the chapter officers. Geographical nearness of the corporation's top officers is most helpful. Merely having frequent board of directors' meetings is not enough. Informal communication between meetings is essential.
2. Advise, rather than control. Advising is most effective when done tactfully and

without undue criticism, with a cooperative attitude. An important part of the students' fraternity experience is learning responsibility by doing. At the same time, however, the corporation must not hesitate to eliminate the unacceptable when problems are experienced exceeding normal levels.

B. Relationship with Chapter and Chapter Advisors

The Chapter Advisory Committee is a body of individuals appointed by the National Fraternity's executive board. It has the day-to-day responsibility for coordinating with the student chapter. The Advisory Committee's responsibilities extend to all aspects of chapter operations. Like the housing corporation, the Advisory Committee consults with the chapter and assists to establish goals and monitor progress toward them. It also deals with special problems that may arise.

The Housing Corporation's responsibilities should be concentrated on housing related matters. For the sake of efficiency, the housing corporation and Advisory Committee should avoid duplicating the same work. In practice, however, the division of responsibilities can't be clearly separated. Both bodies will overlap in some areas; the challenge is determining which has primary responsibility for the specific work, and coordinating the efforts. Housing corporation officials should know that they do not have exclusive responsibility for coordinating with the student chapter. In practice, the housing corporation must spend as much time coordinating with the Chapter Advisory Committee as it does the student chapter Executive Committee. Advisors should be invited to attend board meetings.

Housing corporation officials also should be aware that Chapter Advisors are under the authority of the Area Governor and National Council. They aren't extensions of the housing corporation, just as the housing corporation is not an extension of the National Fraternity's executive board.

C. Relations with the University Administration, Greek Community

In the University administration, the Dean of Students and/or the officials having direct jurisdiction over Greek affairs make the decisions affecting the student chapter. The role of those officials is to help students and student organizations. It's important for the corporation's principal officers to personally know the official responsible for fraternity matters. Many times, these officials develop extensive experience in dealing with student organizations. They can provide

valuable insights on a chapter's strengths, weaknesses, why it may be an "invisible" chapter with no campus image, etc. They also can observe trends in organizations. They may notice an adverse trend that could be corrected, if caught early and acted upon by the Chapter Advisory Committee or the corporation's board of directors.

At most campuses, organizations or councils of fraternity advisors or housing corporation officers exist. Purposes which these groups serve can vary. The results that they achieve can range widely as well. However, they are useful for maintaining contact with alumni volunteers serving other fraternities and sororities, and with the Greek system at large.

COMMENT: Alumni of other organizations have proven to be important alternative information sources. For example, in one instance the alumni attending one of these meetings heard about changes in the university's Fall fraternity rush programming while the students members themselves missed the information.

One of the great ways of enhancing your chapter's visibility and prestige on campus is through its prominent involvement in campus and philanthropic projects. Not only can these projects perform worthwhile achievements in themselves, they enable the student chapter members to get out into the community and establish a positive chapter image. The positive impact is not limited to community or university relations alone, but also should extend to the chapter alumni as well. The Chapter Advisory Committee has direct responsibility for projects of this nature.

COMMENT: The advertising value of a major event to raise funds for the Fraternity's service project, PUSH America, can be tremendous if well conceived, planned and publicized.

D. Chapter House—Facility Administration

The housing corporation has the primary responsibility for planning and carrying out the chapter house maintenance, repairs, and improvements. The housing corporation should provide for such projects in its financial budget and allocate time and responsibilities at meetings and between them accordingly. The financial budgeting aspect is discussed further in Operations Manual IV—Financial Management and the Housing Investment.

An inspection of the chapter house and an inventory of its furniture, fixtures and equipment should be performed annually. The best time to do this is after the end of the Spring academic session, or following the Christmas break before school resumes. An

example of a furnishings and condition inventory is given in Sample 2 at the end of this manual.

COMMENT: A good method of getting the inventory accomplished quickly is to make up a checklist form in advance and have a group of five to ten people inventory the entire building in just an hour or so.

The inventory should examine items such as:

1. Sufficiency of rooms furnishings (bed frames, desks, dressers and mattresses) for the number of occupants
2. Routine replacements such as light bulbs, smoke detector batteries, fire extinguisher recharging, etc.
3. Routine preventive maintenance such as flushing out sediment accumulations in water heaters, etc.
4. Age and replacement need of any of the furnishings
5. Painting, carpeting, wall patching, etc. needs
6. Major repairs needs

E. Housing Corporation/Student Chapter Contract

A written agreement governing the chapter's use and occupancy of the chapter house is highly recommended. Working to put a written agreement together will compel the corporation and chapter to define their duties and responsibilities clearly. The financial obligations would be summarized in it, making the operations smoother.

Either of two alternative agreement forms could be used—a lease or a management agreement. In some respects a lease by itself is inappropriate because it doesn't deal with all aspects of the relationship between the housing corporation and the chapter. The management agreement sets out in writing the rules of operating the house and the responsibilities of the corporation and chapter. It can be used as a supplement to the lease between housing corporation and chapter or as a stand-alone agreement.

An example of such an agreement is provided in Sample 1 at the end of this manual.

F. Student Chapter Resident Member Contracts

Student members residing in our chapter houses should always sign contracts setting forth their financial obligations. This is important to protect the chapter and will indirectly help protect the corporation. The contract preferably should be between the individual student and the chapter. Duplicate originals of the contracts also should be filed with the housing corporation for additional safety.

COMMENT: Although it's possible to have each individual student member write a check to the housing corporation each month, it isn't recommended. It could result in the housing corporation officers having to stop by the chapter house daily to pursue collection of rents. It also may imply that the corporation is renting the house directly to the individual chapter members, which could expose the corporation to additional legal liabilities.

In some states, an un-incorporated association such as a student chapter may have to file registration of its "fictitious name" like a partnership or other non-corporate business not conducted under the name of an individual. Without this filing, housing contracts may not be enforceable by suit in court. But in other states, the fictitious name statutes only apply to for-profit businesses, and nonprofit entities are exempt. Before arranging for contract forms to be distributed by the chapter you should ascertain whether a fictitious name registration is required in your state, and if so, whether the chapter has filed it.

A standard housing contract form is published by the Fraternity's Administrative Office and is revised from time to time. To obtain a copy, write to the Administrative Office at the address indicated on the back page of this manual.

G. Delinquent Member Policies and Account Collections

Inevitably, chapters will experience delinquent member accounts. The first line of defense in dealing with such accounts has to be at the individual chapter officers level. Chapter officers, in particular the Treasurer, have primary responsibility for pursuing delinquent accounts. The second line of defense involves the chapter Executive Council and the Chapter Advisory Committee. Enforcement of the automatic suspension provisions in the Fraternity's Supreme Laws for delinquent accounts is presumed, and will not be discussed here.

The housing corporation also should have a member accounts collections policy adopted. The housing corporation would review the chapter's receivables position as part of the periodic board of directors' meetings. If the chapter officers and Chapter Advisory Committee are effective in controlling receivables, the review should be a mere formality.

The corporation must avoid having to collect an excessive number of delinquent accounts, where it is evident that the chapter Treasurer is ineffective in collections. The proper course of action in that case is to work with the Chapter Advisory Committee in obtaining a more capable Treasurer for the chapter, or

to add collection assistants on the Treasurer's Budget and Finance Committee. In extreme cases, the corporation may have to hire an independent accountant to help the chapter regain control over its funds.

Just as members living in the house must sign member contracts, members having delinquent accounts must sign a promissory note. The purpose of the promissory note is twofold: 1.) To set to writing a repayment plan that is agreed to by all; and 2.) To put the obligation in written form which is more easily accepted as evidence in court should the member default on his obligation. An additional incentive is that with a repayment plan in writing, the individual member is not "delinquent" within the meaning of the Supreme Laws, permitting the chapter to apply a status other than mandatory automatic suspension of all membership privileges.

A standard form of promissory note is published by the Fraternity's Administrative Office and is revised from time to time. To obtain a copy, write to the Administrative Office at the address shown on the last page of this manual.

The housing corporation may want to consider taking an assignment of the member contracts and/or member promissory notes for collection.

CAUTION! The practicality of the preceding may depend upon the peculiarities of court procedures in your state. For example: in California, small claims court can handle accounts up to \$1,000, but the party trying to effect collection must be original owner of the account; small claims court is not available to an assignee of the debt. That means in California an assignee would have to use Superior Court, hire an attorney, and endure a delay of several years for the case to come to trial.

H. Special Problems

1. **Student chapter recruitment/membership level problems**—An unexpected drop in student chapter membership is one of the most difficult problems that a housing corporation can face. In the more extreme cases the chapter will have severe financial problems. If the membership undergoes an unexpected drop, income from the members will be insufficient to cover some fixed costs. The problem's severity can vary; it can range from a slight budget reduction to facing foreclosure on the chapter house. The chapter that owns or leases housing is always very hard hit under these circumstances. Usually the drop is not anticipated. The reason for the poor performance is rarely obvious."

Housing corporation officers sometimes react with alarm and contact the Fraternity's Administrative Office, requesting "help". The corporation's officers must accurately understand the relationship with National Organization as it relates to such "emergency situations". Too often, locally based alumni members expect that a field services consultant can single-handedly put a chapter back on its feet in a week's time. This is woefully unrealistic.

COMMENT: The Administrative Office can't send staff people out on a moment's notice to deal directly with every problem situation. The staff schedule is heavily booked—it sometimes can take as long as several months to respond to assistance requests.

The National Organization exists to help the chapters help themselves. Its services consist providing basic practical advice on how to deal with problems based on extensive experience. But it can't "solve" the problems. In all cases, a field consultant's efforts will be of no help unless the local student and alumni members work to find out the cause of the problem, then develop a workable strategy to deal with it. The local people will have to do most of the work getting answers to the questions, and almost all of the work in dealing with the immediate situation.

The more serious the chapter's problem, the more immediate the attention need. While waiting for a field services consultant to appear on the scene, critical time could be allowed to slip by with no effective action.

The most important step the corporation's officers can take is to coordinate with the Chapter Advisor. They should get his view of the problem cause. Also, a call to the campus official in charge of fraternity affairs usually helps to develop an accurate picture of how the chapter performed relative to the other fraternities—a step that the chapter officers often neglect to take. Sometimes the chapter gets a feeling that "rush was down for every fraternity" when it's not the case; that belief can prevent them from looking for the real problem. Beyond that, the officers should keep in touch with the Administrative Office by telephone for additional assistance and coaching.

Many times an understanding of the problem is 50% of the solution process, and the solution steps can become obvious once the problem is understood.

2. **Chapter financial problems**—Those usually are based in financial mismanagement by the chapter's Treasurer. The cause is almost always either an unrealistic budget or simple lack of budget controls.

Beware of the chapter that claims it "can't pay its full amount of rent." This often means that the chapter has to apply all its funds to small bills that it considers important, like social expenses, while large unimportant ones like rent get paid "when they get around to it." The chapter must be made aware that the largest fixed cost, rent, is paid first, and other bills are paid in a hierarchy after that. A persistent payments problem usually means that a new chapter Treasurer is needed, or that the chapter as a whole has a serious responsibility problem.

The solution is to work with the Chapter Advisory Committee to determine the problem cause. Extreme steps could include placing the chapter's accounting with an outside firm.

[Sample 1]

MANAGEMENT AND OPERATING AGREEMENT

This agreement, by and between [insert name of housing corporation, e.g. Omega Omega of the Pi Kappa Phi Fraternity Housing Corporation, Inc.], hereinafter called the “Corporation”, and [insert name of chapter, e.g. Omega Omega] Chapter of the Pi Kappa Phi Fraternity, hereinafter called the “Chapter”, is made and entered into in duplicate this day of .

The parties to this agreement agree to perform the specific duties described below and will report to one another on a regular basis regarding the fulfillment, progress, and status of their respective operations in the context of the covenants of this agreement. Furthermore, the parties will from time to time meet to review the operations and this agreement at a mutually acceptable time and place. It is the responsibility of each party to notify the other of any situation in which problems are encountered in carrying out agreement responsibilities or their general operations.

This agreement shall not conflict with the articles of incorporation and bylaws of the Corporation, any lease presently in effect or which in the future may be enacted between the Corporation and the Chapter, or with requirements of any mortgage or deed of trust affecting property controlled by the Corporation and to be used by the Chapter.

The Corporation agrees to provide and perform the following:

1. Provide housing for the Chapter suitable for the purpose of conducting fraternity business, sleeping quarters, study facilities, and social activity quarters to the extent of budgetary constraints and financial feasibility.
2. Coordinate with the Chapter Advisory Committee in regard to advising Chapter officers on all phases of fraternity operations. Also to advise in particular on the management of a chapter house and the required financial responsibilities.
3. Coordinate with the Chapter Advisory Committee and the Chapter Historian to develop a complete alumni relations program, including ongoing program support, dues solicitation and periodic major fund raising.
4. To provide a comprehensive housing budget plan governing financial operations. This plan will be reviewed and re-adopted each year as part of the Corporation’s annual budget and will include provisions such as to provide reserves for long term repairs or chapter house acquisition (building fund), finance regular replacement of furniture and equipment that has undergone normal wear and tear (furniture fund), and for improvements to the chapter house and grounds (improvements fund).
5. To provide full insurance coverage on buildings if owned by the corporation and on all furniture, fixtures and equipment owned by the Corporation. The insurance will not cover the personal belongings of any member, or damage done willfully by any member or guest of a member. If a house mother is employed by the Corporation, to provide any workers’ compensation insurance coverage required under the laws of this state. The cost of the insurance coverage shall be amortized and repaid as a part of the Chapter’s rent payments.
6. To be responsible for all mortgage payments (on property owned by the Corporation) and for all lease payments (on property leased or rented by the Corporation), and for all property taxes including special assessments. However, the Corporation shall not be obligated to pay income taxes or other taxes of any nature that are assessed on the Chapter’s income or operations, if any. The Corporation shall pay income taxes if any assessed on its own income, and shall pay any employment taxes on employees paid by it, if any.
7. To pay for all necessary repairs the cost per single incident of which exceeds \$[fill in amount]. However, if the needed repair is the result of negligent or willful conduct of a member of the Chapter or a guest or invitee of same, then the Chapter shall make such repair without regard to cost.
8. To coordinate with Chapter officers to pursue collection of delinquent accounts of Chapter members, including the resolution of any disputes regarding member financial obligations.
9. To handle or pursue all disputes between the Chapter and another fraternity chapter, neighbor, or university officials. Also, to handle or pursue any disputes of a legal nature involving the house or grounds occupied by the

Chapter.

10. To conduct at least one meeting per year of the Corporation officers and the student Chapter officers and Chapter membership for the purpose of explaining the objectives and operations of the Corporation.

11. To solicit volunteers for the joint Audit Committee. The Committee shall review the books and records of the Corporation and Chapter each year for the purpose of expressing an opinion on the financial status as revealed therein, and for suggestions on improving the accounting and record-keeping systems.

The Chapter agrees to provide and perform the following:

1. To pay to the Corporation on the first day of each month all rents and other charges due.
2. To maintain the chapter house and grounds in good, orderly, and safe condition in accordance with the Maintenance Addendum [if applicable add: and Risk Audit Addendum] to this agreement.
3. To keep the Chapter's financial books in a businesslike manner and submit monthly financial reports to the Corporation. To set resident member charges at a level not less than charges of competing organizations for amenities of equivalent quality.
4. To submit materials needed by the Corporation for the production of alumni publications within the deadline periods prescribed by the Corporation.
5. To submit all required reports to the Administrative Office of the Fraternity within the deadline periods prescribed by same.
6. To develop a summary of needed repairs on an ongoing basis, and to present same in writing to the Corporation at least twice a year. To make and pay for all repairs the cost per single incident of which does not exceed the Corporation's reimbursement threshold as shown on the previous page. However, if the needed repair is the result of negligent or willful conduct of a member of the Chapter or a guest or invitee of same, then the Chapter shall make such repair without regard to cost.
7. To sponsor a major alumni function at least once each year to be coordinated with the Corporation. To sponsor social activities at the chapter house prior to and after each home football game.
8. To maintain an appropriation in a separate account to meet the expense of sending student Chapter delegates to Pi Kapp College and the Supreme Chapter.
9. To submit to the Corporation in March each year a complete written description of the recruitment plan for the coming academic year including Summer.
10. To require all resident members to sign contracts on a form approved by the Corporation, which shall set forth the financial obligations and other responsibilities of residency. A copy of each contract signed by the members shall be provided to the Treasurer of the Corporation.

This agreement has been adopted or ratified by the Corporation and Chapter according to the rules and regulations of each.

[Insert name of chapter, e.g. OMEGA OMEGA OF THE PI KAPPA PHI OMEGA OMEGA CHAPTER OF THE PI KAPPA PHI FRATERNITY]

President _____ Archon _____

Secretary _____ Secretary _____

Date signed _____ Date signed _____
[Sample 2]

FURNITURE AND EQUIPMENT INVENTORY
Sleeping/Study Rooms

ROOM NUMBER | |

Sleeping Occupancy

- a. Per occupancy rating: | |
- b. Per current use: | |

1.	Bed frame condition	Good	Replace	None
a.	Occupant 1			
b.	Occupant 2			
c.	Occupant 3			
d.	Occupant 4			
e.	TOTALS			
2.	Mattress condition	Good	Replace	None
a.	Occupant 1			
b.	Occupant 2			
c.	Occupant 3			
d.	Occupant 4			
e.	TOTALS			
3.	Desk condition	Good	Replace	None
a.	Occupant 1			
b.	Occupant 2			
c.	Occupant 3			
d.	Occupant 4			
e.	TOTALS			
4.	Dresser condition	Good	Replace	None
a.	Occupant 1			
b.	Occupant 2			
c.	Occupant 3			
d.	Occupant 4			
e.	TOTALS			
5.	Desk chair condition	Good	Replace	None
a.	Occupant 1			
b.	Occupant 2			
c.	Occupant 3			
d.	Occupant 4			
e.	TOTALS			

[NOTE: This is a general sample of an inventory for sleeping and study rooms. You should customize a form to reflect the layout characteristics of your own chapter house. Additional inventory sheets also should be made up for public areas furnishings and kitchen equipment.]

FACILITY CONDITION
All Rooms

ROOM NUMBER

	Good	Replace	Repair	Note
1. Door frame condition				
2. Door condition				
3. Door lock				
4. Walls condition				
5. Windows and sash				
6. Elec. lights, outlets condition				
7. Heat condition				
8. Ventilating fan(s)				
9. Showers, toilets, urinals, sinks				

REPAIR NOTES TO THE ABOVE (Check Repair, enter note number in rightmost box):

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.

HOUSING CORPORATION OPERATIONS MANUAL SERIES

PI KAPPA PHI FRATERNITY

- IV. Financial Management and the Housing Investment
 - A. Introduction
 - B. The local housing corporation—charity or fiduciary?
 - C. Budget policy and the Corporation's needs
 - D. Income and expense budgeting
 - E. Cash flow budgeting
 - F. Long term planning; tax planning
 - G. Annual budget meeting
 - H. Common budget questions and problems
 - I. Collections and chapter rent payments
 - J. Employees and employment taxes, workers' compensation
 - K. Financial reports, audit committee
 - L. Special problems

Appendix A - How to get the bucks you need for competitive housing

Appendix B - Books and records

Sample 3 - Housing corporation operating budget

Sample 4 - Housing corporation cash management budget

Appendix C - Tax exemption and the tax on investment income

Appendix D - Required filings: information returns, licenses, etc.

Appendix E - Budgeting Example

IV. FINANCIAL MANAGEMENT AND THE HOUSING INVESTMENT

A. Introduction

Many local housing corporations do a good job of basic administration of chapter housing—paying the insurance bill, reviewing proposed repairs, working with the chapter to review its finances and recruitment, etc. But an alarmingly large proportion don't have any long-term reserves budget or housing asset plan to enable financing of projects to occur years downstream.

What happens if the chapter house needs a \$12,000 roof repair? Suppose fire safety ordinances change, and the chapter house must undergo a \$30,000 up-grading or be condemned? It's the housing corporation's responsibility to be prepared for eventualities such as those.

Long term financial planning of chapter housing assets is the greatest single area of mismanagement in the fraternity world today. Most fraternity housing corporations price their member charges so low, and reinvest so little in maintaining their housing, that housing quality is in a tailspin. It's no wonder that the future of fraternity chapter housing is in doubt.

Student members only live in their chapter's housing for a few years. That's not a long enough term to notice progressive housing deterioration from years of insufficient reinvestment. But over the long term, the deterioration trend will correct itself. Those chapters with the lowest monthly charges (and the worst housing) also will have the lowest reserves levels. They will be the first chapters to close at their campuses in the years during which Greek system recruitment takes a downturn.

The purpose of this manual is to familiarize our members with the importance of these problems, and to provide the tools to deal with them.

B. The Local Housing Corporation—Charity or Fiduciary?

The housing corporation owns or leases the chapter house for the benefit of the fraternity and its members. In this regard, the corporation has the obligation of a fiduciary. The assets must be managed for the best interests of those for whom the corporation is acting, in this case its members. The fiduciary responsibility imposes an obligation of high standards on the corporation. Those acting for the housing

corporation, its officers and directors, must exert their best efforts to capably represent the members' interests in management of the assets.

The corporation must also concentrate on preserving the housing assets that are enjoyed today for the benefit of all members, including members of the future. The same standard of housing that the members enjoy today must continue to be made available in the future. This requires the corporation to set charges at a level higher than today's immediate cash outlay needs.

Chapter housing doesn't last forever. It must undergo regular maintenance, and be provided with periodic renovations. At some point, fifty or a hundred years downstream, new housing must be built. Where will the money come from? Could your local corporation write a check for two million dollars today to build a new chapter house? Probably not. How could it ever possibly gather that much money? Simple; long range planning is the answer.

These needs can create conflicts for the housing corporation. Some believe that the chapter house is like a charitable enterprise, and must be operated for the absolute minimum out-of-pocket cost to the resident members. That misimpression can be difficult to overcome. A budget line item called "Reserves" requires a sophisticated audience to understand. It requires an even more sophisticated and articulate housing corporation Treasurer to explain and to spearhead its approval. An astoundingly high proportion of local corporations lack even an awareness that reserves are a basic budgeting necessity. This is what the housing corporation's Treasurer must overcome.

Can the housing corporation sustain its fiduciary duty—to manage assets in the best interest of the members—if there is insufficient cash available to perform emergency maintenance, renovations, or the ultimate replacement of the chapter house?

The housing corporation's basic duty is to properly price rents based on the true cost of the chapter housing. The true cost of housing includes replacement reserves discussed in this manual. It requires charging rent to the student members not on the basis of the actual cash outlays needed to operate the chapter house, but instead by pricing rents based on prevailing charges for comparable student housing in the community. The reasoning behind that requires some complicated economics to explain. In brief, prevailing rents for comparable housing should reflect the charges needed to justify costs of new housing and not the outdated historic costs of depreciated old

housing. The corporation isn't concerned with measures that recapture the original housing cost—the building has to be replaced in the future, not the past. The difference over and above the actual required outlays should go into reserves holdings.

C. Budget Policy and the Corporation's Needs

The corporation must collect income and make disbursements in accordance with a budget. The budget is an expenditures plan, adopted by board of directors, so that each individual collection and expenditure does not have to be separately adopted by the board. Every housing corporation must have an operating budget. The process of developing the corporation's budget is not much different from that used for a student chapter. The major difference is the need to budget for long term reserves and management of reserves holdings.

D. Income and Expense Budgeting

Budgeting is the single most important function that the housing corporation's Treasurer performs. The budget development procedure is not complicated. However, it can be time consuming if the Treasurer's never done it before, or lacks certain records that could simplify the process. The necessary steps are as follows:

PREPARATORY STEP: Information gathering.

1. Locate a copy of the previous year's budget.
2. Find copy of chapter house lease and liability/contents insurance billing - or mortgage billing, liability/property insurance billing, and property tax bill.
3. Get the last year's expenditures record for other expenses that the housing corporation is obligated to reimburse/pay for.
4. Compute reserves needs based on replacement costs and/or factor in chapter building fund contributions.
5. Analyze last year's budget and expenditure records to verify that no expenses are missing (costs that the corporation should have paid for but didn't—state corporate registration renewal? Property tax bill? Business license? Etc.)
6. Determine the prevailing rent level for other student housing—comparable fraternities, campus apartments, and dormitories. Derive an average per-man per month rate for each of the three types of housing.

COMMENT: Be careful to convert all rates to the same comparison basis. This means to include only the rent component for the same level of service that your corporation is providing. An example would be to omit food service and social portions of dorm charges if the housing corporation is not paying for

similar programs included in rent. For apartments, an adjustment should be made to convert the per-unit rate to the per-occupant equivalent (if a two bedroom can hold four occupants, divide total rent by four.) Another adjustment is to add costs of typical per-resident utilities in apartment comparables if paid directly by residents and not included in monthly rent. Yet another adjustment factor is the number of operating months that the competing properties are open, if different than the chapter house.

STEP 1: Determine the operating expense categories.

1. Housing program costs:
 - a. Rent payments to owner of chapter house; liability/contents insurance
or -
Mortgage payments; Property taxes; Buildings/contents/liability insurance.
 - b. House mother/resident advisor.
 - c. Maintenance and repairs.
 - d. Furniture and equipment component of reserves.
 - e. Housing component of reserves (Building fund).
2. Social program costs:
 - a. Alumni publications.
 - b. Alumni social activities.
3. General and supporting expenses:
 - a. Postage, telephone.
 - b. Miscellaneous licenses and filing fees.
 - c. Convention delegates travel, etc.
 - d. Awards?

STEP 2: Determine total dollar outlays required in each expense category.

1. Compute estimated total cost for each line item based on prior year.
2. Make appropriate inflation/cost increase adjustment for each.
3. Include a “fudge factor” (a 5% extra margin to allow for the unforeseen, etc.)

STEP 3: Compute necessary income level.

1. Social program costs:
 - a. Alumni dues.
 - b. Student dues.
2. Housing program costs:
 - a. Take the “average market per-member level rent” determined above, multiply it by the total number of residents members and the number of income months and 90%.

STEP 4: Reconciliation—income available with expenses/outlays needs.

1. If income is higher than expenses:

This suggests that some expenses have been left out, or reserves needs were under-calculated. Check the numbers again.

2. If expenses are higher than income: Income is too low. Check the reserves numbers again. If they’re correct, income must be increased to cover expenses. Go back and calculate the per-man (per bed) rent level needed to cover those expenses. Check to see if the calculated rent is still in the realm of reasonableness, i.e. it’s higher than average, but not higher than the highest adjusted comparable. If so, use the calculated rent.

An example is provided of a budget developed using this procedure in Appendix E—Budgeting Example.

See Sample 3 in Appendix B—Books and Records for an example of an income and expense budget presentation format that could be used for adoption by a corporation’s board of directors.

E. Cash Flow Budgeting

A cash flow budget also must be prepared. This step would be used to make final adjustments the budget generated on an income and expense basis. It consists of a chart of estimated receipts by month, and a chart of estimated outlays by month. It should include reserves deposits to savings accounts or equivalents, and any other transactions which aren’t true expenses but which would reduce cash balances otherwise available to cover expenses.

The cash flow budget’s purpose is to predict problem months when available cash falls below minimum account balance levels—or, worse yet, below zero! The corporation may have had a cash loss the previous year which would impair its ability to pay bills as they come due. The cash flow budget would reveal that situation. Also, if the corporation simply has never had sufficient cash balances, the cash flow budget will reveal what they need to be.

COMMENT: The housing corporation should never draw down on long term reserves to solve a “temporary” cash flow problem.

It’s assumed that billing periods for routine items can be staggered to minimize obvious problems. However, if there will be insufficient cash available to pay the corporation’s bills as they come due, a budget adjustment will have to be made. Typically, this would be shown under the expenses side of the budget. It’s not really an expense, but it does represent funds not available for other expenditures that will have to be supplied out of income.

COMMENT: Under the laws of many states, a corporation that’s unable to pay its bills as they come

due is technically a **bankrupt**. Your corporation wants to avoid problems that could arise from this condition!

See Sample 4 in Appendix B—Books and Records for an example of a cash flow budget format.

If the cash flow budget reveals needed adjustments, the income and expense budget also will have to be adjusted. The “expense” amount and necessary income increase should be factored into the income and expense budget.

COMMENT: Because adjustments made due to cash flow needs are imperative to the corporation’s survival, i.e. to avoid a state of technical bankruptcy, there is no need to repeat the reconciliation step shown under income and expense budgeting procedures. Affordability is not an issue.

F. Long Term Planning; Income Tax Planning

For chapters that own or rent real estate (whether a traditional fraternity house, lodge, or storefront), reserves are a major part of financial planning. Reserves are cash accumulations held as short and medium term investments. Two purposes are served by reserves. The first purpose is to provide funding at some point in the future for regular replacements of furnishings, periodic major rehabilitation, and ultimate replacement of the facility itself. The second is to serve as a survival fund to save the chapter in a dire emergency.

The following simplified example shows how to compute reserves needs. It’s for a case where a local housing corporation owns a chapter house and has full responsibility for the house and furnishings.

METHOD1: **Capital requirements.** Based on total capital requirements for financing replacement of furniture and building over their useful lives. The breakdown is as follows:

Rooms Furnishings Analysis:

Bed—mattress (ea.)	\$	120
Bed—frame		40
Desk (ea.)		130
Dresser (ea.)		100
Subtotal	\$	390
	times 40 resident student members x 40	
Total	\$	15,600

Assume that the typical replacement cycle averages 7 years.

Annual reserves deposit: $\$15,600 / 7 = \$ 2,230$

Public Areas Furnishings Analysis:

Living room furniture (total)	\$	5,000
Dining room furniture (total)		10,000
Kitchen equipment (total)		5,000
Total		20,000

Assume that the typical replacement cycle averages 10 years.

Annual reserves deposit: $\$20,000 / 10 = \$ 2,000$

Building Components Replacements Analysis:

Building component replacements also will have to be provided for in reserves calculations. Components in this category are major items such as a new roof surfacing (typically a 10 year life), new water heater (10 to 15 year life), new floor pans for showers (10 to 20 year life), and new paving for automobile parking lots (10 to 25 years). Also, what about linoleum replacement? Carpeting? It’s easy to see that these costs, spread out over time, can easily average \$3,000 to \$6,000 per year. To estimate these costs very closely requires totaling all components that need

periodic replacement, estimating the remaining life of each, and computing the deposits to reserves accounts needed until replacement year.

Chapter House Replacement Analysis:

Ultimately, even though individual components can be replaced, there will come a time when the basic structure of the chapter house must be replaced. Computing reserves for house replacement is difficult. A 75 to 90 year replacement life must be used, starting from the **current full replacement value** for the chapter house. Construction cost inflation over the

remaining life must be considered, as well as after-tax interest earned on the reserves accumulated until the replacement year. The computation involves very complex cash flows analysis as payments on acquisition loans and costs of periodic rehabilitation must be deducted. Although chapter house replacement must be provided for in the overall reserves policy, its calculation is too complex to review in this manual.

costs and changes in prevailing rents for comparable housing.

METHOD 2: Emergency needs. What would it take for your chapter to carry itself on half its normal membership level for five years if there were an unavoidable external disaster such as another Great Depression? A method for calculating this could be as follows:

The budgeted reserves appropriation must be the sum of the components described above. The budget has to be adjusted each year to reflect then-prevailing

Annual rent per budget	\$	42,600
Divided by 2	=	21,300
Times 5		x 5
Reserves needed		106,500

Method 2 shows merely a “comfort level” for the reserves accumulation. Emergency needs is not a true budget purpose, but only an alternative measure of the corporation’s capital requirements in a downside environment rather than the presumed normal situation.

problem is over.” In this type of situation, the problem usually isn’t over until the reserves are completely dissipated.

These problems raise some issues of business liability and chapter relations that are not easily resolved.

Two additional dimensions must be considered in reserves planning. They don’t affect dollar amounts so much as they affect the form and structuring in which the reserves are held. The first consideration is income tax planning. That subject is discussed separately in Appendix C—Tax Exemption and Tax on Investment Income.

The second is the psychological impact on the student chapter. Existence of substantial reserves could give the students a possible motivation problem. This could result in an irresponsible attitude.

COMMENT: Why should they work hard and recruit new members in order to pay full rent on the chapter house? The housing corporation has extensive reserves, and could be compelled to fund costs it couldn’t cover due to rent deficits no matter how few members remain. The problem also could result in a “contrived emergency” to the same end. This situation would begin with a “faultless mistake” on the part of the chapter—such as poor recruitment results purportedly due to inexperienced officers, etc.—but is in fact not faultless because it was purposely created. Of course, the chapter will apply to the housing corporation for a deficit subsidy “until the

G. Annual Budget Meeting

The annual budget meeting should be held that combines both the housing corporation and chapter representatives. The purpose is to enable the housing corporation and student chapter to compare notes on next year's budgets so that both organizations will avoid "surprises." The housing corporation Treasurer and President, Chapter Advisor, student chapter Treasurer and Archon should attend, together with the assistants of each. The budgets of both organizations then should mesh with no problems. The student chapter officers would gain a better understanding of the housing corporation's view of budget priorities and needs.

The chapter's budget must be based on the rent that the housing corporation charges, making the chapter's budget contingent on the corporation's. The housing corporation Treasurer must do his homework in advance of the budget meeting so that the corporation's draft budget already is prepared.

H. Common Budget Questions and Problems

The housing corporation's Treasurer almost certainly will be confronted with sticky questions or problem situations. Common examples are the following:

1. The chapter's rent should be in proportion to how much wear and tear is put on the chapter house. Why don't we make the chapter's rent calculated as a fixed amount for each member actually living there? There's no budget problem with this idea if you imagine the chapter house filled to its break-even budget occupancy, or overfilled up to capacity. But suppose the house is only half full? The chapter would be paying about half its normal rent level. Could the corporation's fixed costs be covered? Consider a greater problem yet—if the chapter members know that each member will pay the same rent no matter how few are living there, what's their incentive to recruit? Because rent adjusts downward as occupancy goes down, the members have no pressure on their pocketbooks to recruit new members and restore their budget.

Experience has proven that this is a guaranteed formula to eliminate chapter recruitment. The housing corporation can't use that method of calculating rent. Alumni can't go out and recruit more students to join the chapter if the student members won't. The incentive to recruit has to be with the people who can do something about it—the student members themselves.

The best method for motivating them is to have a fixed rent level. If it can be shown that their budget

will be comfortable at a break even occupancy, it should be easy to show that filling to capacity should produce an excess cash flow. The prospect of an excess cash flow available to improve programs should be a strong incentive. On the downside, the prospect of a higher house bill due to a below-capacity house may persuade them to recruit more men.

2. Which of the following monthly outlays is not an operating cost and should not be used by itself in computing the corporation's income and expense budget?

- a. Property taxes
- b. Mortgage payment
- c. Insurance
- d. Business license fee

The mortgage payment is the correct answer. The mortgage payment isn't a cost of operations, it's a financing cost. It has no relationship to the current replacement cost of the building. Reserves deposits (the difference between the true cost of the property and the mortgage payment) is the missing component. The corporation's budget should be generating income sufficient to cover the mortgage payment plus some to put into the reserves holdings as well.

3. If the mortgage on the chapter house is paid off, by how much will the chapter's rent go down? It shouldn't go down any, since as discussed above a mortgage payment isn't a relevant measure in determining the true costs of operations that must be sustained. If there's no mortgage, the reserves deposits are very large!

4. What do you mean there's no money to spend for that? There's \$3,000 in the checking account. Obviously there is money. Let's spend it as proposed. There's a misunderstanding here. There may be \$3,000 in the checking account, but if there's no provision for the proposed expenditure in the budget then there's no money.

The budget is the corporation's expenditure plan for the entire fiscal year. All funds to be collected for the remainder of the year have essentially already been spent. Any cash balance on hand is either necessary operating balances (cash needed to satisfy the bank's minimum balance requirement, etc.) or else it is money that already is spent on something else per the budget, although the bill simply hasn't been paid yet.

The proper way to motion for an un-budgeted expenditure is to provide for an income increase (such as boosting member charges or an assessment) or

provide for an equivalent expenditure decrease in another budget area (budget cut).

5. I move that we spend \$WWWW for XXXX. A point of order should immediately be raised that this motion is out of order. It is incomplete because no funding source is specified. Do not let this sort of motion slide by. You'd be amazed at how often that discussing the funding source reveals that there is none.

To be in order, a motion must also increase income or else decrease another expense in order to fund the added expense.

6. What do you mean we have a cash flow problem? Let's use our reserves to pay our bills until we get the regular income in. The corporation's reserves are for dire emergencies where the chapter's survival is at stake. If there's a "temporary" cash flow problem, another "temporary" type of solution should be used rather than draw down on reserves. If the problem is less "temporary" than would permit this strategy, it suggests that the budget is too tight; the basic rent charges level likely should be increased to overcome the problem.

7. Why do the chapter members have to contribute to a "building fund" when we don't even have a house? It seems to me that we here would be paying extra so that somebody else in the future would benefit. The answer is: 1.) Commercial real estate normally is bought or built with a major down payment of at least 20% to 30% of purchase price; 2.) Down payments are, by definition, cash equity and not borrowed funds; 3.) Alumni contributions count for only a small portion of funds that could be expected to go toward a housing purchase (if the chapter is less than 20 years old, they virtually could be ignored); 4.) Alumni members will not contribute to something that the students themselves do not believe in enough to commit \$5 or \$10 per month of their own money; and 5.) Alumni members will not contribute to a building fund project that was ignored for years and suddenly began being funded by the students a few months ago (a short-term interest).

A building fund contribution program is a cost of membership (it is to build a better fraternity—to ensure that the chapter that the members enjoy today will exist in the future for them to return to as alumni members). It is not a housing cost, at least not until a house is acquired.

COMMENT: It's unlikely that you'll be asked this question as bluntly as stated above, but it's extremely important that you recognize its essence when expressed in a much more innocuous or vague form.

The key thoughts in the question focus on increased outlays by the student members today, for housing benefits at an indefinite time in the future. In whatever form the question is heard, it **must be answered decisively**. You may be hearing a vague or innocuous question, but the student members are interpreting it as the version written above instead.

I. Collections and Chapter Rent Payments

The housing corporation must have a standard payment and collections policy. The Chapter **must pay on time** and this **must be enforced** so that it becomes a habit.

The collections policy must have motivating force. There must be a penalty for late payments. (Of course, there also could be a discount for early payments, provided that the corporation could sustain the loss of income resulting from the discounts).

J. Employees and Employment Taxes, Workers' Compensation Insurance

Due to a peculiar problem with Federal minimum wage laws, it's recommended that certain employees be compensated by the housing corporation and not the chapter. These employees are any who are residents of the property, such as house mothers, graduate resident advisors, and the like, who receive housing benefits as a part of their compensation.

A student chapter is part of a national organization and may be engaging in "interstate commerce," bringing Federal minimum wage guidelines into play for its own employees. Resident employees have to be paid minimum wage for the entire time that they conceivably could be performing their duties. Cooks and other employees that come on to the premises and leave when their work is done are not affected by this problem. For the resident employees that means Federal guidelines could require payment for twenty-four hours a day, seven days a week. If the minimum wage is \$5.15 per hour, the employee must be paid \$3,460.80 per month!

A housing corporation is incorporated under state laws and is purely local in nature. The Federal minimum wage guideline does not apply (although state minimums could if any).

With an employee payroll, the corporation also would become subject to payment of employment taxes (Federal, state, and if applicable local). Workers' Compensation insurance also would have to be obtained.

K. Financial Reports and Audit Committee

The housing corporation Treasurer's duties includes the responsibility to present financial reports to the

corporation's members. Presentation typically is done at the annual members meeting.

The Treasurer must also be responsible for filing for the local business license if required, and if applicable, filing the corporation's information and tax returns (Form 990 and/or 990-T, plus any required state forms).

Duties also may include filings required to maintain corporate status in good standing. As discussed in Operations Manual II—How a Corporation Operates, virtually every state's Secretary of State or Department of Corporations requires a filing to be made by corporations. The time frame differs by state from annually to every five years. The statement name also will vary from state to state; it may be called a Corporate Registration Statement, Statement by Domestic Nonprofit Corporation, Annual Report, or other name. Even the statement function may vary. However, it can be distinguished by one important effect—failure to file it within a required time period can lead to substantial monetary penalties or may result in suspension or revocation of the corporate charter.

The filing duty should be assigned to the corporation's Secretary or Treasurer, depending on nature of statement content. Filing requirement compliance should be verified by the Board of Directors at the Annual Meeting.

L. Special Problems

1. Failure to file Federal Information Returns (Form 990)-- A problem that too many of our housing corporations discover is that a Treasurer failed to file a Form 990-- Return of Organization Exempt from Income Tax. The Internal Revenue Service gives no notice that a return is due or overdue. If the IRS receives one filed late it will quickly mail out a billing for late filing penalties. If one is not received at all, the reaction is more subtle. The Internal Revenue Service waits nine to twelve months after the due date and then sends a bill for late filing penalties at a rate of \$10 per day late.

COMMENT: The bill for \$3,000 or more usually obtains the corporation's attention!

There are reasonable causes that the Internal Revenue Service has accepted for waiving the late filing penalties for Form 990. These include:

- a. The organization's income and assets were below the threshold levels requiring filing (at this writing \$25,000 for both) (No return was due.)
- b. Due to officer changes (possibly including

mailing address changes for the corporation) with a new and un-acknowledging officer inheriting responsibility, the return couldn't be filed on time. (May not apply if unrelated business income in excess of \$1,000 was earned in the year, or if the officer in charge of filing the return was a paid full-time employee.)

- c. The return was inexplicably delayed or lost in the mail. (The lost copies must be replaced with new copies of all return and schedule documents from file photocopies—which must be legibly dated before the due date; the signature may have to be re-signed by hand, however.)
- d. The Internal Revenue Service was requested to send blank forms well before the filing due date, but were never received (probably not valid for more than a temporary delay).
- e. Death or unavoidable absence or serious illness occurred of the officer responsible for filing the return, or death or serious illness of someone in that person's immediate family. (Again, probably not valid for more than a temporary delay.)
- f. Necessary accounting or other records needed to file the return couldn't be obtained. (Again, probably not valid for more than a temporary delay.)

2. Failure to file Federal income tax (Form 990-T) or other tax returns—Tax returns that the corporation must file consist of employment taxes and unrelated business income tax on investment income, if applicable. Employment tax returns would be due only if the corporation has any employees such as a house mother, graduate resident advisor, etc. Unrelated business income tax returns would be due only if the corporation has significant amounts of investment income or income from sources other than its members. (All of these situations are described in more detail in Appendix D—Required Filings.) These returns, if applicable, must be filed in a timely manner. Reasons excusing payment of penalties are not as liberal as in the case of failing to file information returns!

3. Failure to file required state annual reports or returns—Many states require filing of exempt organization information returns and/or unrelated business income tax returns similar to those required by federal law. Filing requirements differ, and penalties for failure to file appear in many cases to be substantial, but not necessarily identical to those applicable to equivalent Federal returns. Problems

relating to failure to file such returns vary greatly from state to state and are beyond the scope of this manual.

4. **Investment income; non-member income; income from sale of a chapter house**—The basic rule is that all income not member-derived in origin is taxable, including all investment income. If total nonmember income (including investment interest and dividends), less expenses directly related to producing the income, exceeds \$1000 in a fiscal year the excess is taxable.

Investment income and associated income taxes are a normal and ordinary consequence of a housing corporation's operations; they are not a "special problem" but instead are reviewed in Appendix C—Tax Exemption. This section will only deal with other types of nonmember income. These would be from an active trade or business, or from sale of property such as a chapter house. Usually the only income in this category would be from sources such as renting a chapter house to nonmembers, or admission charges to a function attended by the general public.

Nonmember income resulting from an active trade or business cannot exceed 15% of the corporation's gross income for the fiscal year (the "15% rule"). If it does, the corporation's tax exemption is revoked for that year—imposing tax on the corporation's member income as well. The set-aside deduction available to offset investment income (discussed in Appendix C) does not apply to "active" business income. The charitable, educational, etc. deduction (provided in section 170©(4) of the Internal Revenue Code) of up to 10% of the taxable income can be employed, however (also discussed in Appendix C).

The sale of a chapter house is a special case. The "gain" on any sale is ordinarily subject to tax, except as noted below.

CAUTION! Federal tax treatment of gain on sale of a chapter house formerly was specified in a proposed Treasury Regulation that covered all aspects of unrelated business income tax of 501©(7) organizations. The regulation was withdrawn in early 1987. It appears to have been withdrawn because a new proposed regulation is to be announced. At this writing, however, the new regulation has not yet been published. Gain-on-sale provisions in the new regulation are not viewed as likely for drastic change, but be alert for announcement of the new regulation. The following will comment briefly on treatment under the former proposed regulation.

The gain is calculated as the amount by which the

sales price of the old property exceeded its purchase price plus certain other costs. The computation of the tax basis is very similar to the steps that an individual homeowner would take in calculating the tax basis of his home. (Discussion of how to record the original purchase price and adjustments to it is discussed in Appendix B—Books and Records.) A one-time sale is typically an unusual event and the IRS will not include the gain in applying the 15% rule to the year's income for testing the corporation's exempt status.

The tax on the gain may be postponed or avoided with one of the following alternatives:

- a. A replacement property of equal or greater cost is purchased in the time frame from 1 year before to 3 years after the sale. If a replacement property is not bought within the time limit the gain is subject to tax.
 - b. The gain is appropriated as a set-aside and the set-aside deduction taken (discussed in Appendix C) on Form 990-T within the permitted time period ending four and one-half months after the end of the fiscal year in which the sale occurred, or the third subsequent fiscal year following the sale if another property was actively sought but never obtained.
5. **Corporation will have no income (is inactive or whatever)**-- This unexpected problem can come as a dramatic surprise when it arises. This situation could be a problem from two standpoints:
- a. Suppose that the corporation will cease to have any exempt function income from normal operations. Suppose that the only income that's left is income from investments. (**Problem:** 100% of the income will be investment income. The corporation's investment income will exceed the 35% rule. **Solution:** If the inactivity will be short-term (definitely two years or less), see Appendix C, under Tax Management Pointers. Otherwise see section 4 below.)
 - b. Suppose that the corporation ceases to have income of any sort. (**Problem:** Most states require that nonprofit corporations, as well as business corporations, operate and have some financial income as a prerequisite of retaining their charters. No income for a period of as little as two consecutive years could mean suspension or revocation of the charter. The severity of this problem will vary from state to state. **Solution:** If the inactivity will be short-term (definitely two years or less), the board of directors must

keep active and meet regularly. Conduct social events for the chapter alumni and continue to collect dues and social event charges which would be reflected on the books as income. For longer possible inactivity, see section 4 below.)

6. Corporation will become inactive for an indefinite or long time period—If the inactivity is likely to be long term or is indefinite, the corporation is going to have problems. Potential income tax problems will reach a stage of insolvency. Keeping control of the assets—and ensuring that they continue to be used for the fraternal purposes to which they are dedicated—also is a very real problem. The corporation must distribute any remaining assets to the National Organization and proceed to become dormant or dissolve.

COMMENT: In our experience, the corporation will begin having continuity problems with the directors and officers after one or two inactive years. In the past this has resulted in bank accounts and other assets being “misplaced” due to turnover of officers, irretrievably to be taken over by state agencies that monitor exempt organizations or lost property. This must not be allowed. Transfer of the assets to the National Organization keeps them working for the benefit of the Fraternity.

ADDITIONAL REFERENCES

American Institute of Certified Public Accountants. Audits of Certain Nonprofit Organizations. (Includes Statement of Position 78-10, Accounting Principles and Reporting Practices for Certain Nonprofit Organizations.) New York, NY: American Institute of Certified Public Accountants, c1981.

Covers accounting principles and financial statement and other practices to be used by certain classes of nonprofit organizations. A few examples are given of social club-type organizations, although they don't use any fraternity-related ones. Content is very general, concentrating on broad principles rather than implementation-ready examples. This makes for slow reading for non-accountants.

Commerce Clearing House, Inc. Exempt Organization Reports. Chicago, Ill.: Commerce Clearing House, Inc. [loose leaf pub.].

This update service covers new developments affecting exempt status, tax treatment, and other

aspects of exempt organizations originating with Federal legislation. Technical material.

Commerce Clearing House, Inc. Standard Federal Tax Reports. Chicago, Ill.: Commerce Clearing House, Inc. [loose leaf pub.].

This annual update service presents the Internal Revenue Code, the Treasury Regulations associated with those code sections, plus an analysis and reference to tax cases. Highly technical and tedious reading.

Commerce Clearing House, Inc. IRS Letter Rulings Reports. Chicago, Ill.: Commerce Clearing House, Inc. [loose leaf pub.].

This service reprints “sanitized” versions of private letter rulings issued by the IRS. Letters are published in a random order. The indexing system is inconvenient; the reader must figure out a complicated system to locate letters on the topics sought. These ruling letters don't have wide applicability (every case is different), but sometimes will turn up rulings that may be relevant to a reader's own situation.

Desiderio, Robert J. Planning Tax Exempt Organizations. Colorado Springs, Co.: Shepard's/McGraw-Hill, c1983.

A good analytical work that reviews tax exemption and unrelated business income tax aspects of exempt organizations. “Set-aside” income is discussed. Good section on dealing with IRS audits.

Galloway, Joseph. The Unrelated Business Income Tax. New York, N.Y.: Wiley, c1982.

Good text discussing unrelated business income tax affecting nonprofit organizations. One chapter covers section 501(c)(7) organizations better than most other works, including nonmember income, set-asides, and tax-deferred rollover of gain on sale of real estate.

Godfrey, Howard. Handbook on Tax Exempt Organizations. Englewood Cliffs, NJ: Prentice-Hall, c1983.

Covers all aspects of tax exempt organizations. Strongest sections deal with IRS audits, and subsidiaries and support organizations.

Lashbrooke, E. C., Jr. Tax Exempt Organizations. Westport, Cn.: Quorum Books, c1985.

Another good general work on exempt organizations. Covers a wide range of subjects including meetings, quorums, and other corporate matters, tax exemption, filings, unrelated business income tax, etc. Many common matters are listed in tables by state for quick

reference. For example, a chart on p. 199 lists the states that tax unrelated business income (as of 1985) and the applicable state tax statutes.

Oleck, Howard L. *Nonprofit Corporations, Organizations, and Associations*, 4th ed. Englewood Cliffs, NJ: Prentice-Hall, c1980.

The most comprehensive work available today covering all classes of nonprofit organizations, tax exemption, state laws and requirements, etc. Specific problems of 501©(7) organizations are not discussed enough due to the work's scope.

Prentice-Hall. *Prentice-Hall Federal Taxes*. Englewood Cliffs, NJ: Prentice-Hall. [loose leaf pub.].

See comment under Comm. Clearing House Standard Federal Tax Reporter.

U. S. Department of the Treasury, Internal Revenue Service. *Internal Revenue Cumulative Bulletin*. Washington, DC: Government Printing Office. [annual].

Reference series in which revenue rulings and procedures are published. Another publication in which items are published in a random order. Not browsing material; use only if you have a specific ruling that you need to read.

U. S. Department of the Treasury, Internal Revenue Service. *Tax Exempt Status for Your Organization*. Publication 557. Washington, DC: Government Printing Office, [irregularly updated].

U. S. Department of the Treasury, Internal Revenue Service. *Tax on Unrelated Business Income of Exempt Organizations*. Publication 598. Washington, DC: Government Printing Office, [irregularly updated].

The preceding two are free Internal Revenue Service publications that can be ordered from the same IRS telephone number where ordinary income tax forms are ordered. The IRS might be expected to describe tax exemption and unrelated business income tax matters explicitly, but these fail to do so. The circulars try to cover all the different types of nonprofit organizations with the same text, which makes them very general and difficult to apply to specific situations. Many public libraries also carry these circulars in a multiple volume annual publication that includes tax forms and other IRS publications.

U. S. Department of the Treasury, Internal Revenue Service. *Circular E: Employer's Tax Guide*. Publication 15. Washington, DC: Government

Printing Office, [irregularly updated].

U. S. Department of the Treasury, Internal Revenue Service. *Employment Taxes*. Publication 539. Washington, DC: Government Printing Office, [irregularly updated].

More free Internal Revenue Service publications that can be ordered. These are the basic employment tax guides that define the taxes applicable to specific classes of employees, the tax reporting returns, etc.

U. S. Department of the Treasury, Internal Revenue Service. *Depreciation*. Publication 534. Washington, DC: Government Printing Office, [irregularly updated].

U. S. Department of the Treasury, Internal Revenue Service. *Business Expenses*. Publication 535. Washington, DC: Government Printing Office, [irregularly updated].

Still more free Internal Revenue Service publications. These cover depreciation (pub. 534) and amortization (pub. 535) expenses from the Federal tax standpoint.

U. S. Department of the Treasury, Internal Revenue Service. *Information for Business Taxpayers (Business Taxes, Identification Numbers, Record keeping)*. Publication 583. Washington, DC: Government Printing Office, [irregularly updated].

Yet another free Internal Revenue Service publication. The publication provides a good nutshell description (with examples) of record keeping systems, and additionally covers employment taxes that a local corporation would have to pay if it has employees.

APPENDIX A

How to Get the Bucks You Need for Competitive Housing HOW TO GET THE BUCKS YOU NEED FOR COMPETITIVE HOUSING

A. Scope of the Typical Chapter Housing Need

In the usual case, a newly colonized or recolonized chapter needs to buy a chapter housing facility. The problem is *where to get the money?* Because of financial limitations that frequently apply, the question usually becomes what kind of housing, and how much money to spend for it? Some of our chapters have to endure noncompetitive housing because of financial limitations.

In the rarer example, the chapter has been established for a long time. It's financially strong, and is seeking to *build a new house* to move into pre-eminent status on campus. How can it possibly embark on a program that may cost over a million dollars?

Most local housing corporations can't come to grips with a realistic savings plan that will solve the financing problem. The solution isn't difficult—a large part of the problem is a simple lack of any examples to follow as almost no other type of real estate ownership has the same problems as does fraternity housing.

Almost every student chapter and housing corporation struggles and searches for an alternative to having to save money from operations as a source of housing financing. *The result is always wasted time* and a chapter that makes no headway in solving its housing problem.

There are no alternatives for the chapter that will be successfully housed. *Every chapter that has housing achieved their results in large part through managing their finances and saving money.* You can do it, too.

B. Sources of Funds

A common error that local housing corporations make is to plan on "fund raising from our alumni" to generate all their housing money. Experience has shown that this is unrealistic. Fund raising isn't the way to get all the needed cash for a housing down payment or construction budget. Reasons are:

1. Commercial real estate is normally bought or built with a major down payment of at least 20% to 30% of purchase price;
2. Down payments are, by definition, cash equity and not borrowed funds;
3. Alumni contributions count for only a

small portion of funds that could be expected to go toward a housing purchase (if the chapter is less than 20 years old, they virtually could be ignored);

4. Alumni members will not contribute to something that the students themselves do not believe in enough to commit \$5 or \$10 per month of their own money; and

5. Alumni members will not contribute to a building fund project that was ignored for years and suddenly began being funded by the students a few months ago (a short-term interest).

Fund raising can sometimes be counted on for a portion of the need, but never all of it. To attract contributions, the prospective contributors must be made aware that 1) a large group of other people also believe in the project, and 2) they aren't the first to contribute but are joining an effort that already has achieved some success as shown by contributions already received. A building fund or other internal savings program must be used to "seed" any prospective fund raising. The building fund program must be counted on to assemble a large part of the need. The fund should accumulate \$10,000 at a minimum, and the realistic goal is no less than half of the total financial need.

A building fund contribution program is a cost of membership (it is to build a better fraternity—to ensure that the chapter that the members enjoy today will exist in the future for them to return to as alumni members.) It is not a housing cost, at least not until a house is acquired.

C. Develop a Financing Plan

To be successful in financing a housing acquisition or construction, the board of directors must develop a long range financing plan. *Every fraternity chapter that acquired housing has done so!* The steps are:

1. Compute the local corporation's long term financial target. This is easy. How much did the most expensive chapter house at campus cost? (The sales price of a used chapter house if the chapter has none; construction cost of a new one if your corporation is seeking to upgrade.) Costs must be from within the last five years to

be meaningful—if older, substantial upward adjustment may be necessary.

2. **Sell the financial plan.** The board of directors must approve the plan's annual appropriation as a budget component (adding it to the budget for the first year will be the most difficult politically). There are no shortcuts or easy outs on this one—it's one of the toughest projects that a housing corporation Treasurer can

tackle.

3. **Save money on a long-term savings plan.** Establish a savings plan using building fund dues or some other vehicle at the rate of \$10 per man per month for housed chapters; \$5 per man per month for un-housed.

4. **Invest the proceeds.** Tax plan. Revise the budget annually. Keep accumulating until the corporation reaches its financial goals.

APPENDIX B

Books and Records BOOKS AND RECORDS

A. Receipts and Disbursements

Every Treasurer should be familiar with the nature and use of a standard receipt book and checkbook for commercial bank accounts. These will not be reviewed here, but are mentioned as necessary components of the corporation's accounting system.

B. Transactions Records

Some type of general ledger record is needed. Typically, cash receipts and disbursements constitute the majority of entries that must be recorded. A journal format could be used for a small corporation with minimal fixed assets or no depreciation.

C. Employee Payroll Records

These are records of pay and deductions, together with files for copies of employment tax returns, workers' compensation policies, etc.

D. Depreciation Records

A corporation that owns a chapter house and/or owns furniture and equipment for chapter use should maintain a depreciation record for each class of assets. This includes leasehold improvement assets which are amortized rather than depreciated. To simplify record keeping, the depreciation record should be oriented to provide depreciation data consistent with IRS requirements. For further information on these, see the instructions for Form 4562 and IRS Publication 534, Depreciation and/or Publication 535, Business Expenses (for section on amortization).

E. Special Record—Income Tax Basis of Real Estate Assets

The housing corporation must keep a special record of the original cost of purchasing a chapter house it owns. The record is required in order to establish the amount of gain should the property later be sold.

CAUTION! Federal tax treatment of gain on sale of a chapter house formerly was specified in a proposed Treasury Regulation that covered all aspects of

unrelated business income tax of 501©(7) organizations. The regulation was withdrawn in early 1987. It appears to have been withdrawn because a new proposed regulation is to be announced. At this writing, however, the new regulation has not yet been published. The gain-on-sale provisions in the new regulation are not viewed as likely for drastic change, but be alert for announcement of the new regulation. The following will comment briefly on records needed relating to treatment under the former proposed regulation.

The term "cost of purchase" includes original purchase price plus all capitalized improvements (but not repairs or ordinary maintenance). Some of the closing costs necessary to make the purchase also are capitalized into the tax basis.

If the chapter house should be sold, any "gain" (the difference between the sales price of the property less the tax basis) would be subject to unrelated business income tax with some exceptions. Refer to the Special Problems section of the main text in this manual for further information.

The chapter house tax basis record must be a part of the corporation's permanent records.

F. Miscellaneous Permanent Records

The corporation's permanent financial records also should include an original copy of the following documents:

1. The (latest) Federal income tax exemption application
2. The Notice of assignment of Employer Identifier
3. The Federal tax exemption letter
4. (If applicable,) the state income tax exemption application
5. The state tax exemption letter

[Sample 3]

[Housing Corporation Operating Budget]

OMEGA OMEGA OF THE PI KAPPA PHI FRATERNITY HOUSING CORPORATION

Income and Expense Budget for Fiscal Year July 1, 19XX to June 30, 19YY.

Income

Housing Operations:

Rent ¹

Social Operations:

Alumni dues ²

Student dues ³

Operating contributions ⁴

Social event charges

Investments: ⁵

Interest

Dividends

Expenses, Acquisitions, Appropriations

Housing Operations:

Mortgage payments

Maintenance and repairs

House mother ⁶

Property taxes

Property insurance

Social Operations:

Publications ⁷

Cost of social events

Supporting Expenses:

Telephone

Postage and supplies

Alumni delegate travel ⁸

Employment taxes ⁹

Workers' compensation insurance ¹⁰

Licenses, bank charges, miscellaneous

Reserves and Replacements

Furniture and equipment ¹¹

Building fund ¹¹

Investments:

Investment account fees ¹²

Income taxes ¹³

Other:

Contingency ¹⁴

Adjustment for prior year loss, etc. ¹⁵

Net income/(deficit)

Notes to Budget Example

- 1 Rent income from the student chapter.
- 2 Dues from the publications program solicitations—minimum suggested amount per the solicitations.
- 3 The nominal dues charged per resident student member (such as \$5 per member per year) as recommended per the standard Bylaws sample included in Formation Manual V, Drafting Bylaws.
- 4 Contributions in connection with social or similar programs, or “odd amounts” below the publications solicitations minimum amount sent by individual alumni. Special fund raising proceeds usually are raised for capital projects (chapter house or other fixed assets) and not day to day operations. Should be governed by a separate budget and not this one.
- 5 Investment income is not from any operating program conducted by the corporation. It’s grouped separately.
- 6 This category includes house mother, graduate resident advisor, etc. who are employees that may be on the housing corporation payroll, as discussed in the main text of this manual.
- 7 Publications expense is the cost of publishing the alumni newsletter plus the cost of soliciting alumni dues. Postage, supplies and other costs related to those purposes should also be included.
- 8 Alumni delegate travel is the budgeted cost of sending a representative from the housing corporation to Supreme Chapter, Pi Kapp College, and other educational seminars administered from the National or Area level.
- 9 Employment taxes and workers’ compensation insurance are costs related to “house mother” compensation.
- 10 Costs under this heading may be appropriations rather than outright expenditures—it may represent a transfer to a reserves account for a year or so until enough cash is accumulated for a major furnishings replacement.
- 11 This will probably be an appropriation rather than an expenditure. It will represent funds transferred to a reserves account.
- 12 Investment account fees is one example of expenses that are purely related to generating taxable investment income. Others would be included under investments as well.
- 13 Income taxes are state and federal income taxes on investment income, or if applicable on active business profits or on sale of a chapter house.
- 14 A reasonable contingency factor for the budget; 5% or less.
- 15 This line represents adjustments needed to get the corporation’s cash balances up to the level needed to pay bills as they become due, as discussed under “Cash Flow Budgeting” in the manual main text.

APPENDIX C

Tax Exemption and Tax on Investment Income

TAX EXEMPTION AND TAX ON INVESTMENT INCOME

A. How the Tax on Investment Income Works

Please be cautioned that the information in this appendix is accurate only as of the publication date of this manual set forth on page 1, and is subject to change from time to time without notice. For current information, obtain a copy of IRS Publication 598, “Unrelated Business Income of Exempt Organizations.”

The following reviews Federal income tax aspects of a local housing corporation’s financial management. The Fraternity, its chapters, and all local housing corporations are (or should be) under Federal Internal Revenue Code’s section 501(c)(7) exemption classified as “social clubs.” General background on tax exemption and its benefits is provided in Formation Manual VI—Tax Exemption Considerations and Application, and will not be repeated here.

The corporation should be in the position of needing income-tax planning. Income taxes are a normal and ordinary consequence of operating a housing corporation that has significant reserves holdings. If the corporation must tax plan or is actually paying tax—it means that you’re doing a good job!

To estimate the maximum reserves holdings on which the corporation can earn interest before exceeding the standard deduction (and having to pay tax), consider the following (as applied to Federal taxation only):

The first \$1,000 of investment interest or dividend income is (at this writing) not taxed.

Assume that 6 ½% can be earned on savings, and that the corporate income tax rate is 15% on the first \$50,000 of income.

$\$1,000 / 6.5\% = \$15,384$. That figure is the maximum savings balance on which tax-free interest could be expected to be earned. Beyond that level the corporation should expect to do some tax planning and/or be prepared to pay income taxes.

The Internal Revenue Code provides that expenses incurred to earn the nonmember income generally are deductible. Those expenses have to be directly related, however. A good rule of thumb for deductibility is that the expense would not have been incurred at all if it were not for the investment or

other nonmember income activity.

That treatment really means that if nonmember and investment activities produce a profit, the profit is taxable regardless of whether the organization’s member income makes a profit or loss. It means that housing corporation would wind up paying tax on its nonmember and investment income gains, even though all operations combined may have produced an overall loss.

B. Too Much Taxable Income Can Result in Tax Exemption Loss

There’s a ceiling on the maximum amount of taxable income that a housing corporation can earn under the Federal tax codes. Nonmember and investment income from all sources cannot exceed 35% of total gross receipts in any fiscal year (this is known as the “35% rule”). Additionally, no more than 15% of total gross receipts can be from an active trade or business (known as the “15% rule”), with the difference up to 35% being made up of passive investment income.

If the corporation exceeds either the 35% or 15% rules the income tax exemption is revoked for that year. That means income from all sources becomes taxable—even rent from the student chapter and dues income from alumni members.

C. Advanced Topic: The “Set-Aside” Deduction and Charitable Deductions

A fraternity local housing corporation, alumni association, etc. may declare certain income to be “set aside” for specified charitable, educational, literary, etc. purposes. Once “set aside” in accordance with the applicable regulations, the income is not taxable unless it subsequently is expended for some non-qualifying purpose. Only income from passive investment sources (such as savings accounts, money market funds, etc.) can be set aside. Income from actively conducted business sources such as admission charges to events derived from the general public could not be set aside.

According to one private letter ruling, the gain on the sale of a chapter house could be set aside in a case where a replacement house was not purchased by the end of the three year period following sale of the old house (a replacement purchased for an equal or greater price would have resulted in no tax in any

event).

There is a problem with expenditure for “educational” purposes—the IRS definition of an educational purpose is different than in common usage. It’s possible, however, that payment of registration fees to a leadership school such as Pi Kapp College may be considered an educational expense within the meaning of this rule.

Another requirement to obtain the deduction is adoption of resolution(s) by board of directors on or before the due date for filing the Form 990-T return (including extensions, if any) on which the set-aside is to be claimed. The resolutions must define the purpose for which the funds are to be expended. The funds need not actually be expended by the due date of the return, but if not expended then the remaining funds must be segregated into a separate fund or account for later disbursement.

There is no limit on the dollar amount deductible under the set-aside provision. Of course, the deduction could never exceed 100% of the year’s net investment income.

COMMENT: Since the first \$1,000 of net investment income isn’t taxable, a set-aside could easily be made for an amount equal to the year’s total net investment income less \$1,000 and still result in no tax.

To deduct the set-aside, the corporation must file a Form 990-T, Return of Organization Subject to Unrelated Business Income Tax. This appears to be true even if the set-aside is so large that no tax results that year.

A separate charitable, educational, and literary, deduction also is available under IRC section 170©(4). It does not require adoption of any resolutions, but does appear to require disbursement to a qualifying organization by end of fiscal year. The disbursement qualifies as a deduction from both active and passive nonmember derived income. However, this deduction is limited to 10% of the corporation’s taxable income. Amounts over that limit can still be donated, but are not deductible in the year of contribution (although they can be carried over and deducted to a maximum of 10% of the taxable income, if any, for no more than the next five tax years).

The key issue that a corporation must decide with respect to a set-aside is whether the corporation can find a qualifying use for the funds that also will indirectly benefit the corporation. It’s one thing to declare a set-aside to avoid paying a tax. It’s another when by doing so the funds are no longer available

for the corporation’s benefit because they eventually must be spent on external charitable and similar purposes.

Another problem is the large reduction of income needed to get a smaller reduction of tax. The Federal tax rate (at this writing) applicable to the first \$50,000 of net investment income is 15%. A 100% reduction of taxable income by transferring it to a set-aside will produce only a 15% cost savings.

D. Advanced Topic: Tax Exempt Income

If the corporation has a short-term problem with the 35% rule (a one-year problem with too much investment income relative to its member income), consider tax exempt bonds with short maturities.

CAUTION! There are risks from changes in prevailing interest rates and other causes which could adversely affect bond values. Don’t make a risky investment merely to avoid paying a small amount of tax.

COMMENT: The only likely circumstance where a local housing corporation would consider tax-exempt investments is in a case where there is a short-term problem with the 35% rule. It is ordinarily **not a practical alternative to avoid filing a Form 990-T and paying tax.** Tax-exempt bond rates usually reflect a lower return than those available on taxable bonds. The return difference is determined by the average tax bracket of all people in the market buying the bonds and frequently is in the 40% range. In other words, a taxable bond yielding 10% is equivalent to a tax exempt one yielding 6% if the buyer is in the 40% tax bracket. Local housing corporations are taxed at a 15% rate on the first \$50,000 of net taxable income over \$1,000. State unrelated income taxes, if applicable in your corporation’s state, would add to that but virtually no state taxes at a rate exceeding 10%. Given these facts, if a tax-exempt issue is trading at a 40% lower yield than a taxable issue of the same rating and maturity, while the corporation’s tax bracket is only 25% at most, the return on tax-exempts is too low to justify the investment. **The corporation can make a better return going with the taxable investment and paying the tax on it.**

If the problem may run longer than one year, the situation may not be temporary. In that case review the section on special problems at the end of the main text of this manual.

E. Tax Management Pointers

The corporation’s taxable (investment and other nonmember derived) income must be monitored. If it exceeds \$1,000 during the fiscal year, steps may need to be taken to minimize the tax. Otherwise, the

corporation should expect to complete a Form 990-T, Unrelated Business Income Tax Return and pay the tax due.

The decisions to be made are as follows (background is provided in preceding text of this appendix):

1. Whether (and how) to create earnings from a non-taxable alternative structure:
 - a. Using tax-exempt member-derived income.
2. If the income is or must remain taxable,
 - a. Can it be set aside (is it passive investment income, and not income received from the general public from an active function)?
 - b. If it can be set aside,
 - i. Do you have any qualifying expenditures to make use of it that will indirectly benefit the corporation in any way?
 - ii. Given the limited range of qualifying purposes for which it may be used, is it better to put 100% of taxable income over \$1,000 in a set-aside, or is it better to pay about 15% Federal income tax on it (plus any state income taxes) and keep the remainder or for unrestricted purposes?
3. Will you have trouble with the 35% rule due to excess investment income? If so,
 - a. Consider using a set-aside, or straight charitable contribution (the latter can produce a deduction limited to 10% of the taxable income in the fiscal year of the deduction, however, with carry over of excess contributions).
 - b. Consider short-term tax exempt bonds.
 - c. If your member income source is inactive, you've got a problem. Consult the text.
4. Will you be in trouble with the 15% rule due to excess non-member derived active business income?
 - a. Consider using a straight charitable contribution (the latter is deductible only up to 10% of the taxable income in the fiscal year of the contribution, however).
 - b. If your member income source is inactive, you've got a problem. Consult the text.

APPENDIX D
INFORMATION AND TAX RETURNS, LICENSES, ETC.

A. Information returns

Please be cautioned that the information in this appendix is accurate only as of the publication date of this manual set forth on page 1, and is subject to change from time to time without notice.

A local housing corporation is subject to filing Federal Form 990 on an annual basis. The form is an information return, not a tax return. It's due four and a half months after the close of the fiscal year. It shows the results of financial operations for the previous fiscal year. There are exceptions to the filing requirement. At this writing, organizations with gross income of less than \$25,000 do not have to file. That threshold may change from time to time—for the most up-to-date requirements, check with the IRS. See also the instructions for Form 990.

Sometimes other forms will be needed in conjunction with Form 990. Form 4562, Depreciation and Amortization, is used by housing corporations owning chapter houses and/or owning furniture, fixtures and equipment which are capitalized and depreciated rather than expensed in the year of acquisition. It's also used to report amortization of leasehold improvements, for expenditures made on a leased chapter house that are improvements and not repairs or replacements. Further information can be obtained by reference to the instructions for the form, to IRS Publication 534 for depreciation questions and to IRS Publication 535 for amortization matters.

Many states also require information returns for exempt organizations that are equivalent to the Federal Form 990. This is regardless of whether a Form 990 must be filed with the Internal Revenue Service. Some states are now switching over to a new system where a copy of the completed Federal 990 may be filed with the state taxing agency in lieu of a separate form.

Check with the state taxing agency for filing requirements and how they may be satisfied.

B. Income tax returns

Form 990-T is the Exempt Organization Business Income Tax Return. This form is used by organizations having "Unrelated business income" subject to tax. At this writing, "unrelated business income" of a 501(c)(7) organization is gross taxable income (defined as virtually any nonmember derived income including interest on savings, dividends, etc.) in excess of \$1,000 during the fiscal year. Filing of the form sometimes is required only in order to obtain certain deductions—such as the set-aside deduction (discussed in Appendix C—Tax Exemption).

The state may also require unrelated business income tax returns. Check with the state taxing agency for filing requirements and how they may be satisfied.

C. Employment tax returns

Employment taxes usually affect only those housing corporations who compensate their house mother or graduate resident advisor directly rather than through the student chapter. Direct compensation for those employees is the recommended procedure due to a problem with the Federal minimum wage law, discussed in the main text of this manual.

1. Federal employment taxes
Form 941-- FICA (Social Security) and Income tax withholding returns.
Form 940-- FUTA (Federal Unemployment Tax Act) returns.

If the corporation has any employees at all (house mother, graduate resident advisor, cook, etc.) see IRS Publications 539, Employment Taxes, and Circular E, Employer's Tax Guide for specific details on the Federal taxes that apply.

2. State employment taxes.
Specific discussion on this subject is outside the scope of this manual. Check with the state employment taxing agency for filing requirements and how they may be satisfied.

D. Local Business Licenses, Health Permits, Etc.

Some municipalities require business licensing, police permits, health permits, etc. Business licenses, when required, are a “no fee” permit category with many cities in view of the housing corporation’s nonprofit status.

When speaking with local agencies about their permit requirements, be prepared for questions concerning fund raising activities. Agencies will sometimes have special requirements for organizations that engage in

fund raising. However, usually such requirements relate to fund raising from among the general public such as charities and other organizations do. To the extent that our typical local housing corporations have any fund raisers at all, they are usually limited to our own members. It is rare that our limited fund raising activities create any special requirements under such local ordinances.

For specific requirements for any of these licenses, etc., call the agencies for the local jurisdictions that the corporation will operate within.

APPENDIX E
BUDGETING EXAMPLE

In this example, the corporation's budget is developed according to the outline in the manual's main text. The local housing corporation is leasing a chapter house from a local owner.

A. Information Gathering

1. **Lease**—The rent payable to the owner of the chapter house is \$37,500 for the coming fiscal year. The rent was last increased two years ago; it won't for the coming fiscal year but the lease expires at year end. The chapter house capacity is 40 beds.

2. **Other operating expenses**—Records on costs indicate that last year, the corporation spent the following: Maintenance and repairs \$1,900; liability and contents insurance \$1,900; licenses and miscellaneous \$75. (Property taxes and casualty insurance are paid by owners of chapter house).

3. **Reserves needs**—Calculation of all needed furniture reserves totals \$1,800. There are no building reserves, as the chapter house is not owned by the local corporation; however, building fund deposits instead are included in charges to the chapter. The Building fund appropriation for the coming year is \$3,200.

4. **Prevailing rents**—The local accounting firm that handles most of the campus fraternity chapters indicates that three other fraternities pay \$60, \$75 and \$130 per man per month for the same level of services that the housing corporation will be providing our chapter.

Operating statistics are obtained for one of the university's newest dormitories. They indicate that roughly one third of the \$420 a month dormitory bill goes for services that are similar to those the housing corporation will be providing

the chapter, or \$120 a month. Because the dorms include food service, maid service, etc. the figures are difficult to accurately compare.

The apartments, after deducting out landlord-paid utilities costs and dividing total rent by the number of typical occupants, are running in the range of \$140 to \$200 per man per month. Typically the older buildings will charge less, and the higher densities (two and three bedroom units) will have a lower cost per occupant.

Now it's time to consider the comparables more closely and make some judgements. First, two out of the three fraternities have terrible housing conditions and could be ignored. The only meaningful fraternity comparable is the third one, which was \$130 per month. Second, the dormitories rate at \$120 per month is a "soft" number that is less reliable as an indicator. Third, among the apartments, looking primarily at two and three bedroom units the rent range narrows to \$140 to \$160 per month.

Your resulting "reasonable range" of rents in this case is \$130 to \$160 per month, or somewhat higher than the simple arithmetic mean suggested.

5. **Alumni publication and social events**--The chapter's alumni are serviced by C. A. R., Inc.; for the last three years the program cost has been running \$700, with another \$350 in excess alumni dues income earmarked for social activities. It's been announced that there will be no publication cost increase for the coming year.

B. Operating Expenses

Expense categories needed in the budget were determined to be the following, with preliminary allocations:

1.	Housing Operations:	
a.	Rent payments	37,500
b.	Liability and contents insurance	1,900
c.	Maintenance and repairs	1,900
d.	Furniture reserves	1,800
e.	Building fund	3,200
2.	Social Operations:	
a.	Alumni publications	700
b.	Alumni social activities	350
3.	General and Supporting Expenses:	
a.	Licenses and filing fees	75

C. Total Expenses, with Adjustments

The preliminary expenses tabulated above should next be adjusted for known changes. An inflation adjustment also should be made to last year's expenses when appropriate.

1.	Housing Operations:	
a.	Rent payments	\$ 37,500
b.	Liability and contents insurance	2,000
c.	Maintenance and repairs	2,000
d.	Furniture reserves	1,800
e.	Building fund	3,200
2.	Social Operations:	
a.	Alumni publications	700
b.	Alumni social activities	350
3.	General and Supporting Expenses:	
a.	Licenses and filing fees	80

TOTAL EXPENSES	\$	47,630
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D. Necessary Income

Considering that the chapter house is (or should be) among the more competitive facilities on campus, the students should be paying a rental rate on the higher end of the scale prevailing for similar housing in the

market. This is estimated to be \$155 per bed per month for the eight month academic year. The 40 resident members times \$155 is \$6,200 per month; 90% of that (allowing for the fact that the house will rarely be totally full) is \$5,580 per month or \$44,640 for the academic year.

Total income is calculated as follows:

1.	Alumni support:		
	Annual alumni dues and contributions	\$	1,050
2.	Student support:		
	Rent		44,640
	Building fund		3,200
	TOTAL INCOME	\$	48,890

E. Reconciliation of Income and Expenses

In this example, income is higher than expenses. The corporation elects to use the extra funds to acquire additional furnishings.

They've adjusted to an expected rent increase at the end of the coming year by using furniture and equipment acquisitions as a rent increase cushion. In lease renewal years, they plan to offset recent rent increases by reducing funds available for furniture. In subsequent years, when no increase takes place, furniture and equipment purchases take place at

accelerated levels.

F. Cash Flow Budget

The corporation did not have a cash loss from operations or a basic cash insufficiency last year. The cash flow budget is analyzed, and reveals no significant cash flow concerns.

G. Budget Adoption

With all the preceding steps completed, the budget is ready for adoption by the board of directors.

HOUSING CORPORATION OPERATIONS MANUAL SERIES

PI KAPPA PHI FRATERNITY

- V. Insurance and Risk Management
 - A. Risk management
 - B. Performing periodic risk audits
 - C. Insurance needs
 - D. Accidents or other mishaps
 - E. Potential claims
- Appendix A - Insurance Types and Terminology

V. INSURANCE AND RISK MANAGEMENT

A. Risk Management

Fraternity chapters are composed of people. In the campus environment they are in direct contact with thousands of people on a daily basis. Every contact poses a risk that something could “go wrong,” resulting in an event or accident for which the fraternity could be held liable. Liability could result in a lawsuit, an insurance claim, or both. The housing corporation and chapter should regard every contact with the public as an exposure to risk.

Risk management is the process of identifying operating risks and developing programs that will minimize their impact. The organization is exposed to a variety of risks, some of which may be insured against and some which may not. Even those risks which may be insured against can be reduced significantly through simple preventive steps; in turn the result frequently is lower insurance premiums.

It is not possible to eliminate risk entirely. But through proper management techniques and ongoing risk identification processes, the members’ costs resulting from risk losses can be reduced.

B. Performing Periodic Risk Audits

A “risk audit” is a strategy for identifying high risk activities in which the chapter and its members engage. The method is to perform an organized review of all sources of harm to people and property. A significant part of the review includes the stated and official policies of the chapter in those areas as well as the unofficial daily practices.

The review should concentrate most on the high risk activities conducted by the chapter. A suggestion list of these are:

1. Parties and security, safety
2. Alcohol policy, both at parties with the public and otherwise
3. Chapter house safety, including matters such as:
 - a. Repair of handrails and carpet on stairs
 - b. Smoke detectors
 - c. Fire exit safety and signs
 - d. Fire alarms
 - e. Security
4. Employees and safety
5. Hazing (including “good healthy fun” that could get out of hand)
6. Automobiles and other vehicles parked or driven on the premises, and used off premises in transport of members and others to or from chapter functions
7. Official or unofficial policies that foster or condone actions contrary to public law
8. Internal disciplinary procedures nonexistent or not properly followed (Some examples being any conduct whatsoever is tolerated; or members were expelled for no justifiable reason)

The risk audit should cover all aspects of potential risk, not just those which someone decides “aren’t covered by insurance.” There are two reasons for this. First, what people may believe covered by insurance may in fact be only partly covered or not covered at all. Second, if the particular risk is covered, it may be possible to obtain rate reductions through preventive action. Even if that is not the case you could forestall a major rate hike based on

claims filed if your preventive action prevents any claims.

Each year the board of directors should appoint one or more alumni members to serve on a Risk Audit Committee composed jointly of student members. The committee would perform its review and report back to both the Board of Directors and the student chapter.

As one part of the risk audit process the housing corporation, in conjunction with the chapter, must develop a chapter safety checklist. The checklist will facilitate a twice-a-year inspection and evaluation of potential safety hazards. A basic chapter safety checklist is available from the Fraternity's Administrative Office at the address stated on the back page of this manual.

C. Insurance needs

Available insurance coverage are reviewed in Appendix A—Insurance Types and Terminology. The Appendix also explains some of the confusing terminology used in insurance discussions. The type and amount of coverage your corporation needs will depend on three elements: 1.) The physical characteristics of the facility used by the chapter; 2.) The legal requirements and demands in your locality; and 3.) The potential exposure that your corporation could face in the event that anything went wrong.

Every local housing corporation should understand one important principle with respect to casualty coverage on property. Coverage should always include a coverage amount escalator endorsement. The corporation can't take the risk of paying for coverage that doesn't adjust for current replacement costs but is a fixed amount based on an outdated cost from years ago.

CAUTION! If there's a casualty, the penalty for under insurance is severe—and would probably result in the loss of the chapter house. This problem is discussed in more detail in Appendix A, under Additional Endorsements—Replacement Cost Endorsement.

Two basic principles apply to both property casualty and liability coverage. These should be kept in mind not so much for the purpose of coverage, but are applicable to risk audits and consideration of day-to-day activities. One is that insurance usually does not cover acts caused by the insured themselves. Insurance is to cover losses caused by unforeseen and catastrophic events. It is not intended to cover losses caused by intentional or by some types of negligent acts of the insured, since it is the insured's responsibility to take care of his own property.

Another important principle is that insurance usually does not cover events that are brought about by illegal acts. As a standard part of the policy provisions, insurance policies cover only events where the insured was in compliance with law.

COMMENT: If someone fell off the chapter house deck and became injured, the insurance ordinarily would cover the claim. If, however, if the additional facts were that the injured was an underage girl who became intoxicated at a chapter house party to which she was admitted (obviously a violation of liquor laws), the insurance wouldn't cover the claim at all since an illegal act (serving alcohol to a minor) contributed to the cause of the accident.

Contact the Fraternity's Administrative Office for details on insurance coverage available through the Fraternity, and consult an experienced local insurance agent for an evaluation of your needs.

D. Accidents or Other Mishaps

If you become aware of an accident or other mishap which may result in an insurance claim, take the following steps:

1. Determine location of the event. Was it the chapter house, or an off-premises location?
2. Determine context of the accident. Was it an official chapter function (if away from house)? If on premises—who did it involve?
3. Determine severity of damage and/or injuries. Were there casualties? Fatalities? Property damage?
4. Call the Fraternity's Administrative Office immediately. Do so even if your local corporation and/or chapter are not under the Fraternity's blanket insurance policy. Depending upon the specifics of the situation, additional steps may be needed concerning the potential claim or to find out additional information. Immediate consultation with risk management experts available to the Administrative Office will greatly improve likelihood of getting the true facts of the case and the appropriate steps to take.

If you become aware of a property casualty situation which may result in an insurance claim, take the following steps:

1. Determine severity of damage.
2. What happened? Who was involved?

3. Call the Fraternity's Administrative Office immediately. Do so even if your local corporation and/or chapter are not under the Fraternity's blanket insurance policy. Depending upon the specifics of the situation, additional steps may be needed concerning the potential claim or to find out additional information. Immediate consultation with risk management experts available to the Administrative Office will greatly improve likelihood of getting the true facts of the case and the appropriate steps to take.

E. Potential Claims

If you become aware of any situation that could lead to a claim, have your corporation's legal counsel review the policies to determine what steps are necessary to prepare for the potential claim, including proper notice to the insurance carrier.

APPENDIX A

Insurance Types and Terminology

INSURANCE TYPES AND TERMINOLOGY

A. Insurance Types and Terminology

1. BASIC COVERAGE—CASUALTY

The most important coverage is for risk of fire and other common hazards. Coverage should include building and contents. "Building," for insurance purposes, includes all permanent fixtures attached to and constituting a part of the building and all mechanical equipment (heating, ventilating, air conditioning, hot water/boiler) serving the building and necessary for its operation. "Contents" refers to all personal property (furniture and other non-fixtures) of every description owned by the insured (housing corporation) and located on the premises.

COMMENT: Personal property of individual members is not included. Members instead should determine whether they are covered through their parents' homeowner's policy; if not, they should obtain a separate renter's policy.

2. EXTENDED COVERAGE—CASUALTY

Fire insurance coverage's of buildings and contents can be extended to cover perils such as loss or damage caused by windstorm, hail, explosion, smoke, sprinkler leakage, etc. These can be covered in a single basic policy without need of endorsement and are normally referred to as "all risk" coverage policies.

3. ADDITIONAL ENDORSEMENTS

The following are additional endorsements which may be advisable under the circumstances of your particular geographic location or the character of your property:

- a. **Vandalism and Malicious Mischief (V&MM)**-- An endorsement providing coverage for loss or damage caused by willful or malicious acts.
- b. **Boiler and Machinery**—Protection against damage to property caused by an explosion or breakdown of specified boilers or other machinery. This may include liability

coverage for bodily injury to persons other than employees, and includes a hazard inspection service which may prevent accidents. Additional coverage can be added to this endorsement which will pay for the total amount of repair without regard to depreciation. This coverage is recommended due to the high risk of boiler hazards.

- c. **Earthquake, Sinkhole, Subsidence, etc. (Earthquake Endorsement)**-- An endorsement extending coverage to the hazards mentioned above, which are excluded in ordinary casualty policies. Generally the deductible for this endorsement is different than for other casualties covered by the policy. Five percent is usually the lowest available and ten percent is common in earthquake prone states. Because of a lack of accurate historical statistics for insurance companies to gauge their risk exposure this endorsement is expensive if it is available at all.
- d. **Plate Glass**—This endorsement provides coverage for breakage of specified types of glass and windows.
- e. **Replacement Cost (Escalator)**-- This automatically adjusts coverage amounts based on inflation and depreciation factors. This endorsement is mandatory for every policy covering chapter house buildings. Without this endorsement, the property could be underinsured. If a casualty policy remained in force for several years without change in coverage amount while inflation continued, the coverage could be for only a portion of the cost of replacing the property. Regardless of the policy amount, if the property was 100% destroyed but was insured for only 60% of replacement cost, the insurance company will pay for only 60%-- of its underinsured policy amount. The difference would have to be made up by the local housing corporation.
- f. **Loss of Rents**—Protection against loss of rental income for the housing corporation when rentals are interrupted or habitability is

not possible due to other hazards that are insured against. Covers only economic loss to the extent to which all or a prorated portion of the building cannot be occupied. All housing corporations should have this coverage because fixed expenses (such as mortgage payments, property taxes, etc.) must be met even in the event of a loss.

- g. Vacancy and Unoccupancy Permit—Basic and extended coverage policies and/or vandalism endorsements provide for suspension of the insurance if the building is vacant or unoccupied for a specified time period. The period can be as short as sixty (60) days, or less than the normal Summer vacation period between academic years. Vacancy means absence of tenants and furnishings; unoccupancy means devoid of human residents. When the property is to be vacant or unoccupied for more than the allowed time period, a vacancy permit should be obtained.

4. LIABILITY INSURANCE

Provides for owners, landlords, and tenants liability coverage against lawsuits or claims arising from accidents occurring on the premises. Claims for bodily injury and property damage also may be included. Coverage levels and deductibles can vary.

5. BONDING

Bonding is a form of insurance that will reimburse the insured for losses arising from the failure of an employee or other covered party to perform. The Fraternity has a bonding policy that covers the Treasurers of student chapters, insuring that they will remit income to the Administrative Office that is collected from individual members for pledge fees, initiation fees, etc. If they don't, the bonding pays the loss and then sues the individual Treasurer to recover. That Treasurer should find it impossible to ever hold employment afterward that requires bonding.

With respect to chapter funds that are collected for local chapter purposes, or for funds handled by a housing corporation, Treasurer, the Fraternity's bonding probably would not apply. The local organization collected the funds for its own purposes, and would have to have its own bonding in order to be covered.

6. WORKERS' COMPENSATION

This type of policy is among the most under-appreciated. Note that in a great many states, if the corporation or chapter has any employees at all, the policy is required by law. If there is an accident (say the cook falls down after trying to lift a heavy box) and it is discovered that the employer has no workers' compensation coverage, there will be extremely stiff penalties. In addition, one or more officers of the employer (whether student chapter Archon or Treasurer, or housing corporation President or Treasurer) probably would be arrested and could be sentenced to a jail term.

7. OFFICERS AND DIRECTORS

This type of insurance covers problems arising from ordinary duties of officers and directors of a corporation. It is primarily oriented to the officers and directors of stock corporations, and the types of problems relating to stockholder lawsuits and the like. However, it can also be applicable in a nonprofit context although the problems it covers will be different. It only covers problems arising between the officers and directors and the general public, and to some limited extent with the stockholders or members. It probably wouldn't cover one officer suing another, or fraudulent acts of officers or those without proper corporate authority.

Other important insurance features to be considered are the following:

1. COVERAGE LIMITS

This is the maximum amount payable under the policy. If a claim is made that exceeds the coverage limit, the insurance company is obligated to pay only up to its limit and no more. The insured must pay any excess on his own.

\$1,000,000 is the minimum amount you should have as the maximum coverage limit on a liability policy.

2. DEDUCTIBLES

A deductible may be stated as a dollar amount (such as \$5,000) or as a percentage (such as 5%, usually meaning 5% of the maximum coverage limit). The claim must exceed dollar or percentage amount in order for any insurance to be payable—and even then only the excess is payable by the insurance company. The amount up to the deductible is the responsibility of the insured. The policy would pay all of the claim excess over the deductible, up to coverage limits, unless coinsurance applies.

Deductibles affect the premium rates. A higher deductible means that there is a lower probability that a claim would be filed that the

insurance company would be obligated to pay, and hence the premium could be reduced. On the other hand, it means that the insured is taking on more risk and would have to cover more of a loss if one did occur.

3. COINSURANCE

Coinsurance usually applies to hazard insurance covering property. With coinsurance, the insured assumes a portion of the claim risk. For example, if a 90% coinsurance ratio is provided, the insured would receive claim reimbursement for only 90% of a claim above (above the deductible if provided, and limited to coverage limits).

Coinsurance affects the premium rates. A lower coinsurance means that the insured is obligated to cover a greater portion of any claim, reducing the amount the insurance company would be obligated to pay, and hence the premium could be reduced. On the other hand, it means that the insured is taking on more risk and would have to cover more of a loss if one did occur.

4. CLAIMS MADE LIMITATIONS

This limitation means that the insurance company is obligated to pay claims for those insured problems that occurred during the policy term, but also of which it was notified during the policy term. If a claim is filed two years after the policy expires (or possibly, the policy is rolled over into a new policy) and the insurance company was never told in writing about the possible claim, they have no obligation to pay any of the claim.

HOUSING CORPORATION OPERATIONS MANUAL SERIES

PI KAPPA PHI FRATERNITY

VI. House Projects, and Working with Contractors and Furnishers

- A. Introduction
- B. Projects and permits
- C. Chapter-performed projects
- D. Preparation for major projects
- E. Contractor and furnisher information sources
- F. Drawing specifications and soliciting bids
- G. Contractor requirements
- H. Comparing bids
- I. Writing contract documents, plans review, other matters
- J. Monitoring work progress and making payments
- K. Lien releases and warranties: Permanent files
Sample 5 - Lien Release

VI. HOUSE PROJECTS, AND WORKING WITH CONTRACTORS AND FURNISHERS

A. Introduction

The housing corporation will be responsible for maintaining the chapter house on a long-term basis. This will entail arranging for major repairs as needed, such as roof replacement, re-carpeting, and the like. For major projects, experienced professionals will have to be called upon to do the work. On some minor projects, the work may be simple enough that the chapter could perform it. This manual recommends procedures for handling all these situations.

In many localities, it's highly probable that the contractors willing to undertake small jobs, such as for a fraternity housing corporation, will be inexperienced or shoddy workmen. Even large and highly regarded firms may perform poorly on a small job because they might use it for training, or don't devote the necessary attention to small jobs in general.

COMMENT: Certainly everyone has heard a horror story about a contracting disaster. Those incidents are just the tip of the iceberg; the cost of work having to be redone within a year or two years because of unsatisfactory workmanship or materials is fifty times greater.

B. Projects and Permits

Proper construction permits and approvals are an essential part of any construction project. There sometimes is resistance to applying for proper permits. Reasons may vary; perhaps the new

construction could trigger a property tax reassessment in that jurisdiction, or building codes could require additional features that would be outside the capability of chapter members to build with their limited skills, or even may result from simple resistance to paying the permit fees.

Those reasons are outweighed by serious problems the result from failure to obtain permits. Proper permits always must be secured if required. Consider these examples:

1. Suppose a basement room is added without permits in unutilized space beneath the chapter house. A few months later, a fire occurs across campus at the chapter house of another fraternity. The city performs a surprise inspection of all fraternity houses and discovers the illegal addition. The entire building is declared condemned until such time as the addition is demolished, and if rebuilt then rebuilt according to proper permits and inspections. The chapter house must be vacated immediately. Could this cause a problem for your housing corporation?
2. A fire of unknown cause breaks out in the illegally added basement room, causing tens of thousands of dollars in damage. The chapter house is well insured, and no one was hurt. The corporation prepares to have the damage repaired so that operations can be resumed. However, the insurance carrier finds out that the fire started in a room which was built without permits and can't be verified as constructed in accordance with building code. They insist that the fire could

have been started as a result of substandard illegal construction, and refuse to pay the policy proceeds until it can be shown that the addition (now heavily damaged) was not substandard. Could this cause a problem for your housing corporation?

C. Chapter-performed Projects

Sometimes the chapter will offer to perform work themselves, so that the labor component of a needed project's cost will not be incurred. For simple projects this alternative may be practical. Examples of such simple projects are painting projects or janitorial-type cleanup work.

When the chapter begins tackling projects such as buying furniture or involving construction, however, the potential for errors increases significantly. Consider the following examples:

1. A chapter submitted a proposal to demolish a wall separating the two portions of the chapter house recreation room. They intended to open up the space by combining the two rooms. However, when the board of directors referred to the original building plans, they discovered that the wall was designated a "shear wall," necessary for the building's structural integrity and not merely to divide space. The board denied the proposal.

2. The chapter decided to re-do the kitchen linoleum at the chapter house. By installing the linoleum themselves, roughly fifty percent appeared to be saved as there was no labor cost; however, the chapter had to pay retail price for the linoleum, which ate up a significant part of the saving. The members had little experience with linoleum work. They failed to butt the sheet seams tightly for a water-tight seal. The kitchen floor was a high-traffic area which was mopped daily. Mop water permeated the seams, soaking the wood sub-floor beneath. Two years later, portions of the sub-floor had become dry rotted. The entire linoleum floor and the rotted sub-flooring had to be professionally replaced.

3. The chapter desired to improve egress to the parking lot behind the chapter house. A second-floor window was to be cut out and made into a doorway, with a staircase leading down under a concrete overhanging deck onto the lot surface. The board of directors approved the plans, which showed a schematic diagram of the work but didn't show the dimensions or clearances. The chapter representatives stated that all clearances had been checked. The plans

were approved by the city building department; only permits remained to be secured. Some weeks later a board meeting was held at the chapter house, at which a surprised board noted that a rectangular chunk had been cut out of the concrete deck. The city building inspector had determined that head clearance would have been insufficient for a person walking down the stairs. The only way the chapter could make the staircase comply with building code was to rent a concrete sawing machine to remove a portion of the interfering deck. Although the city had approved the plans, one critical clearance dimension was calculated incorrectly. It had been measured from the top surface of the six-inch thick concrete deck—not the bottom.

4. The chapter approved the purchase of new living room sofas. Two older sofas already were there; they had been bought through a contract furnishings firm three years before and were specifically selected due to extra heavy frame construction, extra heavy duty fabric covering, and medium-dark patterned coloring that wouldn't show stains or wear. The chapter decided that those sofas were "plain" looking, and bought some new contemporary pieces to add. Unfortunately, the frame construction was flimsy, the textured fabric covering was more decorative than functional, and an off-white color was selected that highlighted stains. Within one year, the new sofas were broken and worn. After the second year they were thrown out—and the only remaining sofas were the original ones purchased years before.

The following is a checklist of points to consider with any chapter-performed construction project or furniture acquisition:

1. Construction, including framing and drywall:
 - a. Requires plans which must show dimensions, doorway locations and door swing spans, electrical outlets as needed, etc. Wall, floor or other relevant component thickness must be properly accounted for in the dimensions.
 - b. Plans must be reviewed and approved by an architect. Approval by city building department is not sufficient by itself.
 - c. Expect that if drywall work is involved, professionals must be employed to do the work.

COMMENT: Chapter members' abilities to do competent drywall work will vary tremendously. Check to see if they have appropriate equipment to do the job. Ask how they intend to finish off the corners

and seal the drywall sheet joints. As an example, if they don't know that joint tape is needed in addition to joint compound, they clearly lack experience in doing the work. The job should be done professionally.

- d. Must obtain proper permits, if required.
2. Involving demolition, cutting, etc.:
 - a. Must be compared with original building plans to verify that no structural elements are compromised or that unanticipated concealed beams, plumbing, electrical conduits, or HVAC piping is encountered.
 - b. Must obtain proper permits, if required.
 3. Involving installations of floor surfacing, poured concrete, carpentry work, glass work, plumbing, and electrical:
 - a. As a general rule, if any project involves installing something that will have a high exposure to water, use a professional.

COMMENT: Plumbing usually requires a professional. Ceramic tile work also usually does. Sometimes linoleum tile squares can be done by a fraternity chapter, but those should not be used in kitchens, bathrooms, or other areas of frequent spills, dripping or mopping. Sheet linoleum can be used in heavily mopped areas provided that it is good quality, the seams are closely butted when installed, and a bead of glue is forced up through the seams to completely seal them.

- b. If the proposed project involves finish carpentry, as opposed to drilling a few holes or driving a few nails, use a professional.
 - c. Electrical wiring work that is more complicated than replacing a broken light switch should be done by professionals.
 - d. Must obtain proper permits, if required.
4. Furniture acquisitions:
 - a. Use a firm that deals with institutional clients and can find products that are practical given the wear characteristics inherent to a fraternity chapter environment. A contract furnisher usually produces the best results; retail stores deal mainly with product lines not practical for fraternity chapter needs.
 - b. Make the acquisition choices a team effort of the chapter and an experienced alumnus (reducing the tendency of purchase decisions to be made on the basis of eye appeal alone).

With the preceding points in force, the chapter can save money on projects it can perform well. At the same time, projects that require the expertise of

professionals will be performed accordingly.

D. Preparation for Major Projects

When considering a project involving a significant amount of construction, the first step will be to find out the local jurisdiction's zoning restrictions, building code requirements, and permit procedures. There's no sense in pursuing a proposed project if it can't legally be built!

In many cases, the contractor can be required to obtain the necessary permits and include the charges as a part of the contract cost. However, the board of directors has a duty to protect the corporation's property. The procedure described following in this section is recommended instead so that the necessary permits and inspection steps can be determined in advance. The contractor's representations must not be relied upon alone concerning the permit needs. If the contractor should build without the proper permits, the same problems could be faced as those possible if permits were intentionally refused to be taken out by the housing corporation.

1. If the project involves any construction where exterior building walls are to be added, or additional rooms created by building out over open porch or deck space or in unused space under the building, or additional improvements are to be added to the property grounds, contact the local zoning agency. Determine if the proposed work is permitted under the zoning regulations.

2. If the project involves any construction, discuss the proposed work with the local building permit agency. Determine if the proposed work is permitted under the building codes. If so, determine the general nature of the required permits, necessary inspections by permit inspectors including timings, and fees involved. Also, inquire whether there could be other agencies involved that would have jurisdiction over other parts of the inspection or use of the addition after its completion. The local fire department or health inspection agency are likely candidates; sometimes these have no permit authority as such, but should be consulted because they would regulate the addition after completion according to their own ordinances.

3. If the project involves significant construction or includes any features being added or upgraded, check with the corporation's insurance carrier. Sometimes a telephone call could determine whether the proposed changes could reduce the insurance rates, or could result

in the property being reclassified as an uninsurable risk!

E. Contractor/furnisher Information Sources

To locate capable contractors and furniture suppliers, check with others serving on local housing corporation boards or advisory committees of other fraternity chapters at the campus as the first choice. Many times they can recommend capable workmen based on their personal experience.

COMMENT: When obtaining this sort of recommendation, be sure to inquire how they found the workman or firm. Naturally, you should be more cautious if they mention that the recommended workman is their uncle or the like.

F. Drawing Specifications and Soliciting Bids

The most important step in defining the scope of the work and determining its cost is drawing specifications. A decision must be made on what technology and/or quality level needs to be included as the specification basis for the bids.

COMMENT: If you ask three contractors to quote prices to “fix the roof,” you’ll almost certainly get three bids for very dissimilar amounts. You can bet that the contractor using a single ply of felt over hot-mopped tar is going to bid less than the one using seven ply with hot-mopped tar between each. You can also bet that the single ply roof is going to last through only one or two rainy seasons.

To some extent, the specifications will have to be expanded based on the feedback obtained from each contractor who is to give a bid. The contractor must be asked questions in order to fully develop the specifications.

The questions that should be asked concerning the proposed work:

1. What will they do and why;
2. Are there alternative technologies for accomplishing the task (regardless of whether his firm happens to do that kind of work or not);
3. The durability of the addition/repair/furniture under possible intensive wear conditions (student use);
4. The construction or delivery time frames; and
5. What weather/labor problem/other conditions could affect the progress of the work.

G. Contractor Requirements

There also are some very important questions that must be asked of each contractor who is submitting a

bid:

1. Has he done this type of work before? Often?
2. What’s the scope of his experience? (How long has he been in business, and how long has he been doing work similar to your need.)
3. Does he have a list of references (specifically, client references for who he’s done work similar to that which is being bid).
4. If considering a construction contract (not a furnishings purchase), ask whether the contractor is bondable and has a bonding reference.

COMMENT: Generally, if the contract amount is less than \$5,000 or so it isn’t cost effective for him to provide a completion bond; if the contractor misunderstands your need he may want to drop out of bidding. However, you may not need a bond for the small jobs; instead your concern is that the contractor be of sufficient experience and reputation that a bonding company is willing to cover him on his larger projects.

5. If a considering construction contract, it’s assumed that the project is small and the contract will be for a fixed price (or with a “guaranteed maximum”).

COMMENT: Discussion of the various types of construction contracts and their features is beyond the scope of this manual. However, it’s possible that you may be presented with a “cost plus” type of contract; you should be aware of how it differs from a “fixed price” contract. The “cost plus” can save you money if the contractor’s actual costs of the job come in less than estimated. However, it can also cost much more if the costs come in higher. With this type of contract you agree to pay the contractor’s costs, whatever they may be, plus a contractor’s fee calculated as a percentage of the cost. The higher the cost, the larger the contractor’s fee. This type of contract should only be used for major jobs by people sophisticated in construction and construction contract matters.

Check the contractor’s references on any job where he’s not a well-known firm of long standing in the local market. The best references are people for whom he’s done similar projects. Concentrate on the following matters when making the references calls:

1. Quality of work performed;
2. Timely completion of projects.

Another good information source about the contractor

is the local Better Business Bureau. If the contractor candidate has a lengthy complaints record with the bureau, select another.

H. Comparing Bids

Work described in bid must conform to specifications that the board establishes. If a bid is submitted as a proposed contract without definite specifications, such as nothing more than to “fix the roof,” then there’s a problem. The vague contract language would usually prevail regardless of what may have been discussed verbally. The bids must fully describe the work intended to be done, and in the way it’s desired to be done. If any bids don’t state the work with sufficient detail, have the contractor amplify the specifications in his bid.

Another method of getting necessary explicit language included is to conditionally accept the bid via an acceptance letter. The letter would accept the submitted bid subject to certain clarifications, and would then proceed to enumerate the additional needs.

COMMENT: If the contractor balks at putting explicit language in the agreement, find out what the problem is. Is it a case where the explicit language is redundant and the work is self evident? Or is it a case where the contractor is lazy and just doesn’t want to bother with writing a good bid? Or does he intend to substitute a slipshod effort and still collect full payment, which might be precluded if explicit language were to be included in the contract?

This step, if needed, would be taken at the time one of the bids is to be accepted and the contract documents prepared, described in the following section.

I. Writing Contract Documents, Plans Review, and Other Matters

Finally, a bid is to be selected and the contract documents drawn up. Usually, for any job exceeding several hundred dollars in cost, the corporation’s legal counsel will have to review and/or prepare the contract documents before anything is signed. Lien waivers and any other necessary related documentation should be reviewed and/or prepared by him at that time.

Before any construction work is approved or commenced, any building plans involved should be reviewed by an independent consulting architect employed by the corporation.

COMMENT: On major projects, particularly those financed with a construction loan, the construction lender probably will want to hire their own consulting architect to review the plans and specifications for accuracy and to confirm the construction cost

estimate.

J. Monitoring Work Progress and Making Payments

Never pay in advance for work not completed. An advance or deposit may be appropriate if the job is materials intensive using items not kept in normal stock, or is labor intensive. Such an advance or deposit should never exceed fifty percent of the cost of the job.

Payments for the work should be made in relation to the work actually finished. At least 10 percent of the total project payment should be withheld (a “holdback”) until the work is totally done. That includes finish and clean-up.

COMMENT: Otherwise, if the contractor has collected his final payment, he may suddenly decide that he has priorities other than completing your job. You may then expect to have to finish any remaining work yourself.

K. Lien Releases and Warranties: Permanent Files

A “lien” is a charge imposed upon property in order to satisfy a debt or obligation. With respect to contractors and their material suppliers, most states provide by law that contractors or their material men who are unpaid may file a “mechanics lien” against the property on which their work was performed. The lien can have a serious impact. The exact nature of the problem can vary as laws differ from state to state. If the lien is not paid off, however, it can result in any or all of the following: 1.) An interest bearing debt is created, with interest commencing from the recording of the lien; 2.) A lawsuit may be filed to foreclose the lien or compel its repayment; or 3.) In some states the lien debt may be sold at a sheriff’s sale, and if unpaid after a redemption period the owner of the lien can acquire ownership of the real estate on which the lien was filed! Liens are very serious problems.

If the contractor is paid, there is no reason that he should be able to file a lien. That is the reason a “lien release” is obtained—the contractor signs a lien release concurrent with payment. If later a lien should be filed for whatever reason, the release will quickly obtain a discharge. It is proof that the contractor actually was paid.

The problem can get more complicated if material men or laborers can also file liens in your state. The corporation will need proper releases from them as well.

COMMENT: Suppose that the contractor orders materials from a local supplier. He does the work

called for in the contract, gets paid, provides his lien release, but then disappears. He didn't pay the supplier. The supplier—who may not even be someone that your corporation knew about—can then file a lien!

Always obtain a signed lien release when final payment for work is delivered. Require releases and/or evidence of payment from material men and laborers as well if they can file liens in your state. Sample 5 is an example of a lien waiver and follows the end of this manual.

[Sample 5]
LIEN RELEASE

We hereby certify that upon payment of \$ _____ to us, we shall be paid in full for all work and services performed or required to be performed by and through [enter date] _____ in connection with our contract with [enter name of housing corporation] _____ for the project located at [street address of property] _____ in the city of [enter name] _____, state of [enter name] _____.

The undersigned hereby releases the Owner, the project and its surety from any and all claims, demands, and causes of action, whether known or unknown, and further waives any and all right to file mechanics liens or stop notices or to prosecute any action; and additionally on any actions on any Labor and Material Payment Bond or any other bond furnished by [enter name of housing corporation] _____ in connection with our contract for said project.

The undersigned further certifies under penalty of perjury that all charges and liabilities for labor, material, equipment and services which we have incurred or which relate to the performance of said contract have been paid in full.

Signed at _____, state of _____.

Dated _____.

(Enter name of contractor)

By:

Title

[CAUTION! This form is a generalized lien waiver. The laws of each state vary considerably, as well as the potential sources of liens present in any specific contract situation. The housing corporation's legal counsel should review each contract and develop lien waivers to release all the parties involved and that accurately reflect the laws of your state.]

HOUSING CORPORATION OPERATIONS MANUAL SERIES

PI KAPPA PHI FRATERNITY

VII. Chapter House Leasing or Purchase

- A. Introduction
 - B. Resources required to permit housing the chapter
 - C. Location and zoning factors
 - D. Ownership, leasing, etc.: alternatives
 - E. Steps in the housing process
 - F. Property types and opportunity sources
 - G. Evaluation of economic feasibility—Outlays
 - H. Evaluation of economic feasibility—Income
- Appendix A - Acquisition Example
Appendix B - Chapter Housing Progress Milestones Agreement

VII. CHAPTER HOUSE LEASING OR PURCHASE

A. Introduction

The members of a student chapter alone cannot purchase a chapter house. It is inadvisable or impossible for a number of reasons:

1. Students have no assets, no credit enabling a housing purchase loan, and usually lack the business sophistication required for the technical matters associated with real estate buying or leasing.
2. Student chapters are usually unincorporated associations. Most states do not allow such entities to own property; in the few that do, there are legal and business reasons why they should not. Corporations do not have those problems.
3. The membership of a student chapter undergoes 100% turnover every four years. A housing corporation can provide continuity of management through an ongoing, experienced board of directors.
4. A corporate form of organization provides limited liability for its members. No other form of ownership can provide that.
5. “Are welfare recipients asked to set their own stipends?” A student chapter is largely self-run and under tremendous pressures to serve immediate needs and desires of its members. It is virtually impossible for student members to plan beyond the current budget year. A housing corporation board, composed of disinterested individuals, has freedom to establish plans which

balance the immediate desires with the long term goal of keeping the chapter in competitive housing five, ten and twenty years in the future.

Alumni members serving on a housing corporation may not have complete expertise in buying, building, leasing, or operating property. However, they have experience and local contacts needed to access the needed information. The corporation can more effectively solicit support of alumni members and community business leaders. It can coordinate alumni fund raising projects which will be successful, whereas experience clearly dictates that a student chapter cannot.

The term “housing” for purposes of this manual are all types of properties owned by local corporations. Lodge facilities and storefront properties, in addition to traditional fraternity houses, are included.

B. Resources Required to Permit Housing the Chapter

Certain requirements must be met in order to consider a chapter housing acquisition. These are:

1. Chapter membership must be stable. Typically, stability is shown when the chapter has operated for several years with a consistent membership level. That establishes confidence that the chapter won’t later be over or under-housed by making a housing commitment at a premature date.
2. The chapter is represented by a legally incorporated and functioning housing corporation.

3. The appropriate level of capital is available for the type of endeavor selected (rental; lease; purchase; etc.) The capital level will determine which type of endeavor is feasible at the time.

4. Finally, overall chapter maturity and responsibility justify leasing or acquiring a chapter house. This would be evidenced by a broad range of characteristics but concentrating in the two areas in which eighty percent of all chapter problems arise: finances and recruitment. Some examples are maintaining excellent financial controls such that the chapter receivables are low to zero; rent payments to the housing corporation are current; recruitment and education programs are in place and producing positive membership results.

COMMENT: Membership maturity and stability are a prerequisite, not a condition that can follow once the housing is acquired. Our experience has been very poor with attempting to improve a chapter by improving its housing alone. However, chapters that have performed well under adverse conditions (including poor housing) have shown much better results. Those chapters were adaptable and well equipped to take on a new challenge—better housing. They earned it.

In a case where purchasing a chapter house is the next goal, more sophisticated steps are needed. The corporation's officers must work with chapter officers to draw up a list of progress milestones for both organizations to achieve.

The progress milestones would be a list of specific goals that each organization would strive to achieve for each year. The progress goals would bring the ultimate housing goal closer with each passing year. The goals should: 1.) Be reasonable and achievable; and 2.) Bring the housing goal closer in a time frame that's sensible for the given chapter's age and resources. Use an achievement period of the next two to five years (five years for a newly chartered chapter, ranging down to the shorter time periods depending on the achievements already under the chapter's belt).

COMMENT: With a newly chartered chapter, alumni resources available to assist with an acquisition obviously will be less than in the case of an established chapter. Acquiring a house for the new chapter usually will take four years at the minimum. However, usually a higher percentage of chapter members will be leaders than is normal. They've already been involved in building something new from scratch and will have better than typical skills in

viewing situations in a long-term picture. Just after a chapter has been chartered is the ideal time to negotiate and establish the milestone goals that will bring housing within reach.

Recognize that a chapter's officers are involved in day-to-day chapter operations and probably lack experience in any sort of long-range goal planning. The purpose of the housing progress milestones is to make clear to the chapter that the housing effort is a joint project. **Chapter support is essential.** A regular building fund deposit is the foundation of the entire effort—without those funds, the endeavor can't succeed.

COMMENT: A common error committed by inexperienced chapters is to assume that somehow the alumni or the National Organization will take care of their housing needs. It may be true in part, but never wholly so. Another common error is to assume that "the chapter's always just rented a house—we can always continue to do so." This is shortsighted thinking that does not take into account the dynamic changes that can occur in real estate markets over very short time periods.

At the very minimum, a significant building fund accumulated through chapter payments will serve as "seed money" to generate alumni contributions. The housing progress milestones should incorporate this reality in their provisions. For further discussion of fund raising as a limited component of housing goals, see the section "Fund Raising" in Operations Manual VIII—Alumni Relations.

See Appendix B—Chapter Housing Progress Milestones Agreement for an example of how a housing corporation can plan an acquisition and motivate the chapter.

C. Location and Zoning Factors

Some important factors must be considered and researched before proposed properties are evaluated.

1. Proximity to campus—locations of districts that are reasonable relative to the typical distance students live from campus.
2. Zoning restrictions applicable to fraternities
 - a. Multiple residential/boardinghouse/etc.—are fraternities permitted?
 - b. Commercial zones—are fraternities permitted?
 - c. Alternative configurations-- Could there be alternative property configurations that would permit fraternity use? Suppose that the zoning

ordinance prohibits fraternity houses in commercial and residential zones, but defines them as multiple residential properties with sleeping rooms. If the housing corporation buys a storefront location and the chapter uses it for only parties, ritual, etc. and no one actually lives there, is it permitted?

3. Changing and/or complying with zoning

a. Use permit—required in zone classifications where fraternity chapters can locate subject to obtaining the special permit. More fully known as a conditional use permit. There frequently are conditions attached to such permits in order to operate there—violation of which could result in permit cancellation and a requirement to vacate the property! The permit may also have renewal requirement (or expiration date). Often a permit application requires a public hearing with notice to property owners of properties within a certain specified radius from the subject property (e.g., 300 ft. from house sought to be rezoned to a different classification, enabling use as a fraternity house). The public hearing requirement puts the decision into a political realm in which it's impossible to predict the results. Even satisfactory relations with the neighborhood residents is not enough. There are cases of local corporations being denied permits due to "neighbor objections"—when no one showed up to the public hearing to object!

b. Variance—Usually not applicable. Doesn't typically apply to the use of the property, but instead applies to physical characteristics not complying with building codes. However, a variance is often confused with a conditional use permit in popular jargon.

c. Rezoning—Usually requires a public hearing before planning commission and/or city council or county board of supervisors with advance notice to all property owners of properties within a certain specified radius from the subject property (e.g., 300 ft. from the house sought to be rezoned to a different classification, enabling use as a fraternity house). Usually requires stiff filing fees—which generally are not refundable if the rezoning action fails.

4. Utility classification for rates—In some cases a substantial utility rate difference may result depending on where a chapter house is located. Rates could vary based on criteria that the utility applies to different areas, or perhaps different utility companies serve portions of the

general area in which the housing is sought.

5. Property tax rates and special assessments-- Assessment or tax rates, or special assessments, could vary from location to location, affecting the amount of property tax that would have to be paid on properties of equivalent value.

D. Ownership, Leasing, etc.: Alternatives

It's strongly recommended that the chapter Housing Committee coordinate with the chapter's housing corporation for housing efforts. It's essential that the housing corporation have a representative who is experienced in real estate or lending, and is dealing through a local agent who is experienced in real estate and hopefully fraternity housing.

The Executive Vice President of Pi Kappa Phi Properties, Inc. can assist in developing a complete housing program designed for your specific circumstances. For information, send your request to his attention at the Fraternity's Administrative Office at the address shown on the back page of this manual.

1. MONTH-TO-MONTH RENTAL

This normally is a chapter's first form of housing. Included are month-to-month or other short-term rentals of housing. Usually a new chapter lacks the necessary capital base and is not stable enough to risk a longer-term commitment. Some form of rental agreement governs the relationship and determines the division of responsibilities between landlord and tenant. The landlord often bears most responsibilities regarding maintenance and repairs, insurance, etc. The housing corporation should be the tenant, and in turn would grant the chapter the right to occupy the rented property. Economic feasibility will depend on the chapter or housing corporation entering into contracts with resident members. They must provide income over and above the payments due to the landlord. A month-to-month agreement is cancelable with 30 day notice. It's lower-risk with respect to membership cycles, but could be subject to rent increases or cancellation at inconvenient times.

COMMENT: Budget the charges from members to come in over the 8 or 9 month academic year and either ignore or deeply discount the budgeted rental income during summer months. Consider that 12 months of rental expenses will have to be covered with only 8 or 9 months of income.

2. LEASE

This is a contract for one year or more. In this circumstance, the housing corporation virtually

always will be the tenant. The landlord and tenant normally share responsibilities according to the lease agreement. Many times the housing corporation is responsible for utilities, maintenance and repairs (except to the building structure), property taxes, insurance, etc. When the landlord is responsible for all the above, the agreement is called a “gross lease”. When the tenant pays all costs of the property except payments on real estate loans, the lease is called a “net lease” because the landlord receives rent net of expenses. Leases, with their longer terms, generally afford more stability and security to the housing corporation and chapter. The principal business risks are the stability of the chapter and the commitment of the student members to live in the house.

3. LEASE-PURCHASE

This type of contract includes elements of a lease as discussed above, together with an option to purchase the property at a specific time. Usually the tenant is given the right to purchase the property at a specific price at a specific time, but also may be written to enable purchase at any time during the lease. Frequently the option includes a clause designating a portion of the rental to be applied as equity toward the purchase in the event that the option is exercised. Often thirty to fifty percent of the rental can be applied toward the purchase price (expect, however, that the landlord will want a rent payment level that is thirty to fifty percent higher than a straight lease for that privilege).

Beware that a “right of first refusal” is not the same as an option; it is significantly more difficult to exercise and is generally worthless in most real estate situations.

4. PURCHASE

A chapter must be very stable both in membership and financial responsibility before a housing corporation undertakes a housing purchase. A purchase normally is possible only when a housing corporation has accumulated considerable liquid assets—cash—out of operations. Real estate lenders usually will commit only seventy to eighty percent of the purchase price for their loan. The difference between the price and the loan amount is the “equity” which must be supplied. It could amount to tens of thousands of dollars. Most housing corporations have to conduct a capital fund-raising drive in order to achieve the down

payment need. However, fund raising will not cover the need alone. The housing corporation must save a substantial part of the required equity out of operations—perhaps fifty to one hundred percent.

E. Steps in the Housing Process

1. Develop a relationship with a local broker or other knowledgeable real estate information source.
2. Anticipate the need with long-term budgeting—sometimes the “perfect house” will come on the market unexpectedly and swift action by the campus fraternity with the most cash will get the deal. **Do not assume that fund raising from alumni will somehow finance the house acquisition!** A purchase typically is financed in large part out of building fund savings as a joint effort of the student chapter and housing corporation—usually over a time frame of seven years or more.
3. Know the alumni members in the area who could be called on to make the transaction happen.
4. Avoid situations where the property must be rented out to other fraternities or organizations on an occasional basis in order to make the economics work. That activity could potentially create taxable income. Also, some serious insurance coverage problems would result.
5. Avoid housing locations that require a rezoning or conditional use permit. **These are high risk situations.** If one is pursued, the purchase must absolutely be conditioned upon receiving the rezoning or permit **before** the corporation is obligated to complete the purchase. (Obviously you don’t want to purchase a property, then discover that it can’t legally be occupied.) Have capable professional assistance—an attorney familiar with zoning matters as well as an experienced local broker.

For assistance in developing a housing acquisition plan suited to the specific circumstances of your chapter, contact the Executive Vice President of Pi Kappa Phi Properties, Inc., in care of the Fraternity’s Administrative Office as shown on the back page of this manual.

F. Property Types and Opportunity Sources

Property types that could be used for fraternity purposes have shown an amazing variety. Examples of the more unusual include:

1. Former motel (with restaurant)-- the restaurant provided the food service facility and chapter common areas.
2. Former funeral home—an imposing building. Would have involved some conversion as kitchen was inadequate, but a unique opportunity nevertheless.
3. Storefront building—circumvented a zoning prohibition by taking out the residential component, and therefore not constituting a “fraternity house” under the local zoning ordinance.

These properties could be used in addition to standard repertoire of existing fraternity houses, lodges, and single family home conversions. The principal features to look for are 1.) Ability of the property to support itself economically; 2.) Degree of utility for the chapter’s purposes; 3.) Will it foster the chapter’s feeling of brotherhood by bringing them together, or will it divide them up or keep them in individual rooms and thus weaken the chapter?

Locating suitable properties for fraternity use is a separate problem. It’s often difficult to find the properties actually available for sale at the time. Most available fraternity houses don’t have “For Sale” signs outside; they’re usually sold through the professional real estate community with very limited advertising. The “information barrier” is overcome by knowing the right people and having the corporation’s resources in order so that, if an opportunity is found, you could move quickly.

In the following situations, the fraternity benefited because of special local contacts. The transactions depended on people that were able to locate fraternity properties for sale, and also to some extent on people who could obtain necessary financing.

1. An educational institute occupied a former fraternity house. The building had been foreclosed two years before. The institute claimed that they owned the building, and it was not listed as being for sale. However, the lender had merely leased the building to the institute as an interim tenant while sale negotiations were underway, which the Institute did not pursue. When it was found the building might be for sale, it was also found that the lender-owner might be willing to finance the sale as well. The property was acquired from the lender at roughly two thirds of full market value, and the chapter became the largest chapter at its campus.

2. A fraternity house was being foreclosed. It was to be sold at an auction—all cash, no financing. Fraternity houses are special purpose properties; they are difficult to convert to other uses. In this instance there were few bidders due to the special purpose use. The cash purchase requirement of the auction eliminated all but a handful of them. The property was acquired for a fourth of its market value.

3. A university welcomed a newly colonized chapter. An elderly doctor on the local housing corporation board befriended the university’s vice president in charge of real estate operations. The university had acquired a number of fraternity and sorority houses over the years in order to “stabilize the neighborhood” and operated them as small dormitories. The university had just reached the conclusion that most of the properties could not be operated as economically as its large dormitories, and that many could be sold. A two year lease-purchase agreement on one of the best houses was entered into. The house ultimately was purchased for half its market value.

G. Evaluation of Economic Feasibility—Outlays Side

Economic feasibility will have to be assessed before a housing commitment is made. The chapter house expenses will have to be calculated as the first step. Following is a summary of the principal costs associated with each form of operation.

1. RENTAL; LEASE
 - a. Figure out all monthly expenses of operating in the property: utilities (electric/gas/water/sewer/refuse collection/telephone in the chapter’s name), licenses and permits for the housing operation (but not the food service if required locally), employees (housemother and cook? Include employment taxes and workers’ compensation insurance in addition to base wages), and (if required) property taxes and insurance.
 - b. Figure in a cash flow reserves amount over and above base costs (for expenses during summer months when no income is coming in; apportion costs among academic session months).
2. LEASE-PURCHASE
 - a. In addition to the factors listed under 1 above, include any option payments that are

over and above base rental.

3. PURCHASE

- a. In addition to the factors listed under 1 above, include payments on real estate loans (including “escrow” or “impound” account payments if not included in base payments and required under terms of loan), property taxes, and insurance. If the house is located on leased land, factor in the ground rent that must be paid.

H. Evaluation of Economic Feasibility—Income Side

For the investment to be feasible, the chapter house income will have to cover the expenses of operating the property. Following is a summary of the method used to calculate available income from the property, to assist in determining feasibility before a commitment is made.

1. ALL ALTERNATIVES

- a. Determine the prevailing market rent for apartments in the surrounding community. (Apartments are the best indicators of the upper limit of “housing only” costs—dormitories may cost more in total on a monthly basis, but probably include meals,

social, maid service, etc. in charges which are not real-estate related costs.) Figure out what the range of rents is on a per man basis (divide total apartment rent by the total number of occupants that would reasonably be expected to live there considering student occupancy-- 4 men per a two bedroom apartment, and so forth).

- b. Determine the reasonable occupancy of the subject property on a per man (per bed) basis.
- c. Budget for a certain number of nonresident members who should pay a reasonable parlor fee (such as \$25 or \$50 per month) for the privilege of having the chapter house available to them.
- d. Divide the total monthly costs by the number of resident members (number of total beds).
- e. Test for economic reasonability of the calculated monthly member charges. (Would they be roughly equal to or less than the average per man rate available in apartments.?)

Additional information on the need for economic rent as the basis for charges to the student chapter is included in Operations Manual IV—Financial Management and the Housing Investment.

APPENDIX A
ACQUISITION EXAMPLE

A typical example of a fraternity house acquisition follows.

A. Background Situation

The student chapter's record is as follows:

1. Has been in existence at least five years, with trend of stable to growing membership.
2. Good track record of leadership and capable administration.
3. The chapter has outgrown its existing house, or has no house at all.
4. The chapter is responsible and mature. Finances, recruitment and member education are excellent.

The local housing corporation has the following track record:

1. The corporation was established at least three years ago, and the board of directors has met at least twice a year and otherwise been active. They have capably administered the existing leased housing.
2. The corporation has already accumulated a building fund through dues charged the student members, from the student chapter either monthly or an annual bulk contribution.

The fraternity environment is characterized by the following trends:

1. The school's full-time undergraduate day enrollment is stable to growing.
2. The school's principle sources of funding (state or private) appear to be stable to growing as well. The faculty is stable (there is no "brain drain" due to noncompetitive faculty pay, etc.)
3. Overall Greek system membership trends are stable to growing. The number of men pledging fraternities is reasonable to the total number signing up on the Inter-fraternity Council's interest listings.
4. The Greek system is actively supported by the school's administration; the fraternities and sororities have been around for as long as or longer than our chapter and show good cooperation (IFC, Panhellenic).

City and regional trends are as follows:

1. The students attending the school have

parents that are drawn from a stable employment area (that is not a "sunset industry" region or dependent on businesses that are economically depressed).

2. There are no adverse zoning trends or unusual burdensome requirements placed on fraternities by local planning agencies.

B. Issues to be Resolved

The issues which must be satisfactorily resolved are, in summary:

1. If any circumstances under the previous section aren't as positive as listed, are they offset by other positive trends? (You need an objective view—neither too optimistic nor too negativistic.)
2. Can a chapter house be legally located in a desirable area near campus without any rezoning or conditional use permits?
3. Can the proposed chapter house be purchased on a basis that will make economic sense?

C. Property Specifics

A proposed house is found which has the proper zoning and meets the chapter's occupancy needs. It's located five blocks from campus—not the closest fraternity to campus but not the farthest out either.

It can sleep 40 members comfortably and is being offered at a price of \$350,000.

The house is move-in ready, not needing any redesign work or repairs. The kitchen is well designed and includes a commercial stove and refrigerator system. The roof was replaced two years ago and seems in fine condition. The furnace is a new high-efficiency model and should not be in need of repair. The water heater appears to be several years old, but according to the maintenance tag has been regularly flushed and serviced.

The chapter can move its furniture from the current rented location; additional furnishings needed to carry the larger capacity has been promised by the chapter's Mothers' Club. Therefore additional furniture is not an additional start-up cost to be included in the purchase budget.

D. Information About Local Rents

Data on prevailing local rents is very critical to

properly research before starting to work on a proposed acquisition. Accurate information—and accurate judgements based on that information—could determine the outcome of your purchase feasibility analysis.

The local accounting firm that handles most of the campus fraternity chapters indicates that three other fraternities pay \$60, \$75 and \$130 per man per month for the same level of services that the housing corporation will be providing our chapter. All three fraternities have had their houses for over twenty years. The first comparable is a house that's "totally trashed and unfit for human habitation." The second is a house that's in very decent shape, but it's widely known that their alumni raised \$40,000 for repairs when the city threatened to condemn the building four years ago. (They must have had no reserves, and this is reflected in the low member charges level.) The chapter Advisor tells you he's met the housing corporation people for all three, and the staff of the first two are a joke. The third, however, is represented by some very capable and sophisticated people.

You obtain operating statistics for one of the university's newest dormitories. They indicate that roughly one third of the \$420 a month dormitory bill goes for services that are similar to those the housing corporation will be providing the chapter, or \$120 a month. Because the dorms include food service, maid service, etc. the figures are difficult to accurately compare.

The apartments, after deducting out landlord-paid utilities costs and dividing total rent by the number of typical occupants, are running in the range of \$140 to \$200 per man per month. Typically the older buildings will charge less, and the higher densities (two and three bedroom units) will have a lower cost per occupant.

Taking a straight arithmetic mean of the comparables, you come up with an "average rent" of \$137 per man per month in the market.

Now it's time to consider the comparables more closely and make some judgements. First, two out of the three fraternities are so out of line that they should be ignored. The only meaningful fraternity comparable is the third one, which seems to have capable management behind it. It was \$130 per month. Second, among the apartments, looking

primarily at two and three bedroom units the rent range narrows to \$140 to \$160 per month. The dormitories at \$120 per month is a "soft" number that is less reliable as an indicator. Your resulting "reasonable range" of rents in this case is \$130 to \$160 per month, or somewhat higher than the simple arithmetic mean suggested.

\$155 per man per month is the level you calculated that charges should be for the deal to work economically. Obviously, at this level the rent portion of the charges would be the highest among the fraternities surveyed. Ordinarily that could be a problem. But in this case the property will be among the best fraternity houses; it should be competitive even at the higher rate. It's also in the "reasonable range" of \$130 to \$160 per month based on a larger range of competitive housing. So far, the purchase looks very positive; the major question remaining is whether the financing can be justified.

E. Financing Availability

You find a local savings institution that is able to provide financing for fraternity houses. While their interest rate for apartment buildings today is 10%, for fraternity houses they are charging 11%. The longest amortization term they can offer for a fraternity house is 25 years. The closing costs are borne by the borrower and excluding the loan fee will usually run about 1% of the loan amount. Additionally, they charge a loan fee that will be 2% of the loan amount.

Since the borrower will be a corporation the loan is considered to be a commercial property borrowing. The down payment must be at least 30% of the purchase price. Also the property will have to generate a net operating income of 1.1 times debt service (the "debt service coverage" ratio) after deducting operating expenses and reserves for maintenance and repairs.

The down payment required is large, typically-- 30% of \$350,000 is \$105,000. The housing corporation has accumulated \$60,000 in savings and could probably assemble the remaining \$55,000 or so in a major fund raising drive.

The lender requires an appraisal from a qualified appraiser. Coincidentally, the seller has a copy of a recent appraisal from another sale offer that fell through, and makes the copy available to you, saving the additional cost.

F. Operating Budget Feasibility

Monthly Income:

Member income at house capacity ^a	\$ 6,200
Less: Vacancy and collection @ 10%	620
Effective gross monthly income	5,580

Academic Year Pro-forma Budget:

Two semesters' income (8 months of receipts)	\$ 44,580
Less: Expenses borne by housing corporation	
Maintenance and repairs reserve ^b	\$ 2,000
Insurance ^c	3,800
Property taxes ^d	7,000
Licenses and other	80
Net Operating Income	(12,880)
Less: Payments on mortgage ^e	(28,820)

Net Cash Flow available for "emergency reserves" ^f \$ 2,880

- a. 40 members times \$155.00/month (rent portion only of monthly house bill).
- b. Calculated at 5% of the annual income, rounded.
- c. Based on the insurance cost at another chapter in the same state having a facility comparable to the subject.
- d. Using the county's rule of thumb in estimating tax, 2% of value rounded.
- e. \$245,000 at 11% interest, 25 year amortization term.
- f. Because the lender requires 1.1 times debt service coverage, net cash flow must be 0.1 times debt service, or \$2,880.

G. Uses of Funds Breakdown

Purchase price	\$	350,000
Less: Loan proceeds		(245,000)
		105,000
Plus: Costs		
Loan fee (2% of loan amount)		4,900
Other closing costs		5,000
Total down payment and other purchase cash needed		114,900
Other cash needs		
Furniture		0
Kitchen equipment		0
Total cash need	\$	114,900

H. Sources of Funds Breakdown

Total funds required	\$114,900
Less: Current savings	60,000
Minimum funds to be raised in funds drive	\$ 54,900

APPENDIX B

CHAPTER HOUSING PROGRESS MILESTONES AGREEMENT

An example of a chapter housing progress milestones agreement is outlined as follows.

A. Background

The Psi Chi chapter has just been chartered. With 40 student members, the chapter's size is at roughly average for campus fraternity chapters.

The Psi Chi housing corporation has just been formed. Although the chapter already has five graduates constituting its own alumni body, the corporation has sought out alumni from all chapters living in the area. The board is diverse in terms of age and business background.

The existing house is rented. It's a three bedroom single family house, with 6 beds.

The chapter and corporation at this time have a minimal building fund, as all resources went toward achieving chartered status.

B. Meeting with Chapter Officers

The corporation's officers meet with the student chapter Executive Council to establish housing goals. The meeting also is to acquaint the chapter officers with the chapter's housing effort responsibility during the next several years.

The housing goal is agreed upon in concept. The corporation and chapter officers agree that a "starter" house will be appropriate for the first owned chapter house. Both sets of officers resist the tendency to make the goal overly specific. Given that it's tentatively scheduled for achievement five years in the future, it's not realistic to try to select a specific property today.

The preliminary progress milestones are discussed and agreed upon.

C. Presentation before Student Chapter

The goals are presented to the student chapter members at a regular meeting. The chapter members are enthusiastic about obtaining a permanent house. When the need for building fund dues is brought up, however, the enthusiasm is dampened. The corporation's officers in conjunction with the student officers present the progress milestones that have been agreed upon. The chapter members can see a

definite plan to acquire housing, even though no specific house can be designated at that point in time. An appeal is made to help the chapter's long-range success by ratifying the plan.

The milestones agreement, together with the building fund dues appropriation, is adopted.

D. Agreement Points

YEAR 1:

1. Student Chapter
 - a. Membership: Plus Five, with balancing of classes desired.
 - b. Building fund deposit to housing corporation
- With membership at 40, assuming a pessimistic 90% collection rate, and a contribution rate of \$10 per man per month for the nine month academic year, this year's fund deposit would be no less than \$3,240.
2. Housing corporation
 - a. Board meets regularly
 - b. Research zoning regulations and obtain zoning maps of areas surrounding campus.

YEAR 2:

1. Student Chapter
 - a. Membership: Plus Five, with balancing of classes desired.
 - b. Building fund deposit to housing corporation.
- With membership at 45, assuming a pessimistic 90% collection rate, and a contribution rate of \$10 per man per month for the nine month academic year, this year's fund deposit would be no less than \$3,600.
2. Housing corporation
 - a. Board meets regularly
 - b. Research neighborhoods and current opportunities; develop real estate contacts.

YEAR 3:

1. Student Chapter
 - a. Membership: no loss of total membership, with classes balanced.
 - b. Building fund deposit to housing corporation.
- With membership at 50, assuming a pessimistic 90% collection rate, and a contribution rate of \$10 per man per month for the nine month academic year, this

year's fund deposit would be no less than \$4,050.

2. Housing corporation
 - a. Board meets regularly
 - b. Research neighborhoods and current opportunities; develop real estate contacts.

YEAR 4:

1. Student Chapter
 - a. Membership: no loss of total membership, with classes balanced.
 - b. Building fund deposit to housing corporation

With membership at 50, assuming a pessimistic 90% collection rate, and a contribution rate of \$10 per man per month for the nine month academic year, this year's fund deposit would be no less than \$4,050.

2. Housing corporation
 - a. Board meets regularly
 - b. Does pre-fund raising drive organization work.
 - c. Decide likely neighborhoods; research current opportunities; cultivate real estate contacts.

YEAR 5:

1. Student Chapter
 - a. Membership: no loss of total membership, with classes balanced.
 - b. Building fund deposit to housing corporation

With membership at 50, assuming a pessimistic 90% collection rate, and a contribution rate of \$10 per man per month for the nine month academic year, this year's fund deposit would be no less than \$4,050.

2. Housing corporation
 - a. Board meets regularly
 - b. Fund raising drive among chapter alumni members. Goal: \$10,000.
 - c. Decide likely neighborhoods; research current opportunities; cultivate real estate contacts.

E. Achievement

After five years the chapter has put \$19,000 into the building fund. With compound interest at 5%, the balance has grown to \$21,400.

A fund raising drive is held in the fifth year among the chapter's alumni members. The drive produces better than average results. Although the chapter only has 60 graduates and they're all at modest earnings levels, 35% of them contribute an average of \$500, for a total collection of \$10,500.

With \$31,900 total, the corporation will be able to acquire a house in about the \$100,000 range, assuming a 30% down payment requirement plus closing costs.

HOUSING CORPORATION OPERATIONS MANUAL SERIES

PI KAPPA PHI FRATERNITY

VIII. Alumni Relations: Publications, Events, and Fund Raising

- A. Introduction
- B. The alumni relations problem
- C. Publications
- D. Alumni relations in chapter member education
- E. Alumni organizations and reaching the alumni members
- F. Social and other alumni events
- G. Fund raising

VIII. ALUMNI RELATIONS: PUBLICATIONS, EVENTS, AND FUND RAISING

A. Introduction

It's an accepted fact in the fraternity world that the most successful chapters have dedicated and active alumni. The alumni have developed contacts, experience, and financial means in the years since their student days. Thus they can provide a chapter with continuity, leadership, and even financial support that it needs to be stable and a dominant force on campus.

This manual discusses the housing corporation's alumni relations responsibilities. The greatest opportunity to strengthen a chapter is by cultivating and developing its alumni base.

B. The Alumni Relations Problem

Our chapters' alumni members are dispersed throughout the nation and possess a high degree of mobility. Each one has his own commitments to his career, family, church, professional associations, and other activities. He remains interested in communicating with the brothers who were his contemporaries in the chapter during his student days, and perhaps to a lesser extent with the fraternity in general.

At the same time, the typical student chapter often has misconceptions of the features alumni want from the chapter's alumni relations programs. The student members are involved with carrying out day-to-day chapter operations and achieving short-term goals. They assume that alumni know what it's like being student members today. But the students aren't familiar with the demands on time and economic resources that alumni must contend with. They don't truly understand the alumni members; they've never experienced being alumni. Furthermore, they're not even aware that they have a "perception" problem. The result often is alumni relations based on what the

students think the alumni want, not what the alumni themselves want.

Alumni events sponsored by the typical chapter usually reflect this thinking gap. Take a common case: the chapter bulk mails invitations to the alumni members for the upcoming Roseball. They hope for a 50% turnout of their 300 area alumni. But instead of 150 alumni attending, a dozen show up. The chapter officers become disappointed and conclude that more alumni events are needed. The next issue of the chapter alumni newsletter includes an article deploring the low alumni turnout at the recent event, and declaring that the student chapter will be calling individual alumni to "revive alumni interest."

That example illustrates a classic problem. It's an endless cycle of chapter disappointments, followed by alumni frustration at irritating announcements and phone calls for irrelevant events, resulting in turn with reduced attendance and more chapter disappointments. How does a chapter break out of this cycle? How does it avoid ever falling into the cycle in the first place?

C. Publications

The chapter alumni publications program is the key to successful alumni relations. This section provides an overview of publication program needs. The program must be consistent on a long-term basis. The C.A.R., Inc. service, sponsored by the Fraternity's Administrative Office, is used as a model in this manual. The abbreviation "C.A.R." stands for Continuing Alumni Relations. For information about this program, write to the Director of Communications at the Fraternity's Administrative Office, at the address shown on the back page of this manual.

Students are invariably surprised by the content that a

high-quality alumni oriented publication must have. Several years ago a survey was done to determine the priority attached to various types of articles in the chapter publication. The alumni surveyed ranked articles in the following order:

1. News notes about individual alumni members
2. Feature articles about individual alumni members
3. Alumni reunion/social gathering news
4. News about the alumni organization
5. Acknowledgments list of supporting contributors
6. Address changes column and lost members list
7. Student chapter accomplishments
8. Student Archon's letter
9. Campus news
10. Chapter recruitment results
11. Chapter house improvements

Note that articles on the student chapter are at the bottom of the list. The articles shown at the top are all specifically oriented to alumni interests.

Alumni don't want to read certain types of material as well. At the top of the list are humor items. They are virtually impossible to carry off successfully in a chapter publication.

COMMENT: Humor tends to appear either as "inside jokes", or as items in bad taste such as off-color articles and jokes. Inside jokes are usually incomprehensible and frustrating to alumni readers. Items in bad taste include articles or jokes of a sexual nature, etc. that at best may appeal to only a small range of alumni readers. No one is influenced to become a supporter by content of this nature, but it can certainly turn off the support of a very large segment of the alumni. Which publication is going to have more impact: the one that is well written and which the alumnus would be proud to have on the magazine table at the home or office, or one which he has to quickly slip into the wastebasket before the wife or kids get a hold of it?

Alumni also dislike reading anything negative about alumni relations results, whether it concerns support, attendance, or whatever. Articles that report poor alumni attendance or support at events ~~must be avoided at all costs~~. Even articles announcing events to be held for the "revival of alumni interest" should be avoided.

COMMENT: Content of that nature is telling alumni that: 1.) Support is low or nonexistent. Even if it's not saying that explicitly, talking about "revival of interest," etc. is the same thing, because it clearly implies an existing unacceptable state; 2.) If they did attend an event, the probability of seeing any alumni

who were their classmates in the student chapter is nil; 3.) Why attend now? Let someone else with plenty of free time take the lead and get things going. The best course of action actually may be to lay low for the time being; 4.) Why is alumni relations getting this attention now? Perhaps the students want to hound the alumni for contributions.

The final type of item that the alumni don't want to read concerns chapter "financial needs." These typically are hard luck tales ending with a request to mail a check to help out. Even if funds aren't specifically requested, this type of material ~~also should be avoided at all costs~~.

COMMENT: Content of this nature tells the alumni that the organization is not being successful. ~~Money, as such, is never the root cause of the problem.~~ Therefore supplying money will not solve the problem. Who wants to support an organization that is not successful, and doesn't have a clue on how to solve its own problems? Experience has shown that a few alumni will send checks for token amounts—say \$50-- when if the funds need had been presented correctly they would have contributed instead \$5,000 or \$10,000. Meanwhile the alumni organization will have to spend another five to ten years rebuilding the organization's image before it can successfully carry off a major fund raising. This incorrectly presented short-term need ~~will have destroyed the potential for major capital gifts~~ for years to come. (See later section on fund raising for further discussion of this subject.)

The newsletter program should be partly self-publishing. Alumni readers should be requested to submit news notes and photographs of the individual alumni and their informal gatherings once a year. The alumni organization is never absolved from having to gather news of importance, however, and this feature alone should not be relied on to gather all the alumni news. But it can be a powerful tool in gathering news easily that the alumni would most like to read.

Moving beyond publications content, the overall presentation must be considered. Some major benefits result from a ~~consistent, ongoing program~~. Consistency and regularity are extremely important in creating an impression among alumni. They must be impressed that the chapter and alumni organization, as reflected by the publication quality, are doing well.

A continuing voluntary contributions feature is an important part of the program's consistency aspect. Alumni should be requested to contribute in order to support the program, running not less than \$20 per

alumnus per year. Enable them to contribute varying amounts, say \$40, \$30, and \$20, to permit them to provide support more closely reflecting their commitment level. Through it your corporation is training alumni to support the publication and alumni organization on an ongoing basis.

COMMENT: The publication should be able to more than cover its cost (the typical average contributing proportion is 16 to 24% of the alumni on your mailing list). Alumni would be getting trained to automatically write their contribution check each year. The program should produce “repeat business” through its continuous and regular identity. The repeat supporters won’t have to be sold on the organization all over again each year.

The dues program also serves another essential purpose relating to a major fund raising. The organization is able to maintain a contributing history record on individual alumni.

COMMENT: This information would be used later to develop estimates for amounts the alumni should be willing to give to a properly executed major fund raising drive (a “rating” schedule).

Lastly, the alumni organization and student chapter must both be organized to edit and produce the quality publication that is called for. This requires good interfacing between the student chapter and the alumni organization. Interfacing between housing corporation and chapter consists of a program with the following steps:

1. The housing corporation elects or appoints one director or committee chairman to serve as publications coordinator for the coming year.
2. The publications coordinator works with chapter Historian each year to set up a list of articles needed for each issue. The publications coordinator also reviews contents standards and editing criteria with student officers, so that they may pre-edit. The officers also can be advised to beware of “alumni directory” sales firms that seem to spring up every few years.

COMMENT: These firms typically run a one-shot directory publishing effort that is calculated to cost exactly as much as is statistically predicted to be raised from directory sales. It’s never a moneymaker, at least on the fraternity’s side. It will confuse the alumni because they won’t understand the difference between this program and their usual ongoing publications program. Both programs suffer as a result. Consequently this activity is prohibited in the contracts used by major alumni servicing firms.

3. Chapter Historian and other officers write articles and do their own pre-editing.
4. Articles are submitted to housing corporation’s publications coordinator, not the publisher. They’re reviewed and given final editing by publications coordinator.
5. Coordinator works in conjunction with the publishing firm to assemble the issue.

The student chapter officers, in conjunction with the chapter Publications Committee, must do the basic work of putting the articles together—the more the better.

COMMENT: The housing corporation’s publications coordinator must give the student officers a review of content standards and editing criteria each year. The alumni relations background discussed here must be presented to newly elected student officers as well. They must also get practical exposure carrying out their part of the program, so that they will become supporting alumni members after graduation.

The alumni organization’s publications coordinator is editing to eliminate the following problems:

1. Needed articles are never actually written and submitted.
2. Articles written include popular campus or fraternity language that assume an un-stated context. If understood at all, it requires a rereading by alumni to figure out what the context was.
3. Cross-generation slang: contemporary usage that are meaningless to alumni who’ve been out of school for a few years.
4. Humor in bad taste or “inside jokes.”
5. Writing style problems: use of long convoluted sentences, indirect verb constructions, excessively technical wording or obscure “buzz words” that take the material out of mainstream readability.

D. Alumni Relations in Chapter Member Education

The housing corporation officers must ensure that student members are being introduced to proper expectations of the alumni. In turn, the students should also learn what will be expected of them after they graduate and join the alumni ranks.

The chapter’s member education program should have an assigned meeting devoted to alumni relations. (The education program format recommended by the Fraternity’s Administrative Office includes this.) The housing corporation’s presentation could be done at

that time. This should be arranged by coordinating with the Advisory Committee.

The housing corporation officers also should take on responsibility to attend the chapter's initiations.

E. Alumni Organizations and Reaching the Alumni Members

There are two components to the local alumni organization structure: the "formal" organization consisting of the established alumni organization, and the "informal organization." The formal organization is already discussed in other manuals in the Housing Corporations series; only one aspect need be mentioned here. The organization structure used here assumes elimination of separate housing corporation and "alumni association." Alumni and chapter housing activities are carried out instead by committees under a single organization. The purpose is twofold: to improve coordination between housing corporation and alumni association; and to combine activities under same umbrella for tax exemption purposes (the housing corporation may not qualify for tax exemption unless it sponsors social events).

The "informal organization" is based around perhaps six to twelve "real alumni movers." These individuals are respected leaders and are in direct contact with large networks of their contemporaries from student chapter days. They often act as individual hosts to small social gatherings of alumni on a very informal basis and usually without direct support of any formal organization. They need not have an interest in an officership on the formal organization. They're most valuable as key contact people for their classmates. *These individuals will be one of the key influences for communicating a positive feeling among a large cross-section of the alumni. Their interest and commitment will be essential to conduct a successful fund raising.*

F. Social and Other Alumni Events

With the publications program and alumni organization operating smoothly, the corporation's in a position to conduct excellent social events. To be successful, these events *must be directed by alumni* in both planning and execution.

1. **Campus Homecoming**—or equivalent events such as home football games, etc. Alumni must be given an incentive to stop by the chapter house. An excellent tactic is to tie in with a campus athletic event. The event must be promoted well in advance via the alumni newsletter. It could work as the best possible "revitalizer" event—get the "real alumni movers" to attend (and a large proportion of other alumni

will hear about it!) While there, begin working on getting them back again for Founders' Day.

COMMENT: Good tactics are to offer free or reduced rate parking to alumni and their families for the events; snacks and beverages before and after the game; block tickets purchasing for an "alumni seating" section; etc. Of course, be aware that these events may well draw not only alumni and their families—*plan for an atmosphere that would be judged suitable by a member of the community or the parents of the student chapter members.*

2. **Founders' Day**-- This is a traditional alumni event. The event program should be geared to appeal to the mainstream alumnus and his family. Be realistic about attendance, however; if relying on mailed invitations alone, a five percent (5%) turnout of alumni living within a forty mile radius is average. Considerations are: 1.) Begin planning the event at least six months in advance; 2.) Arrange for a guest speaker. A successful alumnus of the chapter will produce best results; 3.) Present awards from the alumni organization to the individual alumni, the chapter and chapter members; 4.) Arrange for the student chapter to present awards to the alumni (Chapter's "Alumnus of the Year," etc.) at the same time.

COMMENT: Do you want to graphically illustrate that alumni are attending Founders' Day events? Get a group photo of the attending alumni; print it as a part of the following year's invitation!

3. **Roseball**-- The Roseball is perceived by alumni as primarily a social event for the student chapter. To the extent that any alumni come, they probably will be from the younger age group. However, the alumni do appreciate being invited even if they don't come. Continue to invite them to attend as an element of an overall interest in their participation.
4. **Annual meetings of housing corporation**—The best strategy for obtaining good attendance: 1.) Make the business meeting short—maximum of half an hour; 2.) Tie the meeting in with another event (social in nature) that will attract alumni (many chapters use Founders' Day); 3.) Publish a synopsis of the meeting results in the next newsletter, if significant; let people know that the board accomplishes something at meetings.
5. **Informal alumni events**-- These include "tailgate parties," barbecues, etc. These casual events usually don't even involve the "formal"

alumni organization. They typically have the best attendance ratio of any alumni activity—drawing 50% or more of those invited. They're sponsored often by the "real alumni movers." The corporation doesn't have to do much to conduct these types of events—the "real alumni movers" are already well established in making them happen. The most productive role for these events may be as a supporting facilitator rather than planner/organizer.

COMMENT: Be cautious and tactful—depending on the chapter's alumni relations history, the "real alumni movers" can be leery of your contact. Be casual and offer to do them a favor. Meet them for the purpose of updating their personal contacts list with addresses from your alumni files. Establish some good will. Avoid trying to turn their informal gatherings into the stereotypical "alumni meeting"; don't press them. Instead, conversationally use their assistance to gain an overview of the alumni with whom they are in contact. This can go a long way toward expanding beyond the biographical information on file from the publications program—a very important step for an organization planning a major fund raising. As a courtesy, also offer to arrange for newsletter printing of information about one of their informal gatherings or a few of their classmates.

Public relations capabilities will be critical in making the events successful. 1.) A greeting committee composed of alumni must speak to every alumnus. Avoid alumni dropping in and having no one to talk with except students. 2.) Be knowledgeable about the present state of the alumni organization and the student chapter. But also take time to get to know the each alumnus better; ask about classmates they have been in touch with, etc. Have they followed the basketball team this season? etc. 3.) Make sure that appropriate introductions are made—alumni guests to each other; alumni to alumni organization officers; alumni to student chapter officers. 4.) Be positive about the attendance and event progress—it's poor public relations for leaders to be negative about results or to have unrealistic expectations.

COMMENT: A standard to remember is that **alumni events are ALWAYS successful**. Less than successful events only occur when: 1.) The alumni organization itself dropped the ball in the organization, planning, or execution of the event; or 2.) The results expectations were unrealistic. **The alumni members are fundamentally supportive; a certain statistical level of results can always be achieved if events are organized, planned, and executed well.** Keep this standard in mind when

discussing the events with the student chapter or individual alumni members. If the expectations were out of line, simply be very positive about the results achieved; no further explanation is necessary. If there was any shortcoming on the results, mention its cause without dwelling on fault finding. Emphasize that the alumni do support the organization in principle even though the event didn't go well.

In summary, observe the following for best success in organizing alumni events:

1. Plan events well in advance.
2. Where possible, use alumni volunteers to assist. *Involve alumni in the activities—make sure that they are active, visible to the alumni guests, and present a good public relations image.* By involving more alumni the "active participating" alumni base will be expanded. There will be more than enough volunteers to staff committees, special projects, and fill offices that become vacant.
3. *Be positive* in interpreting attendance results. Make comments to others that help put the attendance in the proper perspective.
4. Invite alumni to come, and thank them when they do.

G. Fund Raising

Fund raising for the local housing corporation is an important topic. The local housing corporation is the representative organization for the chapter's alumni. It must be responsible for fund raising projects; it has a credibility and identity that the student chapter cannot.

A successful fund raising would actually benefit the alumni members. *It would demonstrate that the alumni support the alumni organization and chapter.* The alumni would become more involved and drawn closer together as a result of working together for a common goal.

A common error that housing corporations and student chapters still commit is the "Hello, mail your check" fund raising form letter. This strategy is based on sending a form letter to every alumnus on the chapter mailing list, asking him to send in a check for \$100. No matter how well written or printed the letter may be, or how seemingly obvious the need, this strategy always produces disappointing results.

COMMENT: It's deceptively easy for an organization to look at its 500 member alumni mailing list, and conclude, "If every alumnus sends in \$100, that's \$50,000!" If pursued, this strategy will result in a fund raising disaster.

First, in a pool of 500 alumni, by statistical averages

there should be about 5 who would contribute \$10,000 or more if properly solicited. That's a total of at least \$50,000. At \$100 each, the form letter approach will net only \$500 from those same people (you can bet they won't send more, because the giving expectations range is clearly established). Is that maximizing income collected by the drive?

Second, a form letter solicitation without any personal contact (or, just as bad, a telephone call by a student member who has never met the alumnus) inherently produces a low response. No matter how well written, it usually joins, in the circular file, the mountain of solicitations that the alumnus received from other organizations that day. The typical response rate to this type of campaign is about 5%. Out of 500 alumni at \$100 each, a 5% response level resulting in contributions will yield only about \$2,500. Is that successful fund raising?

Several excellent books are available on fund raising techniques. The subject will not be reviewed in depth here. This section will concentrate instead on the unique characteristics of the fraternity relating to fund drives. Special preparation and organizing will be required. In summary, a successful fund raising needs the following prerequisites:

1. There's been a regular and continuous publications program for at least 3 or 4 years with a self-financing voluntary dues feature.
2. Sufficient information exists from a combination of contributing history from the publications program, biographical data from the alumni news notes, and information from classmate alumni such as the "real alumni movers." With this, the individual alumni can be rated for the amounts they could be expected to contribute.
3. The organization's principal officers personally know the "real alumni movers" and have established good rapport with them.
4. Alumni are the primary organizing force and the visible implementation force behind the fund raising—not student members.
5. The drive has been started with a "cloud seeding" commitment! Start with a core contribution by the student chapter before soliciting the top primary contributors. Use 33% of total funds needs to a maximum of \$10,000 as a rule-of-thumb chapter contribution goal.

COMMENT: You will need to show that the top primary contributors are not the first to write a check—the campaign already is underway and a lead contribution in the coffers is pointing to success. If the student chapter wants a successful campaign, they

will have to make an advance commitment themselves. They must be willing to contribute in aggregate no less than the average gift to be made by the alumni.

6. A special body of alumni has been attracted to do the actual fund raising. These are alumni with good public relations skills and good rapport with their classmates. They also must be individuals high on the contributors ratings list. They must be among the first contributors and at higher than average amounts. They have been screened for serving on the committee by their willingness to contribute and make the drive successful.

COMMENT: A drive directed by alumni who haven't contributed yet or have contributed small amounts won't establish any credibility. The committee's financial support is needed to be successful.

7. Proper lead time must be spent in organizing. It takes one to two years to organize a fund raising drive, and another one to two years to carry out.

Two types of occasions serve best as the basis for a funds drive. The first is a major housing need that requires a large cash investment (buying a new chapter house, building an addition, etc. They're tangible items that the alumni can see).

COMMENT: For a chapter that is not housed but seeking to buy a house, specifying a particular house as its goal usually poses a problem. A major fund drive takes one to two years to plan and another one or two years to execute. Purchase opportunities will zip past during that long time frame. It's helpful to show specific goals, but be realistic. Leave the goals general. Switching specific drive goals in midstream must be avoided. The drive would suffer a disastrous loss of credibility otherwise.

The second occasion type is a major anniversary of the student chapter's chartering, such as a 10th, 25th, etc. A list of purposes is needed for the funds to be raised. As with a major housing need drive, avoid stating a specific drive purpose if achievability is doubtful or would take a long time.

COMMENT: Information on anniversary event planning is available from the Fraternity's Administrative Office.

With all drives whose objective is general rather than specific, the drive committee will have to address a potential problem. Contributors must be convinced that funds received are well controlled, and that they

will be expended on the purposes for which they were raised. The drive committee must be prepared to describe the controls over the funds and the range of types of expenditures that will qualify.

When organizing the solicitation effort, remember that contributions to the local housing corporation, the chapter or to the National Organization ordinarily are not tax deductible. Contributors must not be misinformed!

The drive committee's volunteer staff sometimes proves to be its downfall. Fund raising committees often are formed by people who are high in organizing skills. Unfortunately, they also tend to be the people already involved in day-to-day operations of the housing corporation, etc. They become spread too thinly to perform essential tasks in a timely fashion. In addition, they fail to attract other alumni who may have better public relations skills and higher contributing capacities to serve the committee. Books on fund raising usually cover this topic. Don't shortchange the staffing aspect—it's the most important.

Professional fund raising organizations also exist which can serve the drive. These firms don't actually raise the funds—the local committee will have to do that, the same as if conducting its own effort. The firms usually provide only an organizing framework and counseling. Be aware that they can charge substantial fees.

CAUTION! Negotiating a contract with a professional alumni fund raising organization is much

like negotiating a contract for hotel meeting space—it's a specialized subject that can result in disaster if not properly conducted. Contact the Director of Advancement at the Fraternity's Administrative Office before negotiating a contract of this nature, at the address shown on the back page of this manual.

Finally, when the fund raising drive is underway, continue the regular annual dues solicitation in connection with the alumni publication. Explain to alumni that their annual dues support publishing of the newsletter and for social events, etc.; the fund raising drive is for its own specific goals. The two programs don't overlap. Don't allow alumni to confuse them, or enable them to mistakenly transfer support from one program to another so that the corporation is no better off.

ADDITIONAL REFERENCES

Hutler, Albert A. *Guide to Successful Fund Raising*. Larchmont, NY: Business Reports, Inc., c1977.

Good overview of fund raising in general. Not specifically oriented to fund raising within a membership organization, but the general considerations that apply to any drive are covered well.

Warner, Irving R. *The Art of Fund Raising*. New York, NY: Harper and Row, c1975.

This book uses numerous examples and anecdotes to make its points. Touches on many fine details not covered in Hutler's book, but is less comprehensive.

HOUSING CORPORATION OPERATIONS MANUAL SERIES
THE PI KAPPA PHI FRATERNITY

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